

**Grey Wolf Animal Health
Corp.**

Consolidated Financial Statements
December 31, 2022 and 2021



Independent auditor's report

To the Shareholders of Grey Wolf Animal Health Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Grey Wolf Animal Health Corp. and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2022 and 2021;
- the consolidated statements of operations and comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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 for the year ended December 31, 2022. These matters were

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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.

Key audit matter	How our audit addressed the key audit matter
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Goodwill and intangible assets with indefinite useful lives impairment assessment of the Pharmacy cash generating unit (CGU)

Refer to note 4 – Summary of significant accounting policies, note 5 – Significant accounting judgments, estimates and assumptions and note 10 – Goodwill and intangible assets to the consolidated financial statements.

The net carrying value of the goodwill and intangible assets with indefinite useful lives of the Pharmacy CGU amounted to \$17.2 million as at December 31, 2022. Management assesses the recoverable amount of goodwill and intangible assets with indefinite useful lives annually during the fourth quarter or more frequently if there are indicators of impairment. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU). An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its estimated recoverable amount.

Management estimated the recoverable amount of the Pharmacy CGU using a fair value less costs of disposal method based on a discounted cash flow model over a period of 5 years. The key assumptions used to determine the recoverable amount of the Pharmacy CGU included the revenue growth rates, discount rate and the terminal growth rate. No impairment charge has been recorded in the current year against the goodwill or intangible assets with indefinite useful lives allocated to the Pharmacy CGU.

We considered this a key audit matter due to the significant judgment by management in

Our approach to addressing the matter included the following procedures, among others:

- Evaluated how management determined the recoverable amount of the Pharmacy CGU, which included the following:
 - Tested the appropriateness of the fair value less costs of disposal method and the mathematical accuracy of the discounted cash flow model.
 - Tested the reasonableness of the revenue growth rates by considering the past performance of the Pharmacy CGU, and whether these assumptions were consistent with evidence obtained in other areas of the audit.
 - Professionals with specialized skill and knowledge in the field of valuation assisted in testing the reasonableness of the discount rate and the terminal growth rate.
 - Tested the underlying data used in the discounted cash flow model.
 - Tested the disclosures made in the consolidated financial statements.



Key audit matter

How our audit addressed the key audit matter

determining the recoverable amount of the Pharmacy CGU, including the use of key assumptions. This has resulted in a high degree of auditor judgment, subjectivity and complexity in performing procedures to test the key assumptions. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. 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 related 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.



Auditor's responsibilities for the audit 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 auditor's 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 Canadian generally accepted auditing standards 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 Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. 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 audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose 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 auditor's 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 auditor's 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 audit. 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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 audit resulting in this independent auditor's report is Grant Redpath.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario
April 24, 2023

Grey Wolf Animal Health Corp.
Consolidated Statements of Financial Position
As at December 31, 2022 and 2021

	2022 \$	2021 \$
Assets		
Current assets		
Cash and cash equivalents	6,859,297	4,351,857
Trade and other receivables (note 17)	1,953,676	1,124,652
Inventories (note 8)	3,764,852	2,869,189
Prepaid expenses	309,472	125,164
Total current assets	<u>12,887,297</u>	<u>8,470,862</u>
Non-current assets		
Property and equipment (note 9)	1,120,560	1,351,677
Right-of-use assets (note 11)	911,995	938,462
Goodwill and intangible assets (note 10)	24,389,253	25,472,586
Total non-current assets	<u>26,421,808</u>	<u>27,762,725</u>
Total assets	<u>39,309,105</u>	<u>36,233,587</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	3,690,528	2,221,394
Income taxes payable	63,526	75,287
Borrowings (note 12)	1,056,856	927,692
Lease liabilities (note 11)	181,106	135,084
Convertible debentures (note 13)	-	10,031,770
Convertible preferred shares (note 13)	-	2,137,833
Embedded derivatives (note 13)	-	3,981,998
Total current liabilities	<u>4,992,016</u>	<u>19,511,058</u>
Non-current liabilities		
Borrowings (note 12)	9,053,081	10,028,733
Lease liabilities (note 11)	737,763	788,408
Deferred tax liabilities (note 19)	278,857	1,829,142
Total non-current liabilities	<u>10,069,701</u>	<u>12,646,283</u>
Total liabilities	<u>15,061,717</u>	<u>32,157,341</u>
Equity		
Share capital (note 14)	28,577,293	9,689,144
Equity component of convertible debentures (note 13)	-	2,005,112
Warrants (note 15)	3,502,371	3,320,931
Contributed surplus	1,462,614	899,145
Deficit	(9,294,890)	(11,838,086)
Total equity	<u>24,247,388</u>	<u>4,076,246</u>
Total equity and liabilities	<u>39,309,105</u>	<u>36,233,587</u>

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

Grey Wolf Animal Health Corp.

Consolidated Statements of Operations and Comprehensive Income (Loss)

For the years ended December 31, 2022 and 2021

	2022 \$	2021 \$
Revenue (note 7)	22,635,367	13,095,439
Cost of sales	11,071,023	5,946,470
Gross profit	11,564,344	7,148,969
Expenses		
Sales and marketing (note 20)	3,817,364	2,594,602
General and administrative (note 20)	5,209,582	2,592,144
Distribution (note 20)	1,364,726	628,660
Regulatory (note 20)	74,033	63,839
Depreciation and amortization (notes 9, 10 and 11)	1,243,406	1,018,323
Share-based compensation (note 18)	211,178	180,991
	11,920,289	7,078,559
	(355,945)	70,410
Other (income) expense		
Interest and accretion	6,682,150	1,655,101
Change in fair value of embedded derivatives (note 13)	(8,818,649)	267,534
Foreign exchange loss (gain)	44,136	(9,823)
Change in fair value of contingent consideration (note 6)	-	72,972
Other	(10,000)	(24,249)
	(2,102,363)	1,961,535
Income (loss) before income taxes	1,746,418	(1,891,125)
Income tax recovery (note 19)	(796,778)	(922,186)
Net income (loss) and comprehensive income (loss) for the year	2,543,196	(968,939)
Basic and diluted earnings (loss) per share for the year (note 23)	0.152	(0.069)

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

Grey Wolf Animal Health Corp.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2022 and 2021

	Number of shares	Share capital \$	Equity component of convertible debentures \$	Warrants \$	Contributed surplus \$	Deficit \$	Total \$
Balance – January 1, 2021	13,571,489	8,051,894	2,005,112	2,916,179	718,154	(10,869,147)	2,822,192
Net loss for the year	-	-	-	-	-	(968,939)	(968,939)
Issuance of common shares (note 14)	1,091,500	1,637,250	-	-	-	-	1,637,250
Issue of warrants (note 15)	-	-	-	404,752	-	-	404,752
Share-based compensation expense	-	-	-	-	180,991	-	180,991
Balance – December 31, 2021	14,662,989	9,689,144	2,005,112	3,320,931	899,145	(11,838,086)	4,076,246
Net profit for the year	-	-	-	-	-	2,543,196	2,543,196
Issuance of common shares on conversion of convertible debentures, net of tax (note 14)	10,676,249	12,883,153	(2,005,112)	-	-	-	10,878,041
Issuance of common shares on conversion of convertible preferred shares (note 14)	2,092,989	2,297,003	-	-	-	-	2,297,003
Issuance of common shares to Magen shareholders (note 2)	3,599,995	3,707,993	-	-	-	-	3,707,993
Fair value of Magen share options (note 2)	-	-	-	-	352,291	-	352,291
Fair value of Magen warrants (note 2)	-	-	-	181,440	-	-	181,440
Share-based compensation expense	-	-	-	-	211,178	-	211,178
Balance – December 31, 2022	31,032,222	28,577,293	-	3,502,371	1,462,614	(9,294,890)	24,247,388

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

Grey Wolf Animal Health Corp.

Consolidated Statements of Cash Flows

For the years ended December 31, 2022 and 2021

	2022 \$	2021 \$
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	2,543,196	(968,939)
Items not affecting cash		
Depreciation of property and equipment (note 9)	284,873	93,880
Depreciation of right-of-use assets (note 11)	188,309	120,885
Amortization of intangible assets (note 10)	1,083,333	906,968
Forgiveness on repayment of borrowings (note 12)	(10,000)	-
Non-cash cost of sales	-	26,837
Interest and accretion expense (notes 12 and 13)	5,523,883	1,380,795
Change in fair value of embedded derivatives (note 13)	(8,818,649)	267,534
Change in fair value of contingent consideration (note 6)	-	72,972
Share-based compensation expense (note 18)	211,178	180,991
Income tax recovery	(796,778)	(922,186)
Income tax paid	(311,911)	(83,437)
Changes in non-cash working capital items		
Trade and other receivables	(829,024)	546,702
Inventories	(895,663)	(211,701)
Prepaid expenses	(184,308)	(66,976)
Accounts payable and accrued liabilities	1,301,279	794,400
	<u>(710,282)</u>	<u>2,138,725</u>
Investing activities		
Acquisitions – net of cash and cash equivalents acquired (note 6)	-	(22,622,612)
Proceeds from the Magen Transaction (note 2)	4,409,578	-
Purchase of property and equipment (note 9)	(53,756)	(14,995)
Payment of contingent consideration	-	(600,000)
	<u>4,355,822</u>	<u>(23,237,607)</u>
Financing activities		
Proceeds from borrowings (note 12)	-	11,500,000
Repayment of borrowings (note 12)	(930,201)	(255,699)
Payment of principal portion of lease liabilities (note 11)	(207,899)	(125,429)
Proceeds from issuance of convertible debentures (note 13)	-	11,175,000
Proceeds from issuance of convertible preferred shares (note 13)	-	2,482,500
Financing fees paid	-	(1,454,923)
	<u>(1,138,100)</u>	<u>23,321,449</u>
Increase in cash and cash equivalents during the year	2,507,440	2,222,567
Cash and cash equivalents – Beginning of year	4,351,857	2,129,290
Cash and cash equivalents – End of year	6,859,297	4,351,857
Supplementary information		
Non-cash purchases of property and equipment	-	12,560
Interest paid	1,198,524	220,603

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

Grey Wolf Animal Health Corp.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

1 Nature of operations

Grey Wolf Animal Health Corp. and its subsidiaries (the Company) was incorporated under the Business Corporations Act (Ontario) on February 9, 2021, as Magen Ventures I Inc. (Magen) and was classified as a capital pool company as defined, pursuant to Policy 2.4 of the TSX Venture Exchange (the Exchange).

On November 15, 2022, the Company closed its qualifying transaction (the Magen Transaction) with Grey Wolf Animal Health Inc. (GWAH), a diversified animal health company. The Company's mission is to empower veterinary professionals and pet owners with innovative products to improve the health and wellness of animals in need of care. The primary focus of the Company's corporate strategy is to source, in-license, acquire or compound branded and generic products for sale in Canada.

In connection with the Magen Transaction, Magen changed its name to Grey Wolf Animal Health Corp. and consolidated its common shares prior to the completion of the Magen Transaction on the basis of one post-consolidation common share for every 16.6667 pre-consolidation common shares. Following these changes, GWAH amalgamated with 1000348459 Ontario Inc., a wholly owned subsidiary of Magen formed solely for the purposes of facilitating the Magen Transaction. Pursuant to the amalgamation, the shareholders of GWAH received one common share of the Company for each common share of GWAH. As a result of the Magen Transaction, GWAH is now legally a wholly owned subsidiary of the Company.

On November 23, 2022, the shares of the Company commenced trading on the Exchange under the ticker symbol WOLF.

The Company's head office is located at 65 Front Street East Suite 201, Toronto, ON, M5E 1B5.

2 Qualifying transaction

The Magen Transaction (note 1) constitutes a reverse acquisition by GWAH of the Company, a non-operating public enterprise. The Company, the accounting acquiree, did not meet the definition of a business under IFRS 3, Business Combinations (IFRS 3) and therefore the Magen Transaction did not qualify as a business combination. GWAH is deemed to have issued equity to the holders of the equity interests of the Company. Consequently, the Magen Transaction is accounted for as a continuation of the consolidated financial statements of GWAH, together with a deemed issuance, on November 15, 2022, of shares, warrants and share options by the resulting company for the net assets and the listing status of the Company accounted for in accordance with IFRS 2, Share-based Payment. The identifiable assets and liabilities of the Company were recognized at fair value as at November 15, 2022, with the excess of the fair value of net assets over the fair value of the equity interest issued charged to the consolidated statements of operations and comprehensive income (loss) as a listing expense.

The comparative figures that are presented in the consolidated financial statements are those of GWAH. The consolidated statements of operations and comprehensive income (loss) include the full results of GWAH and its subsidiaries for the period from January 1, 2022 to December 31, 2022 and for the period from January 1, 2021 to December 31, 2021.

Grey Wolf Animal Health Corp.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

	November 15, 2022 \$
Fair value of 3,599,995 Magen common shares	3,707,993
Fair value of 360,000 Magen share options	352,291
Fair value of 192,000 Magen warrants	181,440
Less: Cash and cash equivalents	4,409,578
Add: Accounts payable and accrued liabilities	<u>167,854</u>
Listing expense	<u>-</u>

The fair value component relating to the share options and warrants was determined using the Black-Scholes option pricing model using the following assumptions:

	Share options	Warrants
Share price	1.03	1.03
Volatility	86%	86%
Expected life	3.4 years	3.6 years
Risk-free interest rate	3.75%	3.71%
Dividend yield	nil	nil

3 Basis of presentation and consolidation

Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

The consolidated financial statements have been prepared using the accrual basis of accounting at historical cost except for embedded derivatives, which are measured at fair value.

The consolidated financial statements are presented in Canadian dollars, unless otherwise indicated.

These consolidated financial statements were approved by the Board of Directors on April 19, 2023.

Basis of consolidation

The consolidated financial statements as at December 31, 2022 include the accounts of the Company and the operations of its wholly owned subsidiaries: GWAH, Trutina Pharmacy Inc. (Trutina), TruBalance Healthcare Inc. (TruBalance) and 2775506 Ontario Inc.

All intercompany accounts and transactions are eliminated on consolidation.

4 Summary of significant accounting policies

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value. The Company assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration that is classified as an asset or liability that is a financial instrument is measured at fair value with changes in fair value recognized in the consolidated statements of operations and comprehensive income (loss).

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill is not subject to amortization and an impairment test is performed annually or as events occur that could indicate impairment. Goodwill is reported at cost less any impairment.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating unit or CGUs). To test for impairment, goodwill is allocated to each of the Company's CGUs, groups of CGUs or an operating segment expected to benefit from the acquisition.

Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. To allocate an impairment loss, the assets are not impaired below the higher of their fair value less costs of disposal to sell and their value in use.

Fair value measurement

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Grey Wolf Animal Health Corp.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Revenue recognition

Revenue is recognized when control of goods or services provided by the Company is transferred to the customer, at an amount reflecting the consideration the Company expects to receive from the customer in exchange for those goods or services.

The Company sells, markets and distributes animal health products, compounds medications and provides services to pharmaceutical companies in Canada. The following provides information about the nature and timing of the satisfaction of performance obligations in contracts and the related revenue recognition policies, categorized by revenue stream.

There are no significant judgments or estimates required in either determining the Company's performance obligations or, because the majority of the Company's revenue is recognized when goods are shipped to the customer, the timing of revenue recognition. As revenue is typically recognized at amounts agreed to in advance with customers, no significant estimates are required in determining transaction prices.

Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities.

a) Product revenue from customer sales

Revenue from product sales is recognized at the point in time when control of the asset is transferred to the customer, generally on shipment of the product to the customer. Products may be sold for which discounts may be applied at point of sale. A refund liability is recognized for the products that are expected to be returned (i.e. the amount not included in the transaction price).

b) Commission revenue from service contracts

For service contracts, the Company has determined that its performance obligation is to solicit orders for products sold by a third party. Therefore, the Company has determined that it is acting as an agent given that the Company is not primarily responsible for fulfilling the underlying performance obligation, does not have inventory risk and does not have discretion in establishing prices. The Company records revenue based on a predetermined rate earned on the amount billed to the end customer, net of any rebates that the Company is required to pay. Revenue is recognized at a point in time when services are provided to the third party.

Income taxes

Income tax expense (recovery) comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity.

Grey Wolf Animal Health Corp.
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

a) Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting dates. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

b) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting dates. Deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets are recognized for deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting dates. Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

The Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities that intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Foreign currency transactions

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company. Items included in the financial statements of each entity are measured using its functional currency.

Transactions in foreign currencies are initially recorded by the Company at the respective functional currency exchange rates at the date the transaction first qualifies for recognition.

Grey Wolf Animal Health Corp.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Monetary assets and liabilities denominated in foreign currencies are remeasured to the functional currency at the closing exchange rate as at the dates of the consolidated statements of financial position. Foreign currency differences arising on remeasurement are recognized through profit or loss.

Non-monetary items that are measured in terms of historical cost are translated into the subsidiary's functional currency at the exchange rate at the date of the original transaction.

Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- raw materials: purchase cost on a first-in/first-out basis; and
- finished goods: the purchase and labour cost, duty, brokerage and transportation costs to bring the inventory to the Company's premises.

When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the writedown previously recorded is reversed up to the lower of net realizable value and cost.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment.

Items of property and equipment are depreciated over the estimated useful lives of the assets, as follows:

Office furniture and equipment	20% declining balance
Computer equipment and software	33% declining balance
Lab equipment	33% declining balance
Leasehold improvements	straight-line over the term of the lease

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

Leases

The Company assesses whether a contract is or contains a lease at inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease.

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The right-of-use assets comprise the initial measurement of the corresponding lease liability and lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter of the lease term and the useful life. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Right-of-use assets are depreciated on a straight-line basis as follows:

Property	term of the lease
Office equipment	3 to 5 years

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and impairment losses.

Intangible assets with finite lives are amortized over their estimated useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

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An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the consolidated statements of operations and comprehensive income (loss).

Definite-life intangible assets are amortized on a straight-line basis over their estimated useful lives, as follows:

Product rights	3 years
Customer relationships	4 to 8 years

Intangible assets, like the Pre-1954 Charter and brand name, with indefinite useful lives, are non-depreciable assets. The assessment of an indefinite useful life is reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from indefinite to definite is made on a prospective basis.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the consolidated statements of operations and comprehensive income (loss).

Impairment of non-financial assets

a) Timing of impairment testing

The carrying amounts of the Company's non-financial assets, other than inventory and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset is estimated.

The Company assesses the recoverable amount of goodwill and intangible assets with indefinite useful lives annually during the fourth quarter, or more frequently if there are indicators of impairment.

b) Measurement of recoverable amount

The recoverable amount of an asset or CGU is the greater of its value in use and fair value less costs of disposal. 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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

c) Recognition of impairment loss

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. For CGUs that include goodwill, an impairment loss is recognized when the carrying amount of the CGU, after including the balance of goodwill, exceeds its recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill and then to reduce the carrying amounts of the other

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assets in the CGU on a pro rata basis. Impairment losses relating to goodwill cannot be reversed in future periods.

Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statements of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade and other receivables that do not have a significant financing component and that are measured at their transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

All recognized financial assets are measured subsequently at either amortized cost or fair value, depending on the classification of the financial asset.

a) Classification and measurement of financial assets

Financial assets at amortized cost are subsequently measured using the effective interest rate method and are subject to impairment. The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount, adjusted for any expected credit losses. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. The Company's financial assets at amortized cost include cash and cash equivalents and trade and other receivables.

Cash and cash equivalents in the consolidated statements of financial position comprise cash at banks and on hand and short-term highly liquid deposits with a maturity of three months or less or cashable without penalty.

For trade and other receivables, the Company applies a simplified approach in calculating expected credit losses. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime expected credit losses at each reporting date. The Company has a simplified method for measured expected credit losses that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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b) Classification and measurement of financial liabilities

The Company's financial liabilities include accounts payable and accrued liabilities, borrowings, convertible debentures, convertible preferred shares and embedded derivatives. All financial liabilities are recognized initially at fair value and, in the case of borrowings, convertible debentures and convertible preferred shares, net of directly attributable transaction costs.

After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest rate method.

At origination, the Company makes an assessment if a financial liability contains an embedded component that is not closely related to the host liability contract. If such financial liabilities contain embedded derivatives, these are separated from the host liability contract and recognized at fair value at initial recognition in either liability or equity. At initial recognition, the Company also determines whether financial instruments meet the definition of a liability, an equity or if they have characteristics of both a liability and an equity. Financial liability instruments are then separated into liability components and, if applicable, an equity component, based on the contractual terms.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of operations and comprehensive income (loss).

c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

d) Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Derivatives embedded in hybrid contracts with a financial asset host are not separated. The entire hybrid contract is classified and subsequently measured as either amortized cost or fair value as appropriate.

Derivatives embedded in hybrid contracts with hosts that are not financial assets are treated as separate derivatives when they meet the definition of a derivative, which is that their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value

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through profit or loss. Such embedded derivatives are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value through profit or loss.

Share-based compensation

The Company has established a stock option plan for its directors, officers and consultants under which the Company may grant stock options from time to time to acquire a maximum of 10% of the issued and outstanding common shares (the Plan). The exercise price of each stock option granted under the Plan shall be determined by the Board of Directors. Options may be granted for a maximum term of ten years from the date of the grant. They are non-transferable and are exercisable as determined by the Board of Directors when the stock option is granted. The Company measures the cost of stock options granted under the Plan at their fair value on the grant date. The fair value is determined using the Black-Scholes option pricing model. The grant date fair value does not take into account the requirement for Employees to render service, but the likelihood of the service condition being met is assessed as part of the Company's best estimate of the number of stock options that will ultimately vest.

The cost of the stock options granted under the Plan is recognized in the consolidated statements of operations and comprehensive income (loss), with a corresponding increase in contributed surplus, over the vesting period in which the service conditions are fulfilled. The stock options typically vest in instalments over three years, on the anniversary of the grant date. As such, each instalment is accounted for as a separate share-based payment.

If the stock options are exercised, the amount initially recorded for the stock options within contributed surplus is credited to share capital, along with the proceeds received on the exercise. If the stock options are vested and cancelled, the amount initially recorded for the stock options remains within contributed surplus.

The stock options expire ten years from the date of grant, or earlier depending on employment status.

Government assistance

The Company recognizes government assistance when there is reasonable assurance that it will comply with the conditions required to qualify for the assistance, and that the assistance will be received. The Company recognizes government assistance as a reduction to the related expense or asset that the assistance is intended to offset.

New and revised IFRS standards not yet effective

At the date of authorization of these consolidated financial statements, the Company had not applied the following new and revised IFRS standards that are not yet effective.

- Amendments to International Accounting Standard (IAS) 1, Presentation of Financial Statements (IAS 1)

The amendments affect only the presentation of liabilities in the consolidated statements of financial position, not the amount or timing of recognition of any asset, liability, income or expenses, or the information that entities disclose about those items. They clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period

and align the wording in all affected paragraphs to refer to the “right” to defer settlement by at least 12 months and make explicit that only rights in place at the end of the reporting period should affect the classification of a liability; clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The effective date of the amendments to IAS 1 is on or after January 1, 2024, earlier application is permitted. The Company plans to adopt the amendments on January 1, 2024 and does not expect any impact on the Company’s consolidated financial statements.

- Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

The amendment replaces the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. These amendments are applicable for annual periods beginning on or after January 1, 2023. The Company plans to adopt the amendments on January 1, 2023 and does not expect any impact on the Company’s consolidated financial statements.

5 Significant accounting judgments, estimates and assumptions

Application of accounting policies requires management to use estimates and judgments that can have significant effects on the revenue, expenses, comprehensive income (loss), assets and liabilities recognized and disclosures made in the consolidated financial statements.

Management’s best estimates concerning the future are based on the facts and circumstances available at the time estimates are made. Management uses historical experience, general economic conditions and assumptions regarding probable future outcomes as the basis for determining estimates. Estimates and their underlying assumptions are reviewed periodically and the effects of any changes are recognized immediately. Actual results could differ from the estimates used.

The following areas require significant estimates or judgment by management.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The cash flows are derived from the budget for the next five years. The recoverable amount is sensitive to the discount rate used in the models as well as the revenue growth rates and the terminal growth rate used to extrapolate cash flows beyond the forecast period. These estimates are most relevant to goodwill intangible assets with indefinite useful lives recognized by the Company. The key assumptions used to determine the recoverable amounts for the different CGUs are disclosed and further explained in note 10.

Business combinations

When the Company completes an acquisition, management is required to make judgments to determine whether the acquisition meets the definition of a business in accordance with IFRS 3.

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. The fair values of intangible assets identified are determined using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows.

In addition, the Company may provide contingent consideration as part of the purchase price for acquisitions of businesses and/or assets. Management is required to make judgments and estimates of the future performance of the acquired business and/or assets in order to determine the amount of contingent consideration to be recognized at the date of acquisition and at each subsequent reporting date.

Taxes

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and the level of future taxable profits, together with future tax planning strategies.

The Company has \$7,170,000 (2021 – \$5,152,000) of tax losses carried forward. These losses relate to GWAH, which has a history of losses, and expire between the year 2036 and 2041. The Company has employed tax strategies in order to utilize the losses against taxable income generated in the Company's subsidiaries.

Fair value measurement and valuation process

Some of the Company's financial liabilities have embedded derivatives that are measured at fair value for financial reporting purposes.

