
Capha Pharmaceuticals Inc.
Interim Financial Statements
For the 3 months ended March 31, 2020
(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of Capha Pharmaceuticals Inc. for the three months ended March 31, 2020 have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

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

Capha Pharmaceuticals Inc.

Statements of Financial Position

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

	March 31, 2020	December 31, 2019
	\$	\$
Assets		
Current assets		
Cash	550	2,637
Amounts receivable (Note 6)	<u>292</u>	<u>614</u>
	842	3,251
 Equipment (Note 7)	 <u>2,142</u>	 <u>2,303</u>
	2,984	5,554
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	69,777	56,500
Loan payable (Note 10)	<u>177,068</u>	<u>176,068</u>
	246,845	232,568
Shareholders' equity		
Share capital (Note 8)	11,454,455	11,454,455
Share-based payment reserve	3,564,621	3,564,621
Currency translation reserve	126,725	126,725
Deficit	<u>(15,389,662)</u>	<u>(15,372,815)</u>
	<u>(243,861)</u>	<u>(227,014)</u>
	2,984	5,554

Nature of operations and going concern (Note 1)

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

These consolidated financial statements were approved for issue by the Board of Directors on May 29, 2020 and are signed on its behalf by:

/s/ James R. Brown, Director
James R. Brown

/s/ Janice Brown, Director
Janice Brown

Capha Pharmaceuticals Inc.

Statements of Comprehensive Loss

For the three months ended March 31

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

	2020	2019
	\$	\$
Expenses		
Depreciation of equipment	161	227
Office and miscellaneous	2,896	3,578
Professional fees	4,500	2,464
Transfer agent fees and regulatory fees	2,176	3,139
Travel and meals	<u>5,231</u>	<u>6,439</u>
Loss before other items	<u>(14,964)</u>	<u>(15,847)</u>
Other items		
Foreign exchange gain(loss)	<u>(1,883)</u>	<u>242</u>
	<u>(1,883)</u>	<u>242</u>
Net income (loss) for the period	<u>(16,847)</u>	<u>(15,605)</u>
Loss per common share	<u>(0.00)</u>	<u>(0.00)</u>
Weighted average number of common shares outstanding	64,431,030	64,431,030

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

Capha Pharmaceuticals Inc.

Statements of Changes in Equity

For the three months ended March 31

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

	<u>Common shares</u>		Share-based payment reserve \$	Currency translation reserve \$	Deficit \$	Total equity \$
	Number of shares	Amount \$				
Balance at December 31, 2018	64,431,030	11,454,455	3,564,621	126,725	(15,286,183)	(140,382)
Net income (loss) for the period	-	-	-	-	(15,605)	(15,605)
Balance at March 31, 2019	64,431,030	11,454,455	3,564,621	126,725	(15,301,788)	(155,988)
Balance at December 31, 2019	64,431,030	11,454,455	3,564,621	126,725	(15,372,815)	(227,014)
Net income (loss) for the period	-	-	-	-	(16,847)	(16,847)
Balance at March 31, 2020	64,431,030	11,454,455	3,564,621	126,725	(15,389,662)	(243,861)

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

Capha Pharmaceuticals Inc.

Statements of Cash Flows

For the three months ended March 31

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

	2020	2019
	\$	\$
Cash flows from (used in) operating activities		
Net income (loss) for the period	(16,847)	(15,605)
Items not affecting cash		
Depreciation of equipment	161	227
Changes in non-cash working capital		
Decrease (increase) in		
Amounts receivable	322	150
Prepaid expenses	-	-
Increase (decrease) in		
Accounts payable and accrued liabilities	<u>13,277</u>	<u>12,193</u>
	<u>(3,087)</u>	<u>(3,035)</u>
Cash flows from (used in) financing activities		
Loan from shareholder	<u>1,000</u>	<u>3,000</u>
	<u>1,000</u>	<u>3,000</u>
Increase (decrease) in cash during the period	(2,087)	(35)
Cash, beginning of year	<u>2,637</u>	<u>630</u>
Cash, end of period	550	595

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

Capha Pharmaceuticals Inc.

