

MyndTec Inc.

Interim Condensed Consolidated Financial Statements (Unaudited)

As at June 30, 2022

Interim Condensed Consolidated Financial Statements

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Auditor's Involvement

In accordance with National Instrument 51-102, Part 4, subsection 4.3 (3)(a), notice is hereby given that the accompanying statements of the Company for the six-month periods ended June 30, 2022 and June 30, 2021 have not been reviewed by the Company's auditors in accordance with standards established by the Chartered Professional Accountants of Canada for a review of the interim condensed consolidated financial statements by the Company's auditors.

MyndTec Inc.
Interim Consolidated Statements of Financial Position
As at June 30, 2022 (unaudited) and December 31, 2021

	June 30	December 31
	<u>2022</u>	<u>2021</u>
Assets		
Current assets		
Cash and short term securities	\$ 788,648	\$ 377,065
Cash held in escrow (note 13)	-	2,359,442
Trade and other receivables (note 3 and 12)	90,519	305,638
Inventories (note 4)	291,905	300,732
Prepaid expenses and deposits	125,385	139,139
	<u>1,296,457</u>	<u>3,482,016</u>
Non-current assets		
Right-of-use asset (note 5)	48,650	60,326
Equipment (note 6)	248,786	281,795
	<u>297,436</u>	<u>342,121</u>
Total assets	<u>\$ 1,593,893</u>	<u>\$ 3,824,137</u>
Liabilities		
Current liabilities		
Trade and other payables (note 12)	\$ 457,388	\$ 1,553,630
Subscription receipts (note 13)	-	2,359,442
Deferred revenue (note 7 and 12)	21,250	-
Current portion of long-term liabilities (note 8)	484,845	1,840,171
	<u>963,483</u>	<u>5,753,243</u>
Long-term liabilities, net of current portion		
Deferred payment agreement (note 9)	-	311,500
Deferred revenue (note 7 and 12)	55,250	85,000
Lease obligations (note 5)	15,320	25,841
Government loans (note 10)	627,210	594,939
Convertible debentures (note 11)	-	-
Derivative and warrant liabilities (note 11)	-	-
Deposits for future share financings (note 13)	-	594,860
	<u>1,297,790</u>	<u>1,526,140</u>
Total liabilities	<u>1,661,263</u>	<u>7,365,383</u>
Shareholders' deficiency		
Share capital (note 13)	13,982,961	11,013,889
Contributed surplus	3,064,619	1,268,088
Accumulated deficit	(17,114,950)	(15,823,223)
Total deficiency	<u>(67,370)</u>	<u>(3,541,246)</u>
Total liabilities and shareholders' deficiency	<u>\$ 1,593,893</u>	<u>\$ 3,824,137</u>
Commitments and contingencies (note 19)		

“Craig Leon” Director

“William (Bill) Jackson” Director

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

MyndTec Inc.

Interim Consolidated Statements of Loss and Comprehensive Loss For the six-month periods ended June 30, 2022 and 2021 (unaudited)

	Three Months Ended		Six Months Ended	
	June 30 2022	June 30 2021	June 30 2022	June 30 2021
Revenue (note 12 and 22)	\$ 90,732	\$ 54,880	\$ 135,739	\$ 105,992
Cost of sales	16,363	34,263	39,901	58,513
Gross margin	74,369	20,617	95,838	47,479
Expenses				
General and administration (note 14)	274,437	545,244	484,571	744,771
Research and development (note 14)	97,675	217,547	229,657	443,544
Quality and regulatory assurance	1,200	35,984	7,816	36,942
Selling and marketing	11,232	25,335	47,345	46,184
Share-based compensation (note 13)	89,453	(12,311)	128,604	(7,120)
Interest and accretion expense (note 16)	21,403	78,482	68,367	154,681
Depreciation and amortization (note 5 and 6)	22,344	28,911	44,685	56,247
Clinical trial (note 18)	(17,946)	12,872	(53,803)	12,872
Changes in fair value (note 16)	40,330	93,510	191,872	106,908
Public listing costs (note 13)	8,438	248,098	238,451	233,875
Government grants and tax credits (note 17)	-	-	-	-
Total operating expenses	548,566	1,273,672	1,387,565	1,828,904
Net and comprehensive Loss	\$ (474,197)	\$(1,253,055)	\$ (1,291,727)	\$(1,781,425)
Loss per share - basic and diluted	\$ (0.02)	\$ (0.08)	\$ (0.06)	\$ (0.11)
Weighted average number of common shares outstanding - basic and diluted	21,838,500	16,603,324	20,608,008	16,155,365

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

MyndTec Inc.
Interim Consolidated Statements of Changes in Shareholders' Surplus
(Deficiency)
For the six-month periods ended June 30, 2022 and 2021 (unaudited)