In estimating the fair value, the Company uses market-observable and non-market data. The Company also engages, where needed, third party qualified valuers to perform such valuations. The Company considers such fair values as under Level 3 of the fair value hierarchy.

6 Business combination and asset acquisition

Acquisition of Trutina Pharmacy Inc. and TruBalance Healthcare Inc.

On September 1, 2021, the Company acquired all the issued and outstanding shares of Trutina and TruBalance through a share purchase agreement. The assets and liabilities acquired qualify as a business as defined in IFRS 3.

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Total consideration paid to the seller was \$22,291,797. The total consideration included cash of \$20,654,547 (including working capital adjustment) and 1,091,500 common shares of GWAH, determined to have a fair value of \$1.50 per share, totalling \$1,637,250.

The assets acquired and liabilities assumed, and the effects on the cash flows, at the acquisition date were as follows:

	Fair value recognized on acquisition \$
Assets	
Cash and cash equivalents	331,935
Trade and other receivables	672,294
Inventories	1,218,378
Prepaid expenses	25,851
Property and equipment (note 9)	1,406,062
Right-of-use assets (note 11)	921,061
Intangible assets (note 10)	9,500,000
	<u>14,075,581</u>
Liabilities	
Account payable and accrued liabilities	241,577
Income taxes payable	32,600
Deferred tax liabilities	2,794,058
Lease liabilities	892,467
	<u>3,960,702</u>
Total identifiable net assets at fair value	10,114,879
Goodwill (note 10)	<u>12,176,918</u>
Purchase consideration transferred	<u>22,291,797</u>
Cash consideration	20,654,547
Common shares issued	1,637,250
	<u>22,291,797</u>

The goodwill of \$12,008,169 arising from the acquisition consists of the assembled workforce and it is not expected to be deductible for tax purposes.

The Company measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the favourable terms of the lease relative to market terms.

Transaction costs incurred related to the acquisition were \$579,947.

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For the year ended December 31, 2021, Trutina and TruBalance contributed revenue of \$3,400,000 and net profit of \$649,000 to the Company's results. If the acquisition had occurred on January 1, 2021, management estimates that consolidated revenue would have been \$20,200,000, and consolidated net income for the year would have been \$520,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2021.

Acquisition of 2775506 Ontario Inc.

On July 19, 2021, the Company closed a share purchase agreement with Dunwin Medical Group Limited to acquire 100% of outstanding common shares of 2775506 Ontario Inc. and its wholly owned subsidiary, Phillios Drugs Limited (Phillios), for cash consideration of \$2,300,000. In accordance with the concentration test under IFRS 3, the Company concluded that the fair value of the assets acquired was concentrated in a single identifiable asset, being the Pre-1954 Charter status of Phillios, which allows Trutina to operate. As a result, the Company allocated the purchase consideration of \$2,300,000 entirely to the Pre-1954 Charter. Subsequent to the acquisition of Trutina, Trutina was wound up into Phillios, and Phillios changed its name to Trutina.

The acquisition includes an unrecognized deferred tax liability of \$609,500 in relation to the IAS 12, Income Taxes (IAS 12) recognition exemption on acquisition of assets.

Acquisition of Veterinary Healthcare Solutions Inc.

On December 31, 2018, the Company entered into a share purchase agreement to acquire all of the issued and outstanding shares and certain assets of Veterinary Healthcare Solutions Inc. (VHS). The agreement included certain contingent consideration payments payable annually on achievement of certain revenue levels of the VHS business, summarized as follows:

- \$600,000 to be paid in cash within 60 days following the 12-month period ended December 31, 2019 and if a certain revenue threshold is achieved; and
- \$600,000 to be paid in cash within 60 days following the 12-month period ended December 31, 2020 and if a certain revenue threshold is achieved.

The contingent consideration liability was initially recognized at fair value (Level 3 in the fair value hierarchy), estimated using the discounted value of estimated future payments. The liability was included as part of the consideration transferred for the acquisition of the VHS shares.

The key assumptions in valuing the contingent consideration include the following:

- estimated projected revenue;
- the likelihood of certain revenue levels being achieved; and
- a discount rate of 6%.

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During the year ended December 31, 2021, \$600,000 was paid following the achievement of the revenue threshold for the year ended December 31, 2020. A change in fair value of contingent consideration was recognized in the amount of \$72,972 for the year ended December 31, 2021.

7 Revenue

The Company recognizes revenue on sale of products and on commissions and other revenue in the consolidated financial statements. All revenue is generated in Canada. The total revenue recognized in these categories is as follows:

	2022 \$	2021 \$
Types of revenue		
Pharmaceutical, nutraceutical and consumable products	8,975,860	7,822,084
Compounded pharmaceutical products	11,614,789	3,327,886
Commissions and other revenue	2,044,718	1,945,469
	<u>22,635,367</u>	<u>13,095,439</u>

8 Inventories

	2022 \$	2021 \$
Raw materials		
Finished goods	1,225,190	1,118,510
Inventory reserve	2,599,662	1,800,679
	<u>(60,000)</u>	<u>(50,000)</u>
	<u>3,764,852</u>	<u>2,869,189</u>

The cost of inventory recognized as an expense and included in the consolidated statements of operations and comprehensive income (loss) as part of cost of sales was \$8,993,115 for the year ended December 31, 2022 (2021 – \$5,519,715). Inventory writedown charged to the consolidated statements of operations and comprehensive income (loss) was \$10,000 for the year ended December 31, 2022 (2021 – recovery of \$30,500).

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9 Property and equipment

	Office furniture and equipment \$	Computer equipment and software \$	Lab equipment \$	Leasehold improvements \$	Total \$
Cost					
As at January 1, 2021	10,088	10,809	-	4,076	24,973
Additions from business combinations	59,195	21,853	94,179	1,230,835	1,406,062
Additions	-	-	27,555	-	27,555
As at December 31, 2021	69,283	32,662	121,734	1,234,911	1,458,590
Additions	860	42,665	10,231	-	53,756
As at December 31, 2022	70,143	75,327	131,965	1,234,911	1,512,346
Depreciation and impairment					
As at January 1, 2021	3,018	7,468	-	2,547	13,033
Depreciation	5,769	3,701	10,465	73,945	93,880
As at December 31, 2021	8,787	11,169	10,465	76,492	106,913
Depreciation	12,186	20,516	34,919	217,252	284,873
As at December 31, 2022	20,973	31,685	45,384	293,744	391,786
Net book value					
December 31, 2021	60,496	21,493	111,269	1,158,419	1,351,677
December 31, 2022	49,170	43,642	86,581	941,167	1,120,560

Depreciation included in cost of sales is \$236,354 (2021 – \$77,824).

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10 Goodwill and intangible assets

	Goodwill \$	Product rights \$	Customer relationships \$	Brand \$	Pre-1954 Charter \$	Total \$
Cost						
As at December 31, 2021	13,889,254	2,070,900	6,800,000	2,700,000	2,300,000	27,760,154
As at December 31, 2022	13,889,254	2,070,900	6,800,000	2,700,000	2,300,000	27,760,154
Amortization and impairment						
As at January 1, 2021	-	1,380,600	-	-	-	1,380,600
Amortization	-	690,300	216,668	-	-	906,968
As at December 31, 2021	-	2,070,900	216,668	-	-	2,287,568
Amortization	-	-	1,083,333	-	-	1,083,333
As at December 31, 2022	-	2,070,900	1,300,001	-	-	3,370,901
Net book value						
December 31, 2021	13,889,254	-	6,583,332	2,700,000	2,300,000	25,472,586
December 31, 2022	13,889,254	-	5,499,999	2,700,000	2,300,000	24,389,253

Impairment – goodwill and intangible assets with indefinite useful lives

With the acquisition of Phillios and supported by the acquisition of Trutina and TruBalance, the Company has two CGUs for impairment testing purposes, Animal Health and Pharmacy.

For impairment testing, goodwill acquired through business combinations and intangible assets with indefinite useful lives have been allocated to each of the CGUs as at December 31, 2022:

	Animal Health \$	Pharmacy \$
Goodwill	1,712,336	12,176,918
Brand	-	2,700,000
Pre-1954 Charter	-	2,300,000
	<u>1,712,336</u>	<u>17,176,918</u>

The Company performs its annual impairment test during the fourth quarter of each year.

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Animal Health CGU

The recoverable amount of the Animal Health CGU of \$8,438,938 as at December 31, 2022 (2021 – \$13,328,804) has been determined using a fair value less costs of disposal method based on a discounted cash flow model over a period of five years. The discount rate applied to the cash flow projections is 21% (2021 – 15%) and cash flows beyond the five-year period are extrapolated using a 2.5% terminal growth rate (2021 – 2.5%). As a result of this analysis, no impairment charge has been recorded in the current year against goodwill allocated to the Animal Health CGU.

Pharmacy CGU

The recoverable amount of the Pharmacy CGU of \$25,399,432 as at December 31, 2022 (2021 – \$24,473,000) has been determined using a fair value less costs of disposal method based on a discounted cash flow model over a period of five years. The discount rate applied to cash flow projections is 20% (2021 – 20.5%) and cash flows beyond the five-year period are extrapolated using a 2.5% terminal growth rate (2021 – 2.5%). As a result of this analysis, no impairment charge has been recorded in the current year against goodwill or intangible assets with indefinite useful lives allocated to the Pharmacy CGU.

Key assumptions

The calculation of the recoverable amounts above is most sensitive to the following assumptions:

- revenue growth rates;
- discount rate; and
- terminal growth rate.

11 Leases

The Company has lease contracts for property and office equipment. Leases of office equipment are generally between three to five years, while the property leases have an initial term of two to five years with one property lease having an extension option. Management exercises judgment in determining whether this extension option is reasonably certain to be exercised and has included this extension option in the calculation of the lease liabilities and right-of-use assets. The rental payments for the property lease extension will be adjusted at the time of extension based on the market rate on that date. No other lease contracts include extension options.

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Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	Property \$	Office equipment \$	Total \$
As at January 1, 2021	130,096	8,190	138,286
Acquisition (note 6)	921,061	-	921,061
Depreciation expense	(115,971)	(4,914)	(120,885)
As at December 31, 2021	935,186	3,276	938,462
Additions	161,842	-	161,842
Depreciation expense	(185,033)	(3,276)	(188,309)
As at December 31, 2022	911,995	-	911,995

Depreciation included in cost of sales is \$76,455 (2021 – \$25,585).

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	\$
As at January 1, 2021	140,511
Additions	892,467
Payments	(125,429)
Accretion of interest	15,943
As at December 31, 2021	923,492
Additions	161,842
Payments	(207,899)
Accretion of interest	41,434
As at December 31, 2022	918,869

A breakdown of the current and non-current portion of lease liabilities is as follows:

	2022 \$	2021 \$
Current lease liabilities	181,106	135,084
Non-current lease liabilities	737,763	788,408
	918,869	923,492

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12 Borrowings

A summary of the movements in borrowings is as follows:

	CEBA Loan \$	CWB credit loan \$	Total borrowings \$
Balance – January 1, 2021	80,000	-	80,000
Issuance of new borrowings	-	11,500,000	11,500,000
Financing costs paid	-	(403,524)	(403,524)
Repayment of borrowings	(30,000)	(225,699)	(255,699)
Interest and accretion expense	-	172,176	172,176
Interest paid	-	(136,528)	(136,528)
Balance – December 31, 2021	50,000	10,906,425	10,956,425
Repayment of borrowings	-	(930,201)	(930,201)
Interest and accretion expense	-	612,421	612,421
Interest paid	-	(518,708)	(518,708)
Forgiveness of borrowings	(10,000)	-	(10,000)
Balance – December 31, 2022	40,000	10,069,937	10,109,937
Current borrowings	40,000	1,016,856	1,056,856
Non-current borrowings	-	9,053,081	9,053,081
	40,000	10,069,937	10,109,937

CEBA Loan

On April 24, 2020, the Company received an \$80,000 Canada Emergency Business Account (CEBA Loan). The CEBA Loan bears nil% interest until December 31, 2023. If the balance is not paid by December 31, 2023, the remaining balance will be converted to a three-year term loan at 5% annual interest, paid monthly, effective January 1, 2024. The full balance must be repaid by no later than December 31, 2025. If the Company fully repays the loan by December 2023, then \$10,000 in loan forgiveness is available.

As a result of the amalgamation of VHS and the Company effective January 1, 2021, \$30,000 of the loan was repayable immediately. During 2022, \$10,000 of the \$40,000 VHS CEBA Loan was forgiven, which is reflected in the consolidated financial statements.

CWB Maxium Financial Inc. credit loan

On August 25, 2021, the Company entered into a \$11,500,000 financing arrangement with CWB Maxium Financial Inc. (the CWB credit loan). The CWB credit loan bears fixed interest at a rate of 4.0% per annum on \$10,000,000 and 10.0% per annum on the remaining \$1,500,000. The CWB credit loan is secured and repayable in 60 equal monthly instalments of \$120,742 commencing on October 1, 2021. The Company has a

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debt service coverage ratio financial covenant and was in compliance with this debt covenant as at December 31, 2022.

As consideration for services rendered in connection with the CWB credit loan, the Company issued 230,000 broker warrants (note 15).

Royal Bank of Canada line of credit

The Company has a line of credit available in the amount of \$750,000 secured on trade and other receivables and inventory. As at December 31, 2022 and 2021, there was \$nil outstanding on the line of credit.

13 Convertible debentures, convertible preferred shares and embedded derivatives

	2022 \$	2021 \$
Convertible debentures		
2018 convertible debentures	-	645,959
2020 convertible debentures	-	914,110
2021 convertible debentures	-	8,471,701
	-	<u>10,031,770</u>
Current portion	-	10,031,770
Non-current portion	-	<u>-</u>
Convertible preferred shares		
2020 convertible preferred shares	-	306,730
2021 convertible preferred shares	-	1,831,103
	-	<u>2,137,833</u>
Current portion	-	2,137,833
Non-current portion	-	<u>-</u>
Embedded derivatives		
2020 convertible debentures	-	468,596
2020 convertible preferred shares	-	172,657
2021 convertible debentures	-	2,747,000
2021 convertible preferred shares	-	593,745
	-	<u>3,981,998</u>
Current portion	-	3,981,998
Non-current portion	-	<u>-</u>

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Conversion of the convertible debentures, convertible preferred shares and embedded derivatives

As part of the Magen Transaction, the GWAH convertible debentures and convertible preferred shares all converted into GWAH common shares at \$1.50 per common share as part of the close of the Magen Transaction. This resulted in the reclassification of the convertible debentures liability of \$14,346,052, the convertible preferred shares liability of \$3,212,286 and the embedded derivative asset of \$4,836,651 to share capital, as well as the recognition of accelerated interest accretion of \$4,182,642. In addition, the equity component of convertible debentures was reclassified to share capital in the amount of \$2,005,112. The accrued interest on the convertible debentures to November 15, 2022 amounted to \$1,929,955, of which \$582,791 was paid in cash and the remaining \$1,347,164 was converted to common shares at \$2.00 per common share. The accrued interest on the convertible preferred shares to November 15, 2022 amounted to \$294,402, of which \$3,221 was paid in cash and the remaining \$291,181 was converted to common shares at \$2.00 per common share.

The following table details the calculation of the number of GWAH common shares issued on conversion of convertible debentures and convertible preferred shares:

	Convertible debt to common shares	Accrued interest converted to common shares	Total common shares
Convertible debentures			
2018	1,659,335	-	1,659,335
2020	909,999	-	909,999
2021	7,433,333	673,582	8,106,915
	10,002,667	673,582	10,676,249
	Convertible preferred shares to common shares	Accrued interest converted to common shares	Total common shares
Convertible preferred shares			
2020	340,736	-	340,736
2021	1,606,663	145,590	1,752,253
	1,947,399	145,590	2,092,989

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Convertible preferred shares issued and outstanding

Authorized

Unlimited number of 2020 convertible preferred shares (Class A preferred shares) and 2021 convertible preferred shares (Series B preferred shares)

Issued and outstanding

	2022 \$	2021 \$
2020 convertible preferred shares	-	340,736
2021 convertible preferred shares	-	1,205,000
	-	<u>1,545,736</u>

2018 convertible debentures

Interest at a rate of 6.0% per annum accrued quarterly and was payable in arrears in common shares or cash at the Company's sole discretion. If payable in common shares, determination of the number of common shares payable was based on the price at which common shares were sold in the Company's most recently completed common share financing, and such shares were to be issued on the earlier of the maturity date and a liquidity event.

The 2018 convertible debentures were convertible, in whole or in part, at any time at the holder's option into common shares at a conversion price of \$1.50 per common share. The 2018 debentures (plus any accrued interest, at the Company's option) automatically convert into common shares at the conversion price of \$1.50 upon the earlier of the maturity date and a liquidity event. They were to mature on the date that is five years following the issuance date.

The principal portion meets the fixed-for-fixed criteria for accounting purposes and is classified as equity and the interest portion is a financial liability. Warrants issued in relation to the 2018 convertible debentures met the fixed-for-fixed criteria and the issuance date fair value has been included within equity.

