

Consolidated Financial Statements

For the Years Ended July 31, 2022 and 2021
Expressed in United States Dollars

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of BriaCell Therapeutics Corp.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of BriaCell Therapeutics Corp. (the Company) as of July 31, 2022 and 2021, and the related consolidated statements of operations and comprehensive loss, changes in shareholders' equity, and cash flows for each of the years in the two-year period ended July 31, 2022, and the related notes (collectively referred to as the consolidated financial statements).

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of July 31, 2022 and 2021, and the results of its consolidated operations and its consolidated cash flows for each of the years in the two-year period ended July 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Critical Audit Matter description

The Company changed its accounting framework from the International Financial Reporting Standards (IFRS) to generally accepted accounting principles in the United States (US GAAP). The change in accounting framework caused a change in accounting treatment of certain warrant instruments from being classified as equity to liability. The transition treatment of these warrants requires the Company to perform detail accounting and complex accounting analysis and multiple complex calculations to account for the warrant liabilities. Thus, we identified the change in the accounting treatment of the warrant instruments as a critical audit matter.

How the Critical Audit Matter was Addressed in the Audit

The primary procedures MNP performed to address this critical audit matter included the following, among other procedures:

- We obtained a transition memo from management to understand the implication of the changes from IFRS to US GAAP. We assessed the accounting treatment change for reasonability.
- We obtained management's recalculation of balances and adjustments due to the change in the accounting treatment and recalculated the balances and adjustments as at July 31, 2022 and July 31, 2021 to determine if the amounts were reasonably calculated and presented.

MNP LLP

**Chartered Professional Accountants
Licensed Public Accountants**

We have served as the Company's auditor since 2015.
Mississauga, Canada

October 27, 2022



BriaCell Therapeutics Corp
Consolidated Balance Sheets
As at July 31, 2022 and 2021
(Expressed in US Dollars, except share and per share data)

	July 31, 2022	July 31, 2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 41,041,652	\$ 57,268,685
Amounts receivable	24,103	12,574
Prepaid expenses	1,280,945	516,891
Total current assets	42,346,700	57,798,150
NON-CURRENT ASSETS:		
Investments	2	2
Intangible assets, net	230,339	245,610
Total non-current assets	230,341	245,612
Total assets	\$ 42,577,041	\$ 58,043,762
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 463,280	\$ 214,116
Accrued expenses and other payables	477,807	342,679
Total current liabilities	941,087	556,795
NON-CURRENT LIABILITIES:		
Warrant liability	31,307,022	29,789,260
Government loans	-	25,986
Total non-current liabilities	\$ 31,307,022	\$ 29,815,246
CONTINGENT LIABILITIES AND COMMITMENTS		
SHAREHOLDERS' EQUITY:		
Share Capital of no par value – Authorized: unlimited at July 31, 2022 and 2021; Issued and outstanding: 15,518,018 and 15,269,583 shares at July 31, 2022 and 2021, respectively	65,589,293	54,774,172
Additional paid in capital	5,228,160	2,178,130
Warrant reserve	-	-
Accumulated other comprehensive loss	(138,684)	(138,684)
Accumulated deficit	(60,349,837)	(29,141,897)
Total shareholders' equity	10,328,932	27,671,721
Total liabilities and shareholders' equity	\$ 42,577,041	\$ 58,043,762

These consolidated financial statements were approved and authorized for issue on behalf of the Board of Directors on October 27, 2022 by:

On behalf of the Board:

“Jamieson Bondarenko”
Director

“William Williams”
Director

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

BriaCell Therapeutics Corp
Consolidated Statements of Operations and Comprehensive Loss
For the Years Ended July 31, 2022 and 2021
(Expressed in US Dollars, except share and per share data)

	Year Ended	
	July 31, 2022	July 31, 2021
Research and development expenses	\$ 8,021,489	\$ 2,020,899
General and administrative expenses	7,267,452	4,955,136
Total operating loss	(15,288,941)	(6,976,035)
Financial expenses, net	(11,549,962)	(6,840,165)
Loss and comprehensive loss	\$ (26,838,903)	\$ (13,816,200)
Net loss per share attributable to ordinary shareholders, basic and diluted	\$ (1.73)	\$ (3.06)
Weighted average number of shares used in computing net loss per share attributable to ordinary shareholders, basic and diluted	15,494,091	4,519,579

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

BriaCell Therapeutics Corp
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended July 31, 2022 and 2021
(Expressed in US Dollars , except share and per share data)

	Share capital		ADDITIONAL PAID IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	ACCUMULATED DEFICIT	TOTAL SHAREHOLDERS' EQUITY (DEFICIT)
	Number	Amount				
Balance, July 31, 2020	721,962	12,263,858	2,446,886	(138,684)	(17,312,812)	(2,740,752)
Issuance of warrants on convertible debt	-	-	-	-	-	-
Conversion feature	-	20,251	-	-	-	20,251
Issuance of shares for debt	50,000	329,670	-	-	-	329,670
Issuance of shares in public offering	6,764,705	12,357,799	-	-	-	12,357,799
Issuance of shares in private placement, net of issuance costs	5,170,343	13,611,136	-	-	-	13,611,136
Reclassification of warrant liability	-	-	-	-	-	-
Exercise of warrants	2,562,573	16,191,458	(249,867)	-	-	15,941,591
Expiration of warrants	-	-	(1,599,468)	-	1,599,468	-
Expiration and forfeiture of options	-	-	(387,647)	-	387,647	-
Issuance of options	-	-	1,968,226	-	-	1,968,226
Loss for the year	-	-	-	-	(13,816,200)	(13,816,200)
Balance, July 31, 2021	15,269,583	\$54,774,172	\$ 2,178,130	\$ (138,684)	\$ (29,141,897)	\$ 27,671,721
Exercise of Broker Warrants	219,453	2,730,754	-	-	-	2,730,754
Exercise of Private Placement Warrants	997,200	12,162,001	-	-	-	12,162,001
Exercise of Public Offering Warrants	63,454	683,905	-	-	-	683,905
Shares issuance costs	-	(57,116)	-	-	-	(57,116)
Issuance of options	-	-	3,074,584	-	-	3,074,584
Shares repurchased and canceled	(1,031,672)	(4,704,423)	-	-	(4,393,591)	(9,098,014)
Expiration of options	-	-	(24,554)	-	24,554	-
Loss for the year	-	-	-	-	(26,838,903)	(26,838,903)
Balance, July 31, 2022	15,518,018	65,589,293	5,228,160	(138,684)	(60,349,837)	10,328,932

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

BriaCell Therapeutics Corp
Consolidated Statements of Cash Flows
For the Years Ended July 31, 2022 and 2021
(Expressed in US Dollars, except share and per share data)