Notes to the Interim Financial Statements

Three months ended March 31, 2020

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

1. Nature of operations and going concern

Capha Pharmaceuticals Inc. (hereafter referred to as the “Company” or “Capha”) is incorporated under the laws of the Province of British Columbia and was formed as a result of an amalgamation on September 1, 2004. On January 16, 2017, the Company changed its name from FPS Pharma Inc. to Capha Pharmaceuticals Inc.

The Company’s corporate office is located at:

Suite 324 - 4205 Gellatly Road
West Kelowna, BC V4T 2K2
Canada

During 2015, the Company incorporated a subsidiary in Hong Kong, called FPS Pharma Asia Limited and set up offices in Asia. All offices in Asia were closed in December 2016 and the Company recognized a write-off of \$ 56,400 relating to prepaid expenses and equipment.

In December 2017, the Company entered into a Letter of Intent with Blockagram Inc. to carry out a business combination transaction. As the parties were not able to receive approval from security regulators within the required time frame, including the listing of the Company’s common shares on the Canadian Securities Exchange, the transaction was not completed.

As at March 31, 2020, the Company had a working capital deficit of \$246,003 and an accumulated deficit of \$15,389,662. The Company’s ability to continue to pursue potential business opportunities is dependent upon its ability to obtain additional financing, in the immediate term. There is material uncertainty about whether the Company will be able to obtain the required financing. This material uncertainty casts significant doubt about the Company’s ability to continue as a going concern. Should the Company be unable to obtain additional financing, it may have no alternative but to significantly curtail, or cease to carry on, business operations. These financial statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business. These interim financial statements do not include any adjustment for the recoverability and classification of assets and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

2. Basis of presentation

Statement of compliance

These unaudited interim financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee.

Foreign currency translation

Functional and presentation currency

Historically, the Company’s functional currency and its financial statements have been presented in Canadian dollars. In August 2015, its functional currency changed to United States dollars and its financial statements were presented in United States dollars for the years ended December 31, 2015 and 2016. In January 2017, its functional currency reverted back to Canadian dollars and its financial statements are now presented in Canadian dollars.

Capha Pharmaceuticals Inc.

Notes to the Interim Financial Statements

Three months ended March 31, 2019

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

2. **Basis of presentation** - continued

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates published by the Bank of Canada and prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation, at year end exchange rates, of monetary assets and liabilities dominated in foreign currencies are recognized in comprehensive loss.

Basis of Measurement

The Company's financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities to fair value.

Critical judgments and sources of estimation uncertainty

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

- i) The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.
- ii) The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's estimates of future profits or losses adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.
- iii) Management is required to assess the functional currency of each entity of the Company. (See Note 2).

Capha Pharmaceuticals Inc.

Notes to the Interim Financial Statements

Three months ended March 31, 2020

(Expressed in Canadian Dollars)

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3. Summary of significant accounting policies

Estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- i) Provisions for income 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 originally recorded, such differences will affect the tax provisions in the period in which such determination is made.
- ii) Depreciation expense is allocated based on assumed asset lives. Should the asset life differ from the initial estimate, an adjustment would be made in the consolidated statements of comprehensive loss.
- iii) Warrants issued with exercise prices denominated in currency other than the Company's functional currency meet the definition of derivatives and are therefore classified as derivative liabilities measured at fair value with adjustments to fair value recognized through net income (loss). The fair value of the warrants is estimated using the Black-Scholes option pricing model at the end of each reporting period. Such estimates are subject to change each period and the differences will affect the warrant liability provision in the period in which the estimate is made.

Cash

Cash includes cash in bank and demand deposits.

Amounts receivable

Receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Accounts payable and accrued liabilities

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Payables are classified as other financial liabilities and are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method.

Equipment

Equipment is recorded at historical cost less depreciation and, where necessary, write-downs for impairment. Depreciation is calculated using the declining-balance method at the following annual rates:

Office equipment	-	20%
Computer equipment	-	30%

Capha Pharmaceuticals Inc.

Notes to the Interim Financial Statements

Three months ended March 31, 2020

(Expressed in Canadian Dollars)

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3. Summary of significant accounting policies - continued

Impairment of long-lived assets

Impairment tests for long-lived assets are performed when there is an indication of impairment. At each reporting date, an assessment is made to determine whether there are any indications of impairment. If any indication of impairment exists, an estimate of the long-lived assets recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less direct costs to sell and the asset's value in use. If the carrying value of a long-lived assets exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to profit and loss so as to reduce the carrying amount of the long-lived asset to its recoverable amount.

Revenue recognition

Interest income is recognized as earned, provided that collection is assessed as being reasonably assured.

Financial instruments

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss.

Financial assets classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive loss. Cash is classified as fair value through profit and loss.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. Amounts receivable are classified as loans and receivables.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive loss except for losses in value that are considered other than temporary. At March 31, 2020, the Company has not classified any financial assets as available for sale.

Transaction costs associated with financial assets at fair value through profit or loss are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payable and accrued liabilities and loan payable are classified as other financial liabilities.

Financial liabilities classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive loss. Warrant liability is classified as fair value through profit or loss.

Share capital

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity, net of any related income tax effects.

Capha Pharmaceuticals Inc.

Notes to the Interim Financial Statements

Three months ended March 31, 2020

(Expressed in Canadian Dollars)

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3. Summary of significant accounting policies - continued

Private placements

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate exploration and evaluation assets. These equity financing transactions may involve issuance of common shares or units. Units are typically comprised of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the terms of the transaction. The Company has adopted a residual value method with respect to the measurement of common shares and share purchase warrants issued as private placement units. The fair value of the common shares issued in the private placements is determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached share purchase warrants.

Share-based payments

The fair value, at the grant date, of equity-settled share-based awards is charged to comprehensive loss over the period for which the benefits of employee and others providing similar services are expected to be received. The corresponding accrued entitlement is recorded in the share-based payment reserve. The fair value of awards is calculated using an option pricing model which considers the following factors:

- Exercise price
- Expected volatility
- Risk-free interest rate
- Expected life of the award
- Current market price of the underlying shares
- Expected forfeitures

For employees the fair value is measured at grant date and each tranche is recognized separately on a straight-line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the non-employee provides the goods or the services.

Income taxes

Income tax expense is comprised of current and deferred income taxes. Current and deferred income taxes are recognized in comprehensive loss, except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current income taxes, if any, is the expected amount payable or receivable on the taxable income or loss for the year, calculated in accordance with applicable taxation laws and regulations, using income tax rates enacted or substantively enacted at the end of the reporting year, and any adjustments to amounts payable or receivable relating to previous years.

Capha Pharmaceuticals Inc.

Notes to the Interim Financial Statements

Three months ended March 31, 2020

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

3. Summary of significant accounting policies - continued

Income taxes - continued

Deferred income taxes are provided using the liability method based on temporary differences arising between the income tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income taxes are determined using income tax rates and income tax laws that have been enacted or substantially enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

Loss per share

Basic and diluted loss per share is determined by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted loss per share is not separately presented, as the effect of securities exercisable into common shares would reduce the amount presented as loss per share.

Adoption of new standards

On January 1, 2019, the Company adopted IFRS 16 – Leases which superseded IAS 17 – Leases. IFRS 16 specifies how and when to recognize, measure, present, and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance.

The adoption of IFRS 16 has no impact on the Company's financial statements.

4. Capital risk management

The Company manages, as capital, the components of shareholders' equity. The Company's objectives, when managing capital, are to safeguard its ability to continue as a going concern in order to explore its exploration and evaluation assets.

The Company manages its capital structure, and makes adjustments to it, in light of changes in economic conditions and the risk of characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue common shares, borrow and acquire or dispose of assets.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's policy is to invest its excess cash, if any, in highly liquid, short-term, interest-bearing investments with maturities of one year or less from the date of acquisition.

Capha Pharmaceuticals Inc.

Notes to the Interim Financial Statements

Three months ended March 31, 2020

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

5. Financial instruments

Fair value

IFRS 7 establishes a fair value hierarchy, for financial instruments measured at fair value that reflects the significance of inputs in making fair value measurement as follows:

- Level 1 - quoted prices in active markets for identical assets or liabilities
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and
- Level 3 - inputs for the asset or liability that are not based upon observable market data

The recorded amounts for amounts receivable and accounts payable and accrued liabilities and loan payable approximate their fair value due to their short-term natures. The fair value of cash and warrant liability under the fair value hierarchy is determined using Level 1 and Level 2 inputs respectively.

Financial risk management objectives and policies

The Company's financial instruments include cash, amounts receivable, accounts payable and accrued liabilities, warrant liability and loan payable. The risk associated with these financial instruments and the policies regarding their management are discussed below. Management monitors these risk exposures to ensure appropriate measures are implemented in a timely and effective manner.

Interest rate risk

The Company is not exposed to significant interest rate risk.

Credit risk

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash and amounts receivable. Management believes that the credit risk concentration with respect to financial instruments included in cash and amounts receivable is remote.

6. Amounts receivable	March 31, 2020 \$	December 31, 2019 \$
Canadian Goods & Services Tax	<u>292</u>	<u>614</u>
	292	614

Capha Pharmaceuticals Inc.

Notes to the Interim Financial Statements

Three months ended March 31, 2020

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

7. Equipment

	March 31, 2020		
	Computer Equipment	Office Equipment	\$ Total
Cost:			
Balance, December 31, 2019	29,698	6,128	35,826
Depreciation:			
Balance, December 31, 2019	27,843	5,680	33,523
Depreciation	139	22	161
Balance at March 31, 2020	27,982	5,702	33,684
Carrying value at March 31, 2020	1,716	426	2,142

	December 31, 2019		
	Computer Equipment	Office Equipment	\$ Total
Cost:			
Balance, December 31, 2019	29,698	6,128	35,826
Depreciation:			
Balance, December 31, 2019	27,049	5,567	32,616
Depreciation	794	113	907
Balance at December 31, 2019	27,843	5,680	33,523
Carrying value at December 31, 2019	1,855	448	2,303

8. Share capital

At March 31, 2020, the Company's authorized share capital consisted of an unlimited number of voting common shares without par value, an unlimited number of first preferred shares, and an unlimited number of second preferred shares. No first preferred shares or second preferred shares have been issued. All issued common shares are fully paid.

The Company had no warrants outstanding at December 31, 2019 and March 31, 2020.

Capha Pharmaceuticals Inc.

Notes to the Interim Financial Statements

Three months ended March 31, 2020

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

9. Share-based compensation

The Company has an incentive share option plan (the “plan”). Under the plan, the Company may issue options to directors, officers, employees and consultants for up to 20% of the Company’s issued common shares to purchase common shares at a price determined by the Board of Directors on the date of award for a period of not more than five years. The Board of Directors may determine and impose terms upon which each option shall become vested.

No options were issued in the year ended December 31, 2019 or the three months ended March 31, 2020, and no options were outstanding as at March 31, 2020.

10. Related party disclosures

Transactions with key management personnel

No Management fees or office services were paid to the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) during the three months ended March 31, 2020 or March 31, 2019.

Included in accounts payable and accrued liabilities at March 31, 2020 is \$ 50,733 (2019 - \$ 19,423) due to the CEO.

As at March 31, 2020, loans payable of \$ 177,068 (2019 - \$ 118,068) were due to the CEO. The loans do not bear interest.