2020 convertible debentures and preferred shares

The holders of the 2020 convertible debentures and convertible preferred shares were entitled to receive interest payable quarterly in arrears in cash at an annual rate of 5%.

The 2020 convertible debentures and convertible preferred shares were convertible, in whole or in part, at any time at the holder's option into common shares at a conversion price of \$1.50 per common share. The 2020 debentures and preferred shares were not redeemable prior to the maturity date. They were due to mature, and the principal amount and any unpaid interest will become repayable in cash on the date that is five years following the issuance date.

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The 2020 convertible debentures and convertible preferred shares were to be automatically converted on the occurrence of a liquidity event into common shares at the lesser of (i) \$1.50 per common share or (ii) a 25% discount to the prevailing price per common share at a liquidity event.

The 2020 convertible debentures and convertible preferred shares contained a financial liability and multiple embedded derivatives in accordance with the terms of the contractual arrangement. At the date of issue, the embedded derivatives and the host financial liability are recorded at fair value. The financial liability is subsequently measured at amortized cost using the effective interest rate method. The fair value of the embedded derivatives is determined using pricing model techniques and subsequently measured at fair value through profit or loss. Warrants issued in relation to the 2020 convertible debentures and convertible preferred shares met the fixed-for-fixed criteria and the fair value has been included within equity.

2021 convertible debentures and preferred shares

The 2021 convertible debentures and convertible preferred shares were to automatically convert into a variable number of common shares at the conversion price on the earlier of the maturity date or a liquidity event at a price equal to the price per share at which common shares were issued at the most recently completed equity financing round, less a 25% discount. Interest at a rate of 10% per annum accrued quarterly and was payable in a variable number of common shares.

The 2021 convertible debentures and convertible preferred shares contain a financial liability and multiple embedded derivatives in accordance with the terms of the contractual arrangement. At the date of issue, the embedded derivatives and the host financial liability were recorded at fair value. The financial liability is subsequently measured at amortized cost using the effective interest rate method. The fair value of the embedded derivatives is determined using pricing model techniques and subsequently measured at fair value through profit or loss. Warrants issued in relation to the 2021 convertible debentures and convertible preferred shares met the fixed-for-fixed criteria and the fair value was included within equity.

Financial instruments carried at fair value

The Company's embedded derivatives relating to the convertible debentures and convertible preferred shares are classified as Level 3 in the fair value hierarchy.

There were no transfers between any level during the years ended December 31, 2022 and 2021.

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Description of significant unobservable inputs to embedded derivative valuation

The significant unobservable inputs used in the fair value measurements categorized within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at December 31, 2021, are shown below:

	Valuation technique	Significant unobservable inputs	Range/point estimate (weighted average)	Sensitivity of the input to fair value of the embedded derivative
2021 convertible debentures and convertible preferred shares – embedded conversion options	DCF method	discount for counterparty credit risk	2021 – 20.2%	1% increase (decrease) would result in decrease (increase) of \$24,695 (\$25,159) in the fair value
2020 convertible debentures and convertible preferred shares – embedded conversion options	“With” approach (binomial lattice method) “Without” approach (DCF method)	discount for counterparty credit risk	2021 – 24.0%	1% (2021 – 1%) increase (decrease) would result in decrease (increase) of \$326 (\$251) in the fair value (2021 – \$1,508 (\$3,192))

14 Share capital

Authorized

Unlimited number of common shares without par value

Issued and outstanding

	2022	2021
Common shares	31,032,222	14,662,989

On November 15, 2022, the Company completed the Magen Transaction resulting in the issuance of 3,599,995 common shares to the former Magen shareholders, the issuance of 10,676,249 common shares on conversion of the convertible debentures and accrued interest and the issuance of 2,092,989 common shares on conversion of the convertible preferred shares and accrued interest.

During the prior year, the Company issued 1,091,500 GWAH common shares at \$1.50 per common share for a total of \$1,637,250 in conjunction with the acquisition of Trutina and TruBalance as outlined in note 6.

15 Warrants

Warrants were issued concurrently with the convertible debentures and convertible preferred shares. The Company also issued warrants to compensate third party brokers for transaction costs incurred directly in relation to the issuances of certain convertible debentures, convertible preferred shares and borrowings.

As a result of the Magen Transaction (note 2), effective November 15, 2022, each former Magen broker warrant holder received one broker warrant to purchase common shares of the Company for every 16.6667 broker warrants they exchanged in the Magen Transaction.

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A summary of outstanding warrants is as follows:

Issuance/related issuance	Number of common share entitlements	Exercise price \$	Expiry date	Fair value at initial recognition \$
2021 convertible debentures	1,393,750	2.10	August 31, 2024	231,875
2021 convertible preferred shares	301,250	2.10	August 31, 2024	50,118
2021 broker warrants	682,000	2.10	August 31, 2024	122,759
2021 broker warrants	192,000	1.67	June 17, 2026	181,440
		Investor warrants	Broker warrants	Total warrants
Balance – January 1, 2021		4,819,600	38,000	4,857,600
Granted		1,695,000	682,000	2,377,000
Expired		(4,321,800)	-	(4,321,800)
Balance – December 31, 2021		2,192,800	720,000	2,912,800
Granted		-	-	-
Magen broker warrants		-	192,000	192,000
Expired		(497,800)	(38,000)	(535,800)
Balance – December 31, 2022		1,695,000	874,000	2,569,000

16 Group information

The consolidated financial statements of the Company include the following subsidiaries:

Name	Principal activities	Country of incorporation	Equity interest	
			2022 %	2021 %
Grey Wolf Animal Health, Inc.	Animal Health	Canada	100	100
2775506 Ontario Inc.	Holding company	Canada	100	100
Trutina Pharmacy Inc.	Pharmacy	Canada	100	100
TruBalance Healthcare Inc.	Marketing and education	Canada	100	-

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17 Financial instruments risk management

The Company's principal financial liabilities comprise convertible debentures, convertible preferred shares, embedded derivatives, borrowings, lease liabilities and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include trade and other receivables and cash and cash equivalents.

The Company is exposed to liquidity risk, interest rate risk, foreign currency risk and credit risk. The Company's senior management oversees the management of these risks. The Company's senior management ensures that the Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Company's policies and risk objectives. It is the Company's policy that no trading in derivatives for speculative purposes may be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

Liquidity risk

Liquidity risk is the risk the Company will encounter difficulty in meeting obligations with financial liabilities.

Cash flow forecasting is performed to monitor the Company's liquidity requirements to ensure it has sufficient cash and cash equivalents and to meet operational needs at all times.

Liquidity risk encompasses the risk that obligations are not met as they fall due. The Company's main sources of liquidity are its operations, its external borrowings and financing from its shareholders. The Company manages liquidity risk by trying to maintain sufficient cash and cash equivalent balances, and through effective cash management and constant monitoring of projected versus actual cash flows, which are updated as considered necessary.

The Company's borrowings and other agreements contain several financial and other covenants and a failure by the Company to comply with these could result in a default, which if not rectified or waived could permit acceleration of the relevant settlement.

The Company's liquidity and the ability to service debt, as well as purchases and other commitments, leases, operating agreements, working capital and capital expenditure requirements, are dependent on future financial performance, which there can be no assurance the Company will be successful in achieving.

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The following table summarizes the undiscounted contractual maturities of the Company's non-derivative financial liabilities as at December 31, 2022:

	Carrying amount \$	Future cash flows \$	Less than one year \$	Years two and three \$	Years four and five \$	Thereafter \$
Account payable and accrued liabilities	3,690,528	3,690,528	3,690,528	-	-	-
Borrowings	10,109,937	10,809,255	1,478,909	2,897,819	6,432,527	-
Lease liabilities	918,869	1,097,004	218,171	211,343	213,984	453,506
	<u>14,719,334</u>	<u>15,596,787</u>	<u>5,387,608</u>	<u>3,109,162</u>	<u>6,646,511</u>	<u>453,506</u>

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk is limited to the CEBA Loan. The Company's convertible debentures, convertible preferred shares and the CWB credit loan have a fixed rate of interest and, accordingly, are not subject to interest rate risk.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company and all of its subsidiaries have the Canadian dollar as their functional currency. Foreign currency risk occurs as a result of foreign exchange rate fluctuations from accounts payable and accrued liabilities denominated in foreign currencies as the Company purchases goods and services denominated in foreign currencies. The Company's cash and cash equivalents and accounts payable and accrued liabilities denominated in a foreign currency were \$77,756 and \$945,809 (2021 – \$2,311 and \$229,462), respectively. The Company does not use derivatives to reduce exposure to foreign currency risk.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from cash and cash equivalents, which are held with tier one financial institutions and two credit unions, and trade and other receivables. The Company's maximum exposure to credit risk from trade and other receivables is equal to the carrying value of the trade and other receivables balance.