	Year Ended	
	July 31, 2022	July 31, 2021
Cash flow from operating activities:		
Loss	\$ (26,838,903)	\$ (13,816,200)
Adjustments to reconcile loss to net cash used in operating activities:		
Depreciation and amortization	15,272	15,256
Share-based compensation	3,074,584	1,968,226
Interest expense	979	78,554
Gain from government grant	(3,388)	3,691
Expensed share issue costs in public offering	-	1,793,527
Loan forgiveness	-	(127,030)
Loss on extinguishment of settlement of debt	-	166,937
Change in fair value of warrants	11,658,372	4,448,957
Changes in assets and liabilities:		
Decrease (increase) in amounts receivable	(11,530)	9,941
Decrease in prepaid expenses	(764,054)	(100,984)
Increase (decrease) in accounts payable	249,164	(1,405,664)
Increase (decrease) in accrued expenses and other payables	135,128	(785,399)
Net cash used in operating activities	<u>(12,484,376)</u>	<u>(7,750,188)</u>
Cash flow from financing activities:		
Proceeds from public offering, net	-	26,927,142
Proceeds from private placement, net	-	24,695,195
Proceeds from exercise of warrants	6,509,768	13,705,685
Share and warrant buyback program	(10,171,732)	-
Repayment government grant	(23,577)	-
Repayment of unsecured convertible loan	-	(307,108)
Proceeds from issuance of unsecured convertible loan	-	215,710
Share issuance costs	(57,116)	-
Repayment of short-term loans	-	(239,000)
Net cash provided by (used in) financing activities	<u>(3,742,657)</u>	<u>64,997,624</u>
Increase (decrease) in cash and cash equivalents	(16,227,033)	57,247,436
Cash and cash equivalents at beginning of year	57,268,685	21,249
Cash and cash equivalents at end of year	<u>\$ 41,041,652</u>	<u>\$ 57,268,685</u>
Significant non-cash transactions:		
Shares issued for settlement of debt	\$ -	\$ 329,670
Forgiveness of government grant	\$ -	\$ 144,542

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

BriaCell Therapeutics Corp
Notes to the Consolidated Financial Statements
For the Years Ended July 31, 2022 and 2021
(Expressed in US Dollars, except share and per share data and unless otherwise indicated)

NOTE 1: GENERAL

- a. BriaCell Therapeutics Corp. (“BriaCell” or the “Company”) was incorporated under the Business Corporations Act (British Columbia) on July 26, 2006 and is listed on the Toronto Stock Exchange (“TSX”) under the symbol “BCT” and the Company also trades on the Nasdaq Capital Market (“NASDAQ”) under the symbols “BCTX” and “BCTXW”.
- b. BriaCell is an immuno-oncology biotechnology company. BriaCell owns the US patent to Bria-IMT™, a whole-cell cancer vaccine (US Patent No.7674456) (the “Patent”). The Company is currently advancing its immunotherapy program, Bria-IMT™, to complete a 24-subject Phase I/IIa clinical trial and by research activities in the context of BriaDx™, a companion diagnostic test to identify patients likely benefitting from Bria-IMT™.
- c. The Company continues to devote substantially all of its efforts toward research and development activities. In the course of such activities, the Company has sustained operating losses and expects such losses to continue in the foreseeable future. The Company’s accumulated deficit as of July 31, 2022 was \$60,349,837 (July 31, 2021 - \$29,141,897) and negative cash flows from operating activities during the year ended July 31, 2022 was \$12,484,376 (July 31, 2021 - \$7,750,188). The Company is planning to finance its operations from its existing and future working capital resources and to continue to evaluate additional sources of capital and financing. The Company believes that its existing capital resources will be adequate to satisfy its expected liquidity requirements for at least twelve months from the issuance of the consolidated financial statements.
- d. The Company has a wholly-owned U.S. subsidiary, BriaCell Therapeutics Corp. (“BTC”), which was incorporated in April 3, 2014, under the laws of the state of Delaware. BTC has a wholly-owned subsidiary, Sapiaentia Pharmaceuticals, Inc. (“Sapiaentia” and together with BTC the “Subsidiaries”), which was incorporated in September 20, 2012, under the laws of the state of Delaware. The Company has one operating segment and reporting unit.
- e. Since January 2020, the Coronavirus outbreak has dramatically expanded into a worldwide pandemic creating macro-economic uncertainty and disruption in the business and financial markets. Many countries around the world, including Canada and the United States have been taking measures designated to limit the continued spread of the Coronavirus, including the closure of workplaces, restricting travel, prohibiting assembling, closing international borders and quarantining populated areas. Such measures present concerns that may dramatically affect the Company’s ability to conduct its business effectively.

The Company may face difficulties recruiting or retaining patients in our ongoing and planned clinical trials if patients are affected by the virus or are fearful of visiting or traveling to our clinical trial sites because of the outbreak of COVID-19. In the event that clinical trial sites are slowed down or closed to enrolment in our trials, this could have a material adverse impact on our clinical trial plans and timelines. The Company is continuing to assess its business plans and the impact COVID-19 is having on the Company’s clinical trial timelines and the Company’s ability to recruit candidates for clinical trials. The extent to which COVID-19 and global efforts to contain its spread will impact our operations will depend on future developments, which are highly uncertain and cannot be predicted at this time, and include the duration, severity and scope of the outbreak and the actions taken to contain or treat the coronavirus outbreak. The Company currently believes that the execution of our clinical trials and research programs are delayed by at least one quarter due to COVID-19.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of presentation of the financial statements:

The Company’s consolidated financial statements have been prepared in accordance with the United States generally accepted accounting principles (U.S. GAAP) as set forth in the Financial Accounting Standards Board (the “FASB”) Accounting Standards Codification (ASC).

Prior to July 2022, the Company prepared its financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), as permitted in the United States based on the Company’s qualification as a “foreign private issuer” under the rules and regulations of the U.S Securities and Exchange Commission (the “SEC”). On August 1, 2022, the Company no longer qualified as a “foreign private issuer” as such term is defined in Rule 405 under the Securities Act of 1933 and therefore, as a domestic filer, prepared its consolidated financial statements in accordance with U.S. GAAP.

BriaCell Therapeutics Corp
Notes to the Consolidated Financial Statements
For the Years Ended July 31, 2022 and 2021
(Expressed in US Dollars, except share and per share data and unless otherwise indicated)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company's management believes that the estimates, judgment and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities at the dates of the consolidated financial statements, and the reported amount of expenses during the reporting periods. Actual results could differ from those estimates.

Going Concern

Preparation of the consolidated financial statement on a going concern basis, which contemplates the realization of assets and payments of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets, including its intangible assets and to meet its liabilities as they become due

Warrants and options

The Company uses the Black-Scholes option-pricing model to estimate fair value of options and the warrant liability at each reporting date. The key assumptions used in the model are the expected future volatility in the price of the Company's shares and the expected life of the warrants.

Income Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

c. Principal of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

d. Consolidated financial statements in U.S dollars:

The functional currency is the currency that best reflects the economic environment in which the Company and its subsidiary operates and conducts their transactions. The Company's management believes that the functional currency of the Company and its subsidiaries is the U.S. dollar.

Accordingly, monetary accounts maintained in currencies other than the U.S. dollar are remeasured into U.S. dollars at each reporting period end in accordance with ASC No. 830 "Foreign Currency Matters." All transaction gains and losses of the remeasured monetary balance sheet items are reflected in the statements of operations as financing income or expenses as appropriate.