	Share Capital (note 13)	Contributed Surplus (note 13)	Accumulated Deficit	Total Surplus (Deficiency)
Balance, December 31, 2020	\$ 10,085,283	\$ 862,873	\$(12,774,138)	\$(1,825,982)
Net loss and comprehensive loss	-	-	(1,781,425)	(1,781,425)
Private placement (note 13)	915,217	285,184		1,200,401
Share-based compensation	-	(7,120)	-	(7,120)
Balance, June 30, 2021	11,000,500	1,140,937	(14,555,563)	(2,414,126)
Net loss and comprehensive loss	-	-	(1,267,660)	(1,267,660)
Common share financing	13,389	(13,390)	-	(1)
Share-based compensation	-	140,541	-	140,541
Balance, December 31, 2021	11,013,889	1,268,088	(15,823,223)	(3,541,246)
Net loss and comprehensive loss	-	-	(1,291,727)	(1,291,727)
Private placement (note 13)	1,891,640	1,062,662	-	2,954,302
Conversion of convertible debentures	1,142,553	641,849	-	1,784,402
Issuance expenses	(65,121)	(36,584)	-	(101,705)
Share-based compensation	-	128,604	-	128,604
Balance, June 30, 2022	\$ 13,982,961	\$ 3,064,619	\$(17,114,950)	\$ (67,370)

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

MyndTec Inc.

Interim Consolidated Statements of Cash Flows

For the six-month periods ended December 31, 2022 and 2021 (unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30 2021
Cash flows from (to) operating activities				
Net loss and comprehensive loss	\$ (474,197)	\$(1,253,055)	\$ (1,291,727)	\$(1,781,425)
Items not affecting cash:				
Share-based compensation	89,453	(12,311)	128,604	(7,120)
Depreciation and amortization (note 5 and 6)	22,344	28,911	44,685	56,247
Interest accretion (note 16)	22,172	78,547	71,995	154,677
Changes in fair value (note 16)	40,330	93,510	191,872	106,908
Deferred revenue (note 7)	(3,188)	-	(8,500)	-
	<u>(303,086)</u>	<u>(1,064,398)</u>	<u>(863,071)</u>	<u>(1,470,713)</u>
Changes in non-cash working capital items				
Trade and other receivables	(31,894)	100,244	215,119	80,024
Inventories	(8,780)	43,846	8,827	39,742
Prepaid expenses and deposits	395	(58,978)	(87,950)	(131,772)
Trade and other payables	(267,132)	706,021	(1,096,242)	994,225
Net cash flows used in operating activities	<u>(610,497)</u>	<u>(273,265)</u>	<u>(1,823,317)</u>	<u>(488,494)</u>
Cash flows used in investing activities				
Purchase of equipment (note 6)	-	(42,010)	-	(56,013)
Net cash flows used in investing activities	<u>-</u>	<u>(42,010)</u>	<u>-</u>	<u>(56,013)</u>
Cash flows from (used in) financing activities				
Lease payments (note 5)	(6,506)	(9,748)	(13,011)	(28,875)
Repayment of deferred payment agreement (note 9)	(7,500)	-	(12,500)	-
Repayment of government loans (note 10)	(84,031)	(56,199)	(99,031)	(105,604)
Proceeds of Private Placement (note 13)	-	570,633	2,359,442	825,401
Net cash flows from (used in) financing activities	<u>(98,037)</u>	<u>504,686</u>	<u>2,234,900</u>	<u>690,922</u>
Decrease (increase) in cash	(708,534)	189,411	411,583	146,415
Cash, beginning of period	<u>1,497,182</u>	<u>625,584</u>	<u>377,065</u>	<u>668,580</u>
Cash, end of period	\$ 788,648	\$ 814,995	\$ 788,648	\$ 814,995

The accompanying notes are an integral part of these interim condensed consolidated financial statement.

MyndTec Inc.

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month periods ended June 30, 2022 and 2021 (unaudited)

1 Nature of business

MyndTec Inc. (the “Company” or “MyndTec”) is a medical technology company that researches, develops and distributes innovative therapies designed to improve function, maximize independence and enhance the quality of life for individuals with paralysis due to stroke or spinal cord injury. The Company was incorporated under the Business Corporations Act of Ontario and its head office is located at 1900 Minnesota Court, Suite 122, Mississauga, Ontario, L5N 3C9. The Company became a publicly traded entity on the Canadian Securities Exchange on February 16, 2022 (note 13) and is listed under the symbol MYTC.

COVID-19 pandemic

The global outbreak of the COVID-19 pandemic continues to be a threat to the global economy. The extent to which the COVID-19 pandemic may continue to impact the Company’s business will depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the duration of the outbreak, travel restrictions and social distancing in Canada, the United States and other countries; business closures or business disruptions; and the effectiveness of actions taken by governments around the globe to contain and treat the disease. The measures taken to date have caused material disruptions to businesses globally, resulting in an economic slowdown.

From an operational perspective, the Company’s employees and distribution partners, as well as the workforce of vendors, services providers and counterparties with which the Company does business, may also be adversely affected by the COVID-19 pandemic or efforts to mitigate the pandemic, including government-mandated shutdowns, requests or orders for employees to work remotely and other physical distancing measures, which could result in an adverse impact on the Company’s ability to conduct its businesses, including its ability to cultivate adoption of the Company’s technology.

To date, the economic downturn and uncertainty caused by the COVID-19 pandemic and global measures undertaken to contain its spread have affected all of the Company’s operations to some extent and, in particular, have caