
Capha Pharmaceuticals Inc.
Financial Statements
For the years ended December 31, 2023 and 2022
(Expressed in Canadian Dollars)



Independent Auditor's Report

To the Shareholders of Capha Pharmaceuticals Inc.

Opinion

We have audited the financial statements of Capha Pharmaceuticals Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2023 and December 31, 2022, and the statements of comprehensive loss, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including material accounting policy information.

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company recorded a net loss of \$ 72,022 and, as at December 31, 2023, the Company had an accumulated deficit of \$ 15,645,541 and a working capital deficit of \$ 500,185. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

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



We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

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

The engagement partner on the audit resulting in this independent auditor's report is Gordon Cummings.

Vancouver, B.C.
April 26, 2024

"D&H Group LLP"

Chartered Professional Accountants

Capha Pharmaceuticals Inc.

Statements of Financial Position

(Expressed in Canadian Dollars)

	December 31, 2023 \$	December 31, 2022 \$
Assets		
Current assets		
Cash	671	1,026
Amounts receivable (Note 6)	<u>632</u>	<u>600</u>
	1,303	1,626
Equipment (Note 7)	<u>445</u>	<u>636</u>
	1,748	2,262
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	12,420	13,912
Loan payable (Note 10)	<u>489,068</u>	<u>416,068</u>
	<u>501,488</u>	<u>429,980</u>
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>(15,645,541)</u>	<u>(15,573,519)</u>
	<u>(499,740)</u>	<u>(427,718)</u>
	1,748	2,262

Nature of operations and going concern (Note 1)

The accompanying notes are an integral part of these financial statements

These financial statements were approved for issue by the Board of Directors on April 26, 2024 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 years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

	2023 \$	2022 \$
Expenses		
Depreciation of equipment	191	273
Office and miscellaneous	14,580	13,606
Professional fees	19,740	15,718
Transfer agent fees and regulatory fees	16,552	16,561
Travel and meals	<u>20,660</u>	<u>29,211</u>
Loss before other items	<u>(71,723)</u>	<u>(75,369)</u>
Other items		
Foreign exchange gain (loss)	<u>(299)</u>	<u>(539)</u>
	<u>(299)</u>	<u>(539)</u>
Net loss for the year	(72,022)	(75,908)
Loss per common share	(0.00)	(0.00)
Weighted average number of common shares outstanding	64,431,030	64,431,030

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

Capha Pharmaceuticals Inc.

Statements of Changes in Equity

For the years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

	<u>Common shares</u>		Share-based payment reserve \$	Currency translation reserve \$	Deficit \$	Total equity \$
	Number of shares	Amount \$				
Balance at December 31, 2021	64,431,030	11,454,455	3,564,621	126,725	(15,497,611)	(351,810)
Net loss for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(75,908)</u>	<u>(75,908)</u>
Balance at December 31, 2022	64,431,030	11,454,455	3,564,621	126,725	(15,573,519)	(427,718)
Net loss for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(72,022)</u>	<u>(72,022)</u>
Balance at December 31, 2023	64,431,030	11,454,455	3,564,621	126,725	(15,645,541)	(499,740)

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

Capha Pharmaceuticals Inc.

Statements of Cash Flows

For the years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

	2023 \$	2022 \$
Cash flows from (used in) operating activities		
Net loss for the year	(72,022)	(75,908)
Items not affecting cash		
Depreciation of equipment	191	273
Changes in non-cash working capital		
Decrease (increase) in		
Amounts receivable	(32)	(173)
Increase (decrease) in		
Accounts payable and accrued liabilities	<u>(1,492)</u>	<u>(4,245)</u>
	<u>(73,355)</u>	<u>(80,053)</u>
Cash flows from financing activities		
Loans from an officer	<u>73,000</u>	<u>78,000</u>
Increase in cash during the year	(355)	(2,053)
Cash, beginning of year	<u>1,026</u>	<u>3,079</u>
Cash, end of year	671	1,026

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

Capha Pharmaceuticals Inc.

Notes to the Financial Statements

Years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

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

Since 2015, the Company was exploring opportunities in the pharmaceutical distribution business with minimal success and the Company has had little activity since the middle of 2016.

During the year ended December 31, 2023, the Company incurred a net loss of \$72,022 and as at December 31, 2023, the Company had a working capital deficit of \$ 500,185 and an accumulated deficit of \$ 15,645,541. The Company’s ability to continue its business 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 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 financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

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.

Capha Pharmaceuticals Inc.

Notes to the Financial Statements

Years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

3. Material accounting policy information

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.

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.

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.

Capha Pharmaceuticals Inc.

Notes to the Financial Statements

Years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

3. Material accounting policy information - continued

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 amortized cost 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 rate:

Computer equipment - 30%

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

(i) Classification

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

(ii) Measurement

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

Financial assets and liabilities carried at FVTPL are initially recorded at fair value. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit or loss in the period in which they arise.

Financial assets and liabilities carried at FVOCI are initially recorded at fair value. Unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVOCI are included in comprehensive income or loss in the period in which they arise.

Capha Pharmaceuticals Inc.

Notes to the Financial Statements

Years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

(iii) *Impairment of Financial Assets at Amortized Cost*

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. Regardless of whether credit risk has increased significantly, the loss allowance for trade receivables without a significant financing component classified at amortized cost, are measured using the lifetime expected credit loss approach. The Company shall recognize in the statements of net (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) *Derecognition*

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of net (loss) income.

(v) *Credit risk*

Credit losses are measured using a present value and probability-weighted model that considers all reasonable and supportable information available without undue cost or effort along with the information available concerning past defaults, current conditions and forecasts at the reporting date. IFRS 9 requires the recognition of 12 month expected credit losses (the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date) if credit risk has not significantly increased since initial recognition (stage1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (stage 2) or which are credit impaired (stage3).

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.

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.

Capha Pharmaceuticals Inc.

Notes to the Financial Statements

Years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

3. Material accounting policy information - continued

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

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.

Capha Pharmaceuticals Inc.

Notes to the Financial Statements

Years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

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.

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 under the fair value hierarchy is determined using Level 1 inputs.

Financial risk management objectives and policies

The Company's financial instruments include cash, amounts receivable, accounts payable and accrued liabilities, 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	December 31, 2023 \$	December 31, 2022 \$
Canadian Goods & Services Tax	632	600
	632	600

Capha Pharmaceuticals Inc.

Notes to the Financial Statements

Years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

7. Equipment

		2023 \$
	Computer Equipment	Total
Cost:		
Balance, December 31, 2022	29,698	29,698
Depreciation:		
Balance, December 31, 2022	29,062	29,062
Depreciation	191	191
Balance at December 31, 2023	29,253	29,253
Carrying value at December 31, 2023	445	445
		2022 \$
	Computer Equipment	Total
Cost:		
Balance, December 31, 2021	29,698	29,698
Depreciation:		
Balance, December 31, 2021	28,789	28,789
Depreciation	273	273
Balance at December 31, 2022	29,062	29,062
Carrying value at December 31, 2022	636	636

8. Share capital

At December 31, 2023, 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, 2022 and December 31, 2023.

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.

The Company had no share options outstanding at December 31, 2022 and December 31, 2023.

Capha Pharmaceuticals Inc.

Notes to the Financial Statements

Years ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)

10. Related party disclosures

Transactions with key management personnel

Included in accounts payable and accrued liabilities at December 31, 2023 is \$ Nil (2022 - \$ 2,820) due to the CEO and CFO.

As at December 31, 2023, a loan payable of \$ 489,068 (2022 - \$ 416,068) was due to the CEO. The loan does not bear interest.

11. Income taxes

The provision for income taxes differs from the amount that would have been obtained by applying the statutory income tax rate of 27% (2022 - 27%) to the Company's net loss. The difference results from the following items:

	2023 \$	2022 \$
Expected income tax expense (recovery)	(19,000)	(20,000)
Other	1,000	1,000
Unrecognized benefit (use) of loss carryforwards	<u>18,000</u>	<u>19,000</u>
Provision for income taxes (recovery)	-	-

The income tax effects of temporary differences that give rise to significant components of deferred income tax assets and liabilities are as follows:

	2023 \$	2022 \$
<i>Deferred income tax assets</i>		
Non-capital losses carry-forwards	989,000	970,000
Exploration and evaluation assets	1,182,000	1,182,000
Equipment	<u>39,000</u>	<u>39,000</u>
	2,210,000	2,191,000
Valuation allowance	<u>(2,210,000)</u>	<u>(2,191,000)</u>
	-	-

The Company has non-capital losses for income tax purposes of approximately \$ 3,662,189 available to reduce future years' taxable income. The benefit of these non-capital losses has not been recognized in the Company's accounts as it is not probable such benefit will be realized. The non-capital losses expire between the 2030 and 2043 fiscal years.