The Company changed its functional currency from the Canadian dollar (C\$) to the United States dollar (US\$) as of May 1, 2021. The change in presentation currency is a voluntary change which is accounted for retrospectively.

BriaCell Therapeutics Corp
Notes to the Consolidated Financial Statements
For the Years Ended July 31, 2022 and 2021
(Expressed in US Dollars, except share and per share data and unless otherwise indicated)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Cash and cash equivalents:

Cash equivalents are short-term highly liquid deposits that are readily convertible to cash with original maturities of three months or less, at the date acquired.

f. Property and equipment, net:

Property and equipment with individual values of over \$2,500 are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets at the following annual rates:

	%
Computers and peripheral equipment	20-33

g. Intangible assets, net:

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred.

Intangible assets with finite useful lives are amortized over their useful lives and reviewed for impairment annually and whenever there is an indication that the asset may be impaired. The evaluation is performed at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Recoverability of these group of assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the group of assets is expected to generate. If such review indicates that the carrying amount of intangible assets is not recoverable, the carrying amount of such assets is reduced to fair value.

The amortization period and the amortization method for an intangible asset are reviewed at least at each year end.

Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually, or whenever there is an indication that the intangible asset may be impaired. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, the change in the useful life assessment from indefinite to finite life is accounted for prospectively as a change in accounting estimate and on that date the asset is tested for impairment. Commencing from that date, the asset is amortized systematically over its useful life.

The useful lives of intangible assets are as follows:

	Patents
Useful life	20 years
Amortization method	Straight-line
In-house development or purchase	Purchase

For the years ended July 31, 2022 and 2021, no impairment losses have been identified.

BriaCell Therapeutics Corp
Notes to the Consolidated Financial Statements
For the Years Ended July 31, 2022 and 2021
(Expressed in US Dollars, except share and per share data and unless otherwise indicated)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Impairment of long-lived assets:

The Company's long-lived assets to be held or used, including intangible assets that are subject to amortization, are reviewed for impairment in accordance with ASC 360 "Property, Plants and Equipment", whenever events or changes in circumstances indicate that the carrying amount of an asset (or asset group) may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset (or asset group) to the future undiscounted cash flows expected to be generated by the assets (or asset group). If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds their fair value.

For the years ended July 31, 2022 and 2021, no impairment losses have been identified.

i. Research and Development expenses:

Research and development expenses are recognized in the consolidated statements of operations when incurred. Research and development expenses consist of intellectual property, development and production expenditures.

j. Fair value of financial instruments:

The accounting guidance for fair value provides a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value as follows:

Level 1 — Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 — Observable inputs that are based on inputs not quoted on active markets but corroborated by market data.

Level 3 — Unobservable inputs are used when little or no market data are available.

The carrying amounts of cash and cash equivalents, amounts receivables, trade payable and accrued expenses and other payables approximate their fair value due to the short-term maturity of such instruments.

BriaCell Therapeutics Corp
Notes to the Consolidated Financial Statements
For the Years Ended July 31, 2022 and 2021
(Expressed in US Dollars, except share and per share data and unless otherwise indicated)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Leases:

The Company accounts for leases according to ASC 842, "Leases". The Company determines if an arrangement is a lease and the classification of that lease at inception based on: (1) whether the contract involves the use of a distinct identified asset, (2) whether the Company obtains the right to substantially all the economic benefits from the use of the asset throughout the period, and (3) whether the Company has a right to direct the use of the asset. An ROU asset represents the right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease agreement. An ROU asset is measured based on the discounted present value of the remaining lease payments, plus any initial direct costs incurred and prepaid lease payments, excluding lease incentives. The lease liability is measured at lease commencement date based on the discounted present value of the remaining lease payments. The implicit rate within the operating leases is generally not determinable, therefore the Company uses the Incremental Borrowing Rate ("IBR") based on the information available at commencement date in determining the present value of lease payments. The Company's IBR is estimated to approximate the interest rate for collateralized borrowing with similar terms and payments and in economic environments where the leased asset is located. An option to extend the lease is considered in connection with determining the ROU asset and lease liability when it is reasonably certain that the Company will exercise that option. An option to terminate is considered unless it is reasonably certain that the Company will not exercise the option.

The Company elected the practical expedient for lease agreements with a term of twelve months or less and does not recognize right-of-use ("ROU") assets and lease liabilities in respect of those agreements. The Company also elected the practical expedient to not separate lease and non-lease components for its leases.

l. Share-based compensation:

The Company accounts for share-based compensation in accordance with ASC No. 718, "Compensation – Stock Compensation", which requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the award is recognized as an expense over the requisite service periods, which is the vesting period of the respective award, on a straight-line basis when the only condition to vesting is continued service.

The Company has selected the Black-Scholes option-pricing model as the most appropriate fair value method for its option awards. The Company recognizes forfeitures of equity-based awards as they occur.

BriaCell Therapeutics Corp
Notes to the Consolidated Financial Statements
For the Years Ended July 31, 2022 and 2021
(Expressed in US Dollars, except share and per share data and unless otherwise indicated)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Income Taxes:

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes", which prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, to reduce deferred tax assets to their estimated realizable value, if needed.

ASC 740 offers a two-step approach for recognizing and measuring a liability for uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. As of July 31, 2022, and 2021 no liability for unrecognized tax benefits was recorded as a result of ASC 740.

n. Basic and diluted net loss per Share:

The Company's basic net loss per share is calculated by dividing net loss attributable to ordinary shareholders by the weighted-average number of shares of ordinary shares outstanding for the period, without consideration of potentially dilutive securities. The diluted net loss per share is calculated by giving effect to all potentially dilutive securities outstanding for the period using the treasury share method or the if-converted method based on the nature of such securities. Diluted net loss per share is the same as basic net loss per share in periods when the effects of potentially dilutive ordinary shares are anti-dilutive.

BriaCell Therapeutics Corp
Notes to the Consolidated Financial Statements
For the Years Ended July 31, 2022 and 2021
(Expressed in US Dollars, except share and per share data and unless otherwise indicated)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Recently issued and adopted accounting standards:

As an “emerging growth company,” the Jumpstart Our Business Startups Act (“JOBS Act”) allows the Company to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. The Company has elected to use this extended transition period under the JOBS Act. The adoption dates discussed below reflects this election.

1. In June 2016, the FASB issued ASU No. 2016-13 (Topic 326), Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments, which replaces the existing incurred loss impairment model with an expected credit loss model and requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected. The guidance will be effective for the Company for fiscal years beginning after December 15, 2022. Early adoption is permitted. Effective August 1, 2021, the Company early adopted ASU 2016-13. Adoption of the new standard did not have a material impact on the financial statements.
2. In August 2020, the FASB issued ASU 2020-06, Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity (“ASU 2020-06”). The final guidance issued by the FASB for convertible instruments eliminates two of the three models in ASC 470-20 that require separate accounting for embedded conversion features. Separate accounting is still required in certain cases. Additionally, among other changes, the guidance eliminates some of the conditions for equity classification in ASC 815-40-25 for contracts in an entity’s own equity. The guidance also requires entities to use the if-converted method for all convertible instruments in the diluted earnings per share calculation and include the effect of share settlement for instruments that may be settled in cash or shares, except for certain liability-classified share-based payment awards. ASU 2020-06 is effective for the company for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2020. Effective August 1, 2021, the Company early adopted ASU 2020-06. Adoption of the new standard did not have a material impact on the financial statements.
3. In November 2021, the FASB issued ASU No. 2021-10, Government Assistance (Topic 832): Disclosure by Business Entities about Government Assistance (ASU 2021-10), which improves the transparency of government assistance received by most business entities by requiring the disclosure of: (1) the types of government assistance received; (2) the accounting for such assistance; and (3) the effect of the assistance on a business entity’s financial statements. This guidance is effective for financial statements issued for annual periods beginning after 15 December 2021. Early adoption is permitted. Adoption of the new standard did not have a material impact on the financial statements.

BriaCell Therapeutics Corp
Notes to the Consolidated Financial Statements
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NOTE 3: INTANGIBLE ASSETS, NET

Acquired intangible assets with finite lives consisted of the following as of July 31, 2022 and 2021:

	July 31,	
	2022	2021
Patents	\$ 305,130	\$ 305,130
Gross intangible assets	305,130	305,130
Less – accumulated amortization	(74,791)	(59,520)
Intangible assets, net	\$ 230,339	\$ 245,610

The attributable intellectual property relates to Sapiientia’s various patents, which the Company is amortizing over 20 years, consistent with its accounting policy.

Amortization expenses for the years ended July 31, 2022 and 2021, were \$15,271 and \$15,256, respectively.

The estimated future amortization expense of intangible assets as of July 31, 2022 is as follows:

2023	\$	15,271
2024		15,271
2025		15,271
2026		15,271
2027		15,271
2028 and thereafter		153,984
	\$	230,339

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NOTE 4: LOANS

(a) Short-term loans

During the year ended July 31, 2021, the Company received seven unsecured loans from directors and an officer in the total amount of \$27,469. The loans all bore interest at 2.5% annually and were repayable on or before July 31, 2021.

During March 2021, all the above mentioned short-term loans and accrued interest were repaid.

Total interest expense in respect to all short-term loans for year ended July 31, 2022 and 2021 is nil and \$5,429, respectively.

(b) Government grants

On April 24, 2020, the Company received a \$32,560 (CAD\$40,000) loan from the Canada Emergency Business Account ("CEBA Loan"). The CEBA Loan bears 0% interest until December 31, 2022. If the balance is not paid by December 31, 2022, the remaining balance will be converted to a 3-year term loan at 5% annual interest, paid monthly, effective January 1, 2023. The full balance must be repaid by no later than December 31, 2025. No principal payments required until December 31, 2022. Principal repayments can be voluntarily made at any time without fees or penalties. \$8,140 loan forgiveness is available, provided the carrying value of \$25,986 at December 31, 2020, and \$24,420 is paid back between January 1, 2021 and December 31, 2022. The loan was recognized at the fair value based on an estimated market interest rate of 15%.

On December 13, 2021, the Company repaid the CEBA loan in the amounts of \$24,420 and the balance was forgiven and recorded as a gain on the statements of operations and comprehensive loss.

For the year ended July 31, 2022 and 2021, the Company recorded an interest expense of nil and \$3,650, respectively, being the interest accretion on the CEBA Loan.

On May 1, 2020 the Company received \$127,030 as a loan from the Paycheck Protection Program in the United States (the "Program") The terms of the Program provide that a portion of the loan may be forgiven, to the extent that the amounts spent during the eight week period following the first disbursement of the loan are incurred as follows: (i) payroll costs, (ii) interest payments on mortgages incurred before February 15, 2020, (iii) rent payments on leases in effect before February 15, 2020, and (iv) utility payments for which service began before February 15, 2020 ("Program Expenses"). The unforgiven part of the loan must be repaid within two years and bears interest at 1% per annum. The Company used the entire proceeds to pay program expenses and in August 2021, the loan was forgiven and amounts were set off against the related general and administrative expenses in the consolidated statements of operations and comprehensive loss.

For the year ended July 31, 2022 and 2021, the Company recorded an interest expense of nil and \$3,300, respectively, being the interest accretion on the program.

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NOTE 4: LOANS (Cont.)

(c) 2020 Convertible Loan

On November 16, 2020 (“Closing Date”), the Company closed a brokered private placement of an unsecured convertible debenture unit of the Company (the “Debenture Unit”) to a single subscriber, purchased at a price of \$305,250, less an original discount of approximately 29.33%, for aggregate gross proceeds of \$215,710.

The Debenture Unit was comprised of (A) \$305,250 principal amount (“Principal Amount”) of a 5.0% convertible unsecured debenture of the Company (the “Debenture”), due on the earlier of (i) 5 years from the issue date; (ii) the Company receiving \$1,628,000 or more by way of private placement or public offering; or (iii) such earlier date as the principal amount hereof may become due, subject to extension upon mutual agreement of the Company and the holder of the Debenture; and (B) 69,188 common share purchase warrants of the Company (“Debenture Warrants”).

The Debenture was convertible, at the option of the holder thereof, from the period beginning on May 16, 2021, until the repayment of the Debenture in full, into that number of Shares computed on the basis of the principal amount of the Debenture divided by the conversion price of \$4.41 per Share. Each Debenture Warrant entitles the holder thereof to purchase one Share for a period of five (5) years from the Closing Date at a price of \$4.41 per Debenture Warrant, subject to adjustment as set forth in the Warrants. Each Debenture Warrant may also be exercised by presentation and surrender of the Debenture Warrant to the Company with a written notice of the Subscriber’s intention to effect a cashless exercise.

In consideration for the services rendered by ThinkEquity, a division of Fordham Financial Management, Inc. (the “Broker”), the Broker received a cash commission of \$21,571. As additional consideration, the Company also issued to the Broker, 4,890 non-transferable compensation warrants (the “Broker Warrants”). Each Broker Warrant is exercisable to acquire one Share at an exercise price of \$4.41 at any time in whole or in part for a period of five (5) years from the Closing Date.

The Company has determined that the Debenture Unit contained the following freestanding financial instruments: The term loan and the warrants. The warrants and the Broker Warrants are not indexed to the Company’s own stock and were classified as liabilities, initially measured at fair value, and subsequently measured at fair value through earnings.

The Company has determined that the term loan contained embedded derivatives required to be bifurcated from the host debt instrument pursuant to ASC 815-15. In addition, since the conversion feature was not bifurcated, the Company concluded that the term loan also includes a beneficial conversion feature which was accounted for as an equity component.

As such, the proceeds were allocated to the warrants, bifurcated embedded derivatives and the equity component. The residual proceeds were allocated to the liability component. The cash commission and Broker Warrants were expensed in the statement of operations and comprehensive loss.

The Debenture’s net proceeds were \$188,672. The value of the Broker Warrants was \$14,838. The amount allocated to the warrants and embedded derivatives was \$51,084 and \$10,905, respectively. The amount allocated to the equity component was \$127,156. The residual proceeds in the amount of \$11,597 were allocated to the liability component. Total expenses relating to the Debenture were \$26,907. The liability is carried at amortized cost using the effective interest method with an effective interest rate of 19.97% per annum. The fair value of the embedded derivatives, Debenture Warrants and the Broker Warrants issued with the Debentures were valued using the Black-Scholes option pricing model based on the following assumptions: volatility of 100% using the historical prices of the Company, risk-free interest rate of 0.49%, expected life of 5 years and share price of \$4.25. During the year ended July 31, 2021, the Company recorded interest and accretion of expenses of \$53,878, which were recorded as finance expense in the consolidated statements of operations and comprehensive loss. The fair value of the Debenture Warrants and the Broker warrants are recorded as liabilities and revalued at each reporting date.

On March 1, 2021, the Debenture was repaid and the Company recorded a charge in the consolidated statements of operations and comprehensive loss of \$79,717 on the extinguishment of the Debenture.

NOTE 5: ACCRUED EXPENSES AND OTHER PAYABLES

	Year ended July 31,	
	2022	2021
Clinical activities	\$ 69,720	39,896
Professional services	408,087	221,816
Other	-	80,967
	<u>\$ 477,807</u>	<u>\$ 342,679</u>

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NOTE 6: CONTINGENT LIABILITIES AND COMMITMENTS

a. Legal proceedings:

On May 19, 2021, Alpha Capital Anstalt (“Alpha”) filed a lawsuit in the New York State Supreme Court, Commercial Division, New York County against BriaCell Therapeutics Corp. (“BriaCell”), alleging that BriaCell breached a loan contract when it refused to reprice and extend the term of warrants purported held by Alpha in spring 2021, seeking monetary and injunctive relief for delivery of those amended warrants. Counterclaiming and defending against Alpha’s complaint, BriaCell alleges that Alpha’s loan to BriaCell is unenforceable both because the loan is criminally usurious under New York law and because Alpha acted as an unregistered securities dealer in violation of American securities law. BriaCell also has alleged that Canadian securities law, regulation, and rules prohibited it from amending the warrants to comply with Alpha’s spring 2021 demands. On May 11, 2022, Alpha moved to dismiss BriaCell’s operative Amended Counterclaim. The parties have fully briefed that motion, and the Court has calendared oral argument on that motion for February 7, 2023. Expert discovery is ongoing and may affect the value of the parties’ respective claims and damages.

The Company disagrees with Alpha’s claims, is defending these claims, and has filed a counter claim. At this time, whilst it is impossible to provide any guarantee as to the outcome of the lawsuit, it is the Company’s assessment, based on advice from the Company’s legal counsel at this time, and based on the information known by the Company, that it’s more likely than not that BriaCell will not have to pay Alpha in the litigation.

b. Lease

In July 2021, the Company ended its lease agreement in Berkeley, California. During the same time, the Company started a month-to-month lease arrangement for office and lab space in New York, New York in the amount of approximately \$8,600 per month. This lease was terminated in March 2022. As of April 2022, the Company commenced a month-to-month lease arrangement for office and lab space in Philadelphia, PA, in the amount of approximately \$16,000 per month.

NOTE 7: FAIR VALUE MEASUREMENTS

The following table presents information about our financial instruments that are measured at fair value on a recurring basis as of July 31, 2022 and 2021:

	Fair Value Measurements at July 31,					
	July 31, 2022			July 31, 2021		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets:						
Cash and cash equivalents	\$ 41,041,652	-	41,041,652	57,268,685	-	57,268,685
Total assets measured at fair value	<u>\$ 41,041,652</u>	<u>-</u>	<u>41,041,652</u>	<u>57,268,685</u>	<u>-</u>	<u>57,268,685</u>
Financial liabilities:						
Warrants liability	11,151,608	20,155,414	31,307,022	7,426,535	22,362,725	29,789,260
Total liabilities measured at fair value	<u>\$ 11,151,608</u>	<u>\$ 20,155,414</u>	<u>\$ 31,307,022</u>	<u>\$ 7,426,535</u>	<u>\$ 22,362,725</u>	<u>\$ 29,789,260</u>

We classify our cash equivalents and the liability in respect of publicly traded warrants within Level 1 because we use quoted market prices in active markets.

The fair value of the warrant liability for non-public warrants is measured using inputs other than quoted prices included in Level 1 that are observable for the liability either directly or indirectly, and thus are classified as Level 2 financial instruments.

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NOTE 8: SHAREHOLDERS' EQUITY

a. Authorized share capital

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

b. Issued share capital

During the years ended July 31, 2021 and 2022, the Company issued shares as follows:

- i) On August 18, 2020, the Company issued 50,000 Shares to Sichenzia Ross Ference LLP or certain members or employees of Sichenzia Ross Ference LLP as compensation for legal services. The shares were valued at \$6.59 per share and the Company recorded a loss on the extinguishment of debt of \$25,235.
- ii) On February 26, 2021, the Company completed an underwritten public offering in the United States. The aggregate gross proceeds to the Company from the offering were approximately \$26 million, before deducting underwriting discounts, commissions and other offering expenses (the "Public Offering"). The Company offered 4,852,353 common units at a public offering price of \$4.25 per unit, consisting of one Share and one warrant to purchase one Share ("Public Offering Warrants"), and 1,030,000 pre-funded units at a public offering price of \$4.24 per unit, consisting of one pre-funded common stock purchase warrant ("Pre-Funded Warrant") and one Public Offering Warrant. The Pre-Funded Warrants are exercisable at any time after the date of issuance at an exercise price of \$0.01 per Share. The Public Offering Warrants have a per warrant exercise price of \$5.3125, can be exercised immediately, and expire five years from the date of issuance. All the Pre-Funded Warrants were exercised between March 16, 2021 and April 9, 2021.

In addition, the Company issued the underwriter 294,118 warrants ("Public Offering Broker Warrants"). Each Public Offering Broker Warrant entitles the holder to purchase one Share at an exercise price per Public Offering Broker Warrant that is equal to \$5.3125 and have a term of 5 years from the closing of the Public Offering.

The Company granted the underwriter a 45-day option to purchase up to 882,352 additional Shares and/or Pre-Funded Warrants and/or 882,352 additional warrants to cover over-allotments, if any, on the same terms as the Offering ("Over-allotment Option"). The underwriter exercised the Over-allotment Option on April 12, 2021 and the Company issued 882,352 Shares and 882,352 Public Offering Warrants for gross proceeds of \$3.9 million.

In addition, the Company issued the underwriter 44,118 Public Offering Broker Warrants.

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NOTE 8: SHAREHOLDERS' EQUITY (Cont.)

b. Issued share capital (continued)

During the year ended July 31, 2021, the Company accounted for the Public Offering as follows: The Pre-funded Warrants were recorded in equity. The Public Offering Warrants and the Over-allotment Warrants were recorded as a liability with fair value of \$4,920,666 at the issuance date. \$3,433,158 of costs incurred for the Company's registration on NASDAQ and the relative portion of costs incurred in the Public Offering that relate to the Public Offering Warrants (\$1,820,114) were expensed in the consolidated statement of operations and comprehensive loss. The balance of the costs (\$1,613,043) incurred in the Public Offering were off-set against equity.

The fair value of the Over-allotment Warrants at the issuance date was \$1,632,351 and was based on the closing price of the warrants traded on NASDAQ on April 11, 2021.

At July 31, 2022 the fair value of the Public Offering Warrants and Public Offering Broker Warrants were \$11,151,608 and \$190,333, respectively.

As a result, for the year ended July 31, 2022, the Company recorded a loss on the revaluation of the total warrant liability of \$5,728,396 in the consolidated statements of operations and comprehensive loss.

The key inputs used in the valuation of the Public Offering Broker Warrants as of July 31, 2022 and at July 31, 2021 were as follows:

	<u>February 26, 2021</u> <u>(Issuance date)</u>	<u>April 12, 2021</u> <u>(Issuance date)</u>	<u>July 31, 2022</u>	<u>July 31, 2021</u>
Share price	\$ 3.40	\$ 3.92	\$ 6.50	\$ 5.23
Exercise price	\$ 5.31	\$ 5.31	\$5.31-6.19	\$5.31-6.19
Expected life (years)	5.00	5.00	3.58-4.35	4.58-5.35
Volatility	100%	100%	100%	100%
Dividend yield	0%	0%	0%	0%
Risk free rate	0.88%	0.97%	2.68%	0.70%

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NOTE 8: SHAREHOLDERS' EQUITY (Cont.)

b. Issued share capital (continued)

- iii) On June 3, 2021, the Company entered into securities purchase agreements (each a "Purchase Agreement") with certain institutional and accredited investors (the "Investors") pursuant to which the Company issued (i) 4,370,343 Shares, (ii) pre-funded warrants to purchase up to an aggregate of 800,000 Shares (the "Private Placement Pre-funded Warrants") and (iii) warrants to purchase up to an aggregate of 5,170,343 Shares (the "Private Placement Warrants") for gross proceeds to the Company of approximately \$27.2 million ("Private Placement"). The combined purchase price for one Share and one Private Placement Warrants was \$5.26 and the combined purchase price for one Private Placement Pre-funded Warrant and one Private Placement Warrants is \$5.2599. The transactions contemplated by the Purchase Agreement closed on June 7, 2021.

In connection with the Private Placement, the Company agreed to: 1) pay the placement agent a cash commission equal to 8.0% of the gross proceeds of the Private Placement; 2) reimburse the placement agent for all reasonable and out-of-pocket expenses of the placement agent; and 3) issue to the placement agent 258,517 compensation warrants ("Private Placement Agent Warrants"). Each Private Placement Agent Warrant entitles the placement agent to purchase one Share at an exercise price per Private Placement Agent Warrant that is equal to \$6.19 and have a term of 5 years from the closing of the Private Placement.

The Private Placement Pre-funded Warrants were recorded in equity. The fair value of the Private Placement Warrants was \$10,095,311 at the issuance date and were recorded as a liability. The fair value was estimated using the Black-Scholes option pricing model and the following weighted average assumptions: share price - \$5.15; exercise price - \$6.19; expected life - 5.5 years; annualized volatility - 100%; dividend yield - 0%; risk free rate - 0.78%. The fair value of the warrants at year end July 31, 2022 was \$19,721,446 and this resulted in a change of fair value of \$5,810,946. The fair value was estimated using the Black-Scholes option pricing model and the following weighted average assumptions: share price - \$6.50; exercise price - \$6.19; expected life - 4.35 years; annualized volatility - 100%; dividend yield - 0%; risk free rate - 2.68%.

\$3,489,558 of costs incurred in the Private Placement that relate to the Private Placement Warrants were allocated to share capital.

On June 25, 2021, and June 26, 2021, 750,000 and 50,000, respectively, of the Private Placement Pre-funded Warrants were exercised into 800,000 Shares.

- iv) The following table presents the summary of the changes in the fair value of the warrants:

	<u>Warrants liability</u>
Balance as of July 31, 2020	\$ -
Convertible Debt Warrants	227,460
Issuance of Public Offering Warrants	4,920,666
Issuance of Public Offering Broker Warrants	1,778,904
Issuance of Private Placement Warrants	10,095,311
Exercise of Warrants	(645,386)
Reclassification of warrant liability to warrant reserve following change in functional currency	8,963,348
Change in fair value	<u>4,448,957</u>
Balance as of July 31, 2021	\$ 29,789,260
Issuance of warrants	-
Warrant buyback program	(1,073,718)
Exercise of warrants	(9,066,892)
Change in fair value	<u>11,658,372</u>
Balance as of July 31, 2022	<u>\$ 31,307,022</u>

- v) During the year ended July 31, 2022, 554,991 compensation warrants with a weighted average exercise price of \$5.68 per warrant were exercised into 219,453 Shares by way of a cashless exercise.
- vi) During the year ended July 31, 2022, 63,454 warrants with an exercise price of \$5.31 were exercised for gross proceeds of \$337,099 and 997,200 warrants with an exercise price of \$6.19 were exercised for gross proceeds of \$6,172,669. In total, the Company issued 1,060,654 shares in respect of the exercise of these warrants.

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NOTE 8: SHAREHOLDERS' EQUITY (Cont.)

c. Share buyback program

On September 9, 2021 the Company approved a repurchase program whereby the Company may purchase through the facilities of the TSX or NASDAQ (i) up to 1,341,515 common shares (the "Common Shares") and (ii) up to 411,962 publicly traded BCTXW warrants (the "Listed Warrants") in total, representing 10% of the 13,415,154 Common Shares and 10% of the 4,119,622 Listed Warrants comprising the "public float" as of September 8, 2021, over the next 12 months (the "Buyback"). Independent Trading Group (ITG) Inc. will act as the Company's advisor and dealer manager in respect of the Buyback. The Company received final regulatory approval on September 22, 2021. As of July 31, 2022, the Company repurchased a total of 1,031,672 shares with a value of \$9,098,014 (net of commissions) and 243,323 publicly traded warrants for \$1,073,718 (net of commissions) with a fair value of \$1,428,620. All of the warrants and shares repurchased have been cancelled.

d. Share Purchase Warrants

A summary of changes in share purchase warrants for the years ending July 31, 2022 and 2021 is presented below:

	Number of warrants outstanding	Weighted average exercise price
Balance, July 31, 2020	178,528	\$ 35.82
Granted from the issuance of a convertible note	69,188	5.42
Granted in the Public Offering	5,882,353	5.31
Granted in the Over-allotment Option	882,352	5.31
Granted in the Private Placement	5,170,343	6.19
Expired	(156,039)	(36.26)
Exercised	(2,562,573)	(5.48)
Balance, July 31, 2021	9,464,152	\$ 5.85
Expired	(22,489)	(28.08)
Exercised	(1,060,654)	(6.14)
Repurchased and cancelled	(243,323)	(5.31)
Balance, July 31, 2022	8,137,686	\$ 5.76

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NOTE 8: SHAREHOLDERS' EQUITY (Cont.)

d. Share Purchase Warrants (continued)

As of July 31, 2022, warrants outstanding were as follows:

Number of Warrants outstanding as of July 31, 2022	Exercise Price	Number of Warrants Exercisable as of July 31, 2022	Expiry Date
51,698	\$ 4.41	51,698	November 16, 2025
3,912,845	\$ 5.31	3,910,724	February 26, 2026 – April 26, 2026
4,173,143	\$ 6.19	4,173,143	December 7, 2026
<u>8,137,686</u>		<u>8,135,565</u>	

e) Compensation Warrants

A summary of changes in compensation warrants for the years ended July 31, 2022 and 2021 is presented below:

	Number of warrants outstanding	Weighted average exercise price
Balance, July 31, 2020	<u>13,790</u>	<u>35.16</u>
Granted from the issuance of a convertible note	4,890	4.41
Granted in the Public Offering	294,118	5.31
Granted in the Over Allotment	44,118	5.31
Granted in the Private Placement	258,517	6.19
Expired	(13,790)	(35.16)
Exercised	-	-
Balance, July 31, 2021	<u>601,643</u>	<u>\$ 5.68</u>
Exercised	(554,991)	(5.68)
Balance, July 31, 2022	<u>46,652</u>	<u>\$ 5.66</u>

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NOTE 8: SHAREHOLDERS' EQUITY (Cont.)

e) Compensation Warrants (continued)

As of July 31, 2022, compensation warrants outstanding were as follows:

Number of Warrants as of July 31, 2022	Exercise Price	Exercisable As of July 31, 2022	Expiry Date
4,890	\$ 4.23	4,890	November 16, 2025
17,074	\$ 5.31	17,074	February 26, 2026
24,688	\$ 6.19	24,688	June 7, 2026
<u>46,652</u>		<u>46,652</u>	

NOTE 9: SHARE-BASED COMPENSATION

The Company has adopted a stock option plan (the "Stock Option Plan") under which it is authorized to grant options to officers, directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. The options can be granted for a maximum of 5 years and vest as determined by the Board of Directors. The exercise price of each option granted may not be less than the fair market value of the common shares at the time of grant.

The Company estimates the fair value of stock options granted using the Black-Scholes option-pricing model. The option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility and the expected option term.

Expected volatility was calculated based upon the Company's historical share price and historical volatilities of similar entities in the related sector index. The expected term of the options granted is derived from output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term. The Company has historically not paid dividends and has no foreseeable plans to pay dividends.

The following table lists the inputs to the Black-Scholes option-pricing model used for the fair value measurement of equity-settled share options for the above Options Plans for the years 2022 and 2021:

	Year ended July 31,	
	2022	2021
Dividend yield	0%	0%
Expected volatility of the share prices	65%	74%-79%
Risk-free interest rate	1.4%-1.5%	0.6%-1.38%
Expected term (in years)	8	8

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NOTE 9: SHARE - BASED COMPENSATION (Cont.)

a. The following table summarizes the number of options granted to employees under the Stock Option Plan for the year ended July 31, 2022 and related information:

	Number of options	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Balance as of July 31, 2021	674,666	\$ 4.38	3.91	\$ 573,466
Granted	818,300	7.81	4.44	
Exercised	-	-		
Forfeited	(999)	30.04		
Expired	(1,667)	46.80		
Balance as of July 31, 2022	<u>1,490,300</u>	6.20	4.09	447,090
Exercisable as of July 31, 2022	<u>1,202,040</u>	\$ 5.83	3.99	\$ 805,367

The weighted-average grant date per-share fair value of stock options granted during 2022 and 2021 was \$7.81 and \$4.39, respectively. As of July 31, 2022, there are \$1,652,550 of total unrecognized costs related to share-based compensation that is expected to be recognized over a period of up to 1.75 years.

b. The following table summarizes information about the Company's outstanding and exercisable options granted to employees as of July 31, 2022

Exercise price	Options outstanding as of July 31, 2022	Weighted average remaining contractual term (years)	Options exercisable as of July 31, 2022	Weighted average remaining contractual term (years)	Expiry Date
\$ 4.71	31,000	4.81	3,875	4.81	May 20, 2027
\$ 7.51	150,000	4.54	37,500	4.54	February 16, 2027
\$ 8.47	524,700	4.45	377,625	4.45	January 13, 2027
\$ 7.74	12,600	4.25	11,040	4.25	November 01, 2027
\$ 5.74	100,000	4.09	100,000	4.09	September 01, 2026
\$ 4.24	612,000	3.66	612,000	3.66	March 29, 2026
\$ 4.24	<u>60,000</u>	3.72	<u>60,000</u>	3.72	April 19, 2026
	<u>1,490,300</u>		<u>1,202,040</u>		

c. The total share-based compensation expense related to all of the Company's equity-based awards, recognized for the years ended July 31, 2022 and 2021 is comprised as follows:

	Year ended July 31,	
	2022	2021
Research and development expenses	\$ 435,563	\$ 719,480
General and administrative expenses	2,639,023	1,288,025
Total share-based compensation	<u>\$ 3,074,586</u>	<u>\$ 2,007,505</u>

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NOTE 10: TAXES ON INCOME

a. Components of income taxes excluding cumulative effects of changes in accounting principles, other comprehensive income, and equity in net results of affiliated companies accounted for after-tax for the years ended December 31 were as follows:

b. The Company recorded loss before taxes on income for the period indicated as follows:

	Year ended July 31,	
	2022	2021
Domestic	\$ (16,551,241)	\$ (11,434,438)
Foreign	(10,283,662)	(2,381,762)
	<u>\$ (26,838,903)</u>	<u>\$ (13,816,200)</u>

c. The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 27% (2021 - 27%) to the effective tax rate is as follows:

	July 31, 2022	July 31, 2021
Net loss before recovery of income taxes	\$ (26,838,903)	\$ (13,816,200)
Expected income tax (recovery) expense	(7,246,504)	(3,730,374)
Tax rate changes and effect of taxes of subsidiaries at foreign rates	1,591,220	31,580
Share-based compensation and other non-deductible expenses	828,930	497,160
Foreign exchange loss	7,810	579,170
Share issuance cost booked directly to equity	(15,420)	(1,360,580)
Valuation allowance	4,833,964	3,983,044
Income tax (recovery)	<u>\$ -</u>	<u>\$ -</u>

d. The Company had no income tax expense for the years ended July 31, 2022, and 2021, due to its history of operating losses and valuation allowances.

e. Significant components of the Company's deferred tax assets are as follows:

	July 31, 2022	July 31, 2021
Deferred Tax Assets:		
Property, plant and equipment	\$ 730	731
Marketable Securities	11,760	12,181
Warrant liability	4,330,580	1,182,778
Share issuance costs	1,105,220	1,483,999
Operating tax losses carried forward	2,714,150	1,833,609
Operating tax losses carried forward- USA	4,015,960	3,909,537
Total deferred tax assets	12,178,400	8,422,835
Valuation allowance	(12,130,030)	(8,363,505)
Net deferred tax assets	<u>\$ 48,370</u>	<u>\$ 59,330</u>
Deferred Tax Liability:		
Intellectual Property	\$ (48,370)	(51,580)
Convertible Debentures	-	(7,750)
Total net deferred tax liabilities	(48,370)	(59,330)
Valuation allowance	-	-
Net deferred tax assets (liabilities)	<u>\$ -</u>	<u>\$ -</u>

f. The Company has net deferred tax assets relating primarily to net operating loss ("NOL") carryforwards, warrant liability and share issuance costs. Subject to certain limitations, the Company may use these deferred tax assets to offset taxable income in future periods. Due to the Company's history of losses and uncertainty regarding future earnings, a full valuation allowance has been recorded against the Company's deferred tax assets, as it is more likely than not that such assets will not be realized. The net change in the total valuation allowance for the year ended July 31, 2022, was \$1,870,351.

At July 31, 2022, the Company had US federal NOL carryforwards of approximately \$18,890,000. The federal net operating losses have expiry periods ranging between 2033 and indefinitely. The Company also has Canadian net operating loss carryovers of approximately \$10,053,000 as of July 31, 2022. The Canadian net operating losses have expiry periods ranging between 2035 and 2042.

Utilization of the NOL carryforwards and credits may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code ("IRC") Sections 382 and 383, and similar state provisions. The Company has not completed an IRC 382/383 analysis regarding the limitation of NOL and credit carryforwards. If a change in ownership were to have occurred, the annual limitation may result in the expiration of NOL carryforwards and credits before utilization. If eliminated, the related asset would be removed from the deferred tax asset schedule with a corresponding reduction in the valuation allowance.

The Company has adopted the provisions of ASC 740-10, which clarifies the accounting for uncertain tax positions. ASC 740-10 requires that the Company recognize the impact of a tax position in its financial statements if the position is more likely than not to be sustained upon examination based on the technical merits of the position. For the year ended July 31, 2022, the Company had no material unrecognized tax benefits, and based on the information currently available, no significant changes in unrecognized tax benefits are expected in the next 12 months.

The Company's policy is to recognize interest and penalties related to uncertain tax positions as income tax expense. The Company has no accruals for interest or penalties on its accompanying consolidated balance sheets as of July 31, 2022, and 2021, and has not recognized interest or penalties in the consolidated statements of operations for the years ended July 31, 2022, and 2021.

The Company is subject to taxation in the United States, New York, California, and Canada. The Company is subject to tax examination by tax authorities in those jurisdictions for periods after 2015. However, to the extent allowed by law, the taxing authorities may have the right to examine the periods where NOLs and credits were generated and carried forward, and make adjustments to the amount of the NOL and credit carryforwards. The Company is not currently under examination by federal or state jurisdictions.

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NOTE 11: RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making operating and financial decisions. This would include the Company's senior management, who are considered to be key management personnel by the Company. Parties are also related if they are subject to common control or significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

a. The following related party salaries and directors' fees are included in the consolidated statements of operations and comprehensive loss:

	Year ended July 31,	
	2022	2021
Directors (*)	\$ 476,117	\$ 434,370
Officers (**)	1,404,363	332,273
	\$ 1,880,480	\$ 766,643

(*) Excluding the CEO who is a director

(**) Includes the CEO who is also a director

b. The following related party balances are included in the consolidated balance sheets:

	As of July 31,	
	2022	2021
Directors (*)	\$ 20,519	\$ 17,101
Officers (**)	55,039	31,429
	\$ 75,558	\$ 48,530

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NOTE 12: FINANCIAL EXPENSE, NET

	Year ended July 31,	
	2022	2021
Interest income	\$ 136,731	\$ 3,149
Interest expense	(979)	(78,554)
Change in fair value of warrant liability	(11,658,372)	(4,448,957)
Gain on government grant	3,388	3,691
Foreign exchange loss	(30,730)	(2,177,791)
Loss on extinguishment of debt	-	(141,703)
Financial expenses, net	<u>\$ (11,549,962)</u>	<u>\$ (6,840,165)</u>

NOTE 13: BASIC AND DILUTED NET LOSS PER SHARE

Basic net loss per ordinary share is computed by dividing net loss for each reporting period by the weighted-average number of ordinary shares outstanding during each period. Diluted net loss per ordinary share is computed by dividing net loss for each reporting period by the weighted average number of ordinary shares outstanding during the period, plus dilutive potential ordinary shares considered outstanding during the period, in accordance with ASC No. 260-10 "Earnings Per Share". The Company experienced a loss in the year ended July 31, 2022 and 2021; hence all potentially dilutive ordinary shares were excluded due to their anti-dilutive effect.

	Year ended July 31,	
	2022	2021
Numerator:		
Net loss available to shareholders of ordinary shares	(26,838,903)	(13,816,200)
Denominator:		
Shares used in computing net loss per ordinary shares, basic and diluted	15,494,091	4,519,579

The following items have been excluded from the diluted weighted average number of shares outstanding because they are anti-dilutive:

	Year ended July 31,	
	2022	2021
Employee stock options and warrants excluded from the computation of diluted per share amounts as their effect would be antidilutive	10,054,793	3,60,759

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NOTE 14: LONG-LIVED ASSETS BY GEOGRAPHIC LOCATION

	As of July 31,	
	2022	2021
United States	\$ 230,340	\$ 245,612
Total long-lived assets*	\$ 230,340	\$ 245,612

(*)Long-lived assets are comprised of property and equipment, net, investments and intangible assets, net.

NOTE 15: SUBSEQUENT EVENTS

The Company evaluated the possibility of subsequent events existing in the Company’s consolidated financial statements through October 27, 2022, the date that the consolidated financial statements were available for issuance. The Company is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements, except as noted below.

a) Approval of Omnibus Incentive Plan

On August 2, 2022, the Company approved an omnibus equity incentive plan (“Omnibus Plan”), which will permit the Company to grant incentive stock options, preferred share units, restricted share units (“RSU’s”), and deferred share units (collectively, the “Awards”) for the benefit of any employee, officer, director, or consultant of the Company or any subsidiary of the Company. The maximum number of Shares available for issuance under the Omnibus Plan shall not exceed 15% of the issued and outstanding Shares, from time to time, less the number of Shares reserved for issuance under all other security-based compensation arrangements of the Company, including the existing Stock Option Plan. The Omnibus Plan remains subject to approval by the shareholders of the Company (the “Shareholders”) and final approval of the Toronto Stock Exchange (“Exchange”) and will replace the Company’s existing Stock Option Plan upon receipt of such approvals (“Approvals”).

The Company may make grants under the Omnibus Plan, however, the grants cannot be settled until the Approvals have been received.

b) Option and RSU grants

On August 2, 2022, the Company granted 180,100 options, under the Stock Option Plan, to directors, officers and employees with an exercise price of CAD\$8.38. The options vest quarterly in advance over a two-year period and expire on August 2, 2027. 142,100 of the options were issued to officers of the Company.

The Company also granted, under the Omnibus Plan, 19,200 RSU’s to the CEO. The RSU’s vested immediately.