The Company's trade and other receivables are not subject to a significant amount of credit risk. The Company routinely assesses the financial strength of its customers and, as a consequence, believes its trade and other receivables' credit risk exposure is limited. Trade and other receivables past due represent amounts not collected beyond the customer's contractual terms. The Company applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, Financial Instruments, which permits the use of the lifetime expected credit losses for all trade and other receivables. As at December 31, 2022, there was \$742,887 in trade and other receivables that was past due (2021 – \$382,536) but still considered collectible.

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Financial instruments carried at other than fair value

The following table provides a comparison of the carrying amount and fair value of the Company's financial assets and liabilities that are not carried at fair value in the consolidated financial statements:

	2022		2021	
	Carrying amount \$	Fair Value \$	Carrying amount \$	Fair Value \$
Financial assets				
Cash and cash equivalents	6,859,297	6,859,297	4,351,857	4,351,857
Trade and other receivables	1,953,676	1,953,676	1,124,652	1,124,652
	<u>8,812,973</u>	<u>8,812,973</u>	<u>5,476,509</u>	<u>5,476,509</u>
Financial liabilities				
Accounts payable and accrued liabilities	3,690,528	3,690,528	2,221,394	2,221,394
Borrowings	10,109,937	9,474,468	10,956,425	10,956,425
Lease liabilities	918,869	918,869	923,492	923,492
2018 convertible debentures	-	-	645,959	469,839
2020 convertible debentures	-	-	914,111	1,005,499
2020 convertible preferred shares	-	-	306,730	376,540
2021 convertible debentures	-	-	8,471,700	8,899,558
2021 convertible preferred shares	-	-	1,831,103	1,923,582
	<u>14,719,334</u>	<u>14,083,865</u>	<u>26,270,914</u>	<u>26,776,329</u>

All financial assets of the Company are carried at amortized cost in the consolidated financial statements, and for all financial assets the carrying value approximates fair value because of their nature and relatively short maturity dates.

The Company believes that the carrying values of accounts payable and accrued liabilities and lease liabilities approximate their current fair values because of their nature and relatively short maturity dates or durations and current market rates for similar instruments.

Borrowings are carried at amortized cost using the effective interest method. The estimated fair value of the borrowings was determined using inputs from quoted market prices.

The fair value and carrying value of the host contracts of convertible debentures and convertible preferred shares components measured at amortized cost are presented above. The fair value measurements are Level 3 of the hierarchy.

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18 Share-based compensation

The Company has established a stock option plan for its directors, officers and consultants under which the Company may grant options from time to time to acquire a maximum of 10% of the issued and outstanding common shares. The exercise price of each option granted under the plan shall be determined by the Board of Directors.

Options may be granted for a maximum term of ten years from the date of the grant. They are non-transferable and are exercisable as determined by the Board of Directors when the option is granted.

As a result of the Magen Transaction (note 2), effective November 15, 2022, each former Magen share option holder received one share option to purchase common shares of the Company for every 16.6667 share options they exchanged in the Magen Transaction. As a result, 360,000 share options were issued (note 2).

Share-based compensation expense for the year ended December 31, 2022 was \$211,178 (2021 – \$180,991).

A summary of the stock option changes during the year ended December 31, 2022 and the total number of stock options outstanding as at that date and changes since January 1, 2021 are set forth below:

	Number of stock options	Weighted average exercise price \$
Balance – January 1, 2021	1,158,500	1.22
Granted	225,000	1.50
Forfeited	-	-
	<hr/>	
Balance – December 31, 2021	1,383,500	1.26
Granted	450,000	2.00
Magen options	360,000	0.97
Forfeited	-	-
	<hr/>	
Balance – December 31, 2022	2,193,500	1.37

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The following table summarizes information about the stock options outstanding as at December 31, 2022.

Exercise price \$	Number of stock options	Weighted average remaining contractual life in years	Number of outstanding exercisable
0.83	300,000	3.15	300,000
0.88	345,000	4.37	345,000
1.30	570,000	6.02	570,000
1.50	468,500	8.18	241,834
1.67	60,000	3.47	60,000
2.00	450,000	9.88	-
	2,193,500	5.85	1,516,834

The Company estimated the fair value of stock options granted during the year ended December 31, 2022 using the Black-Scholes option pricing model with the following weighted average assumptions:

	2022	2021
Share price	\$1.03	\$1.50
Volatility	85%	65%
Expected life of stock options	6 years	6 years
Risk-free interest rate	3.19%	1.48%
Dividend yield	-	-

Expected life

The expected life of stock options granted is six years from the grant date.

Volatility

Management used an average volatility of comparable listed companies of 85% (2021 – 65%) as the Company does not have sufficient history in the public markets to calculate its own volatility.

Expected dividends

The expected average dividend yield is nil% for the year ended December 31, 2022 (2021 – nil%).

Risk-free interest rate

The risk-free interest rate is the nominal treasury rate corresponding to the term of the option. The average risk-free interest rate used for options granted was 3.19% (2021 – 1.48%).

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19 Income taxes

Taxes recognized in income and loss are as follows for the years ended December 31, 2022 and 2021:

	2022	2021
	\$	\$
Current tax expense	300,150	42,730
Deferred tax recovery		
Origination and reversal of temporary differences	(278,495)	(121,947)
Change in benefit relating to tax losses recognized	(818,433)	(842,969)
	(1,096,928)	(964,916)
Income tax recovery	(796,778)	(922,186)

A reconciliation of the effective tax rate applicable to the Company is as follows for the years ended December 31, 2022 and 2021:

	2022	2021
	\$	\$
Income (loss) before income taxes	1,746,418	(1,891,125)
Income tax expense (recovery) using the Company's statutory tax rate of 26.5% (2021 – 26.5%)	462,801	(501,148)
Impact on taxes from		
(Non-taxable) non-deductible (income) expenses	(1,251,230)	458,953
Recognition of previously unrecognized deferred tax assets	-	(842,969)
Income tax rate differential	(15,250)	-
Other	6,901	(37,022)
Total tax recovery	(796,778)	(922,186)

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Deferred tax assets and deferred tax liabilities have been offset to the extent that they relate to the same taxation authorities and there is a legally enforceable right to do so. Deferred tax liabilities and assets are made up of the following balances.

	Deferred tax assets		Deferred tax liabilities		Net	
	2022 \$	2021 \$	2022 \$	2021 \$	2022 \$	2021 \$
Property and equipment	-	-	(250,547)	(241,760)	(250,547)	(241,760)
Intangible assets	-	-	(2,173,000)	(2,460,083)	(2,173,000)	(2,460,083)
Right-of-use assets	-	-	(241,679)	(248,692)	(241,679)	(248,692)
Lease liabilities	243,500	244,725	-	-	243,500	244,725
Convertible debentures	-	-	-	(488,407)	-	(488,407)
SR&ED expenditure pool	178,491	178,491	-	-	178,491	178,491
Reserves	64,371	105,010	-	-	64,371	105,010
Non-capital loss carryforwards	1,900,007	1,081,574	-	-	1,900,007	1,081,574
Net deferred tax assets (liabilities)	2,386,369	1,609,800	(2,665,226)	(3,438,942)	(278,857)	(1,829,142)

The following is a reconciliation of the unrecognized losses for which no deferred tax asset has been recognized:

	2022 \$	2021 \$
Beginning of year	-	(3,231,512)
Tax losses recognized on acquisition of subsidiary	-	3,231,512
Change in recognized tax losses	-	-
Tax loss for the year	-	-
End of year	-	-

The table below outlines the movement in deferred tax balances for the years ended December 31, 2022 and 2021:

	Balance – January 1, 2022 \$	Recognized in profit or loss \$	Recognized in equity \$	Balance – December 31, 2022 \$
Property and equipment	(241,760)	(8,787)	-	(250,547)
Intangible assets	(2,460,083)	287,083	-	(2,173,000)
Right-of-use assets	(248,692)	7,013	-	(241,679)
Lease liabilities	244,725	(1,225)	-	243,500
Convertible debentures	(488,407)	35,050	453,357	-
SR&ED expenditure pool	178,491	-	-	178,491
Reserves	105,010	(40,639)	-	64,371
Non-capital loss carryforwards	1,081,574	818,433	-	1,900,007
	(1,829,142)	1,096,928	453,357	(278,857)

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	Balance – January 1, 2021 \$	Recognized in profit or loss \$	Acquired in business combinations \$	Balance – December 31, 2021 \$
Property and equipment	8,391	(23,968)	(226,183)	(241,760)
Inventories	-	42,798	(42,798)	-
Intangible assets	(182,930)	240,347	(2,517,500)	(2,460,083)
Right-of-use assets	(36,646)	32,035	(244,081)	(248,692)
Lease liabilities	37,235	(29,014)	236,504	244,725
Convertible debentures	(535,584)	47,177	-	(488,407)
SR&ED expenditure pool	178,491	-	-	178,491
Reserves	52,712	52,298	-	105,010
Non-capital loss carryforwards	478,331	603,243	-	1,081,574
	-	964,916	(2,794,058)	(1,829,142)

The Company has estimated Canadian non-capital losses that may be carried forward against future year income tax for Canadian income tax purposes, subject to final determination by taxation authorities and expiring as follows:

	\$
2036	177,000
2037	1,743,000
2038	1,862,000
2039	749,000
2040	505,000
2041	2,134,000
	<u>7,170,000</u>

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20 Nature of expenses

	2022 \$	2021 \$
Sales and marketing		
Salary, bonus, benefits	2,401,912	1,890,277
Travel, meals, business expenses	286,380	201,905
Professional and outside services	304,143	180,496
Advertising and promotion	631,813	288,032
Other expenses	193,116	33,892
	<u>3,817,364</u>	<u>2,594,602</u>
General and administrative		
Salary, bonus, benefits	1,880,213	1,033,495
Travel, meals, business expenses	36,955	49,405
Professional and outside services	2,631,892	956,568
Other expenses	660,522	552,676
	<u>5,209,582</u>	<u>2,592,144</u>
Distribution		
Salary, bonus, benefits	199,220	178,312
Travel, meals, business expenses	6,432	6,330
Professional and outside services	650	783
Other expenses	88,295	68,239
Freight expense	1,070,129	374,996
	<u>1,364,726</u>	<u>628,660</u>
Regulatory		
Salary, bonus, benefits	-	-
Travel, meals, business expenses	156	-
Professional and outside services	14,380	11,587
Research and development	59,497	52,252
Other expenses	-	-
	<u>74,033</u>	<u>63,839</u>

21 Contingencies

Claims and legal actions

In the normal course of operations, the Company may be subject to litigation. When appropriate, management will record a provision while it actively pursues its position. When it is the opinion of management that the likelihood and measurability of the potential liability are not determinable, no provision will be recorded. As at December 31, 2022, \$nil was recorded in relation to legal claims (2021 – \$nil).

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Indemnifications

All directors and officers of the Company are indemnified by the Company for various items including, but not limited to, all costs to settle lawsuits or actions due to their association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future lawsuits or actions. The term of the indemnification is not explicitly defined, but is limited to events for the period during which the indemnified party served as a director or officer of the Company. The maximum amount of any potential future payment cannot be reasonably estimated but could have a material adverse effect on the Company.

The Company has also indemnified third parties in relation to certain debt and equity offerings and their respective affiliates and directors, officers, employees, shareholders, partners, advisers and agents and each other person, if any, controlling any of the third parties or their affiliates against certain liabilities.

22 Capital management

The Company's capital management objectives are to safeguard its ability to continue as a going concern and to provide returns for shareholders and benefits for other stakeholders by ensuring it has sufficient cash resources to maintain its ongoing operations. A summary of the Company's capital structure is as follows:

	2022 \$	2021 \$
Share capital	28,577,293	9,689,144
Equity component of convertible debentures	-	2,005,112
Convertible debentures	-	10,031,770
Convertible preferred shares	-	2,137,833
Embedded derivatives	-	3,981,998
Deficit	(9,294,890)	(11,838,086)
	<u>19,282,403</u>	<u>16,007,771</u>

23 Earnings (loss) per share

The following table shows the calculation of basic and diluted earnings (loss) per share:

	2022 \$	2021 \$
Net profit (loss) for the year	2,543,196	(968,939)
Weighted average number of common shares	16,709,143	13,935,322
Basic and diluted earnings (loss) per share	0.152	(0.069)

None of the stock options or warrants were dilutive as at December 31, 2022 and therefore were excluded from the calculation of diluted earnings per share. Of the 2,193,500 (2021 – 1,383,500) stock options and 2,569,000 (2021 – 2,912,800) warrants not included in the calculation of diluted earnings (loss) per share for the year ended December 31, 2022, 4,085,834 (2021 – 3,901,301) were exercisable.

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24 Segment reporting

The Company has two reportable operating segments: the Animal Health business unit and the Pharmacy business unit. The chief operating decision maker for the Company comprises the Chief Executive Officer and the Board of Directors.

Animal Health business unit

The Animal Health business unit, which began activities in 2015 and grew as a result of the acquisition of VHS in 2018, primarily focuses on selling, marketing and distributing pharmaceutical, nutraceutical and consumable products to veterinary clinics across Canada.

Pharmacy business unit

The Pharmacy business unit, which was acquired on completion of the Trutina and TruBalance acquisition on September 1, 2021, compounds pharmaceuticals, primarily for equine use but also for the bio-identical hormone replacement therapy market, all based on prescriptions received from veterinarians, physicians and patients.

The following tables set forth gross profit, property and equipment, goodwill and intangible assets, right-of-use assets, total assets and total liabilities by reportable operating segment as at and for the years ended December 31. The Company had two operating segments following the acquisition of Trutina and TruBalance on September 1, 2021.

	Year ended December 31, 2022		
	Animal Health \$	Pharmacy \$	Total \$
Revenue	11,020,578	11,614,789	22,635,367
Cost of sales	4,908,260	6,162,763	11,071,023
Gross profit	<u>6,112,318</u>	<u>5,452,026</u>	<u>11,564,344</u>
	Year ended December 31, 2021		
	Animal Health \$	Pharmacy \$	Total \$
Revenue	9,767,553	3,327,886	13,095,439
Cost of sales	4,247,224	1,699,246	5,946,470
Gross profit	<u>5,520,329</u>	<u>1,628,640</u>	<u>7,148,969</u>

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	As at and for the year ended December 31, 2022		
	Animal Health \$	Pharmacy \$	Total \$
Total assets	12,175,242	27,133,863	39,309,105
Total liabilities	10,893,961	4,167,756	15,061,717
Property and equipment	28,214	1,092,346	1,120,560
Right-of-use assets	107,894	804,101	911,995
Goodwill and intangible assets	1,712,336	22,676,917	24,389,253
Additions to property and equipment and intangible assets	33,396	20,360	53,756
Depreciation and amortization	113,766	1,442,749	1,556,515

	As at and for the year ended December 31, 2021		
	Animal Health \$	Pharmacy \$	Total \$
Total assets	9,771,952	26,461,635	36,233,587
Total liabilities	28,015,132	4,142,209	32,157,341
Property and equipment	7,995	1,343,682	1,351,677
Right-of-use assets	46,641	891,821	938,462
Goodwill and intangible assets	1,712,336	23,760,250	25,472,586
Additions to property and equipment and intangible assets	-	10,921,017	10,921,017
Depreciation and amortization	785,889	335,844	1,121,733

25 Related party transactions

During the year, the Company paid a total of \$19,741 (2021 – \$19,314) to a related security holder for advisory services, accounting and bookkeeping services and office rent. As at December 31, 2022, \$1,358 (2021 – \$1,130) was payable to this related security holder and included in accounts payable and accrued liabilities.

During the year, the Company paid a transaction cost to a related security holder of \$nil (2021 – \$317,096) in relation to the Company's convertible debenture and convertible preferred share financing. An amount of \$nil (2021 – \$nil) was included in accounts payable and accrued liabilities as at December 31, 2022.

During the prior year, the Company paid a transaction cost to a related security holder of \$241,500 in relation to the CWB credit loan (note 12) and issued broker warrants (note 15).

A related security holder participated in the 2021 convertible debenture offering for total proceeds of \$530,000 and in the 2020 convertible debenture offering for total proceeds of \$500,000. The same related security holder also received broker warrants (note 15) in relation to the issuance of 2021 convertible debentures and convertible preferred shares.

A shareholder of the Company holds 80,000 stock options, which were granted in 2018 and are fully vested.

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Compensation of key management personnel

Key management consists of the Company's directors and executive management team. The remuneration of directors and the senior management team was as follows:

	2022	2021
	\$	\$
Salary, benefits, director fees and bonus	1,373,960	1,150,636
Share-based payments	198,300	159,173
	<hr/>	<hr/>
	1,572,260	1,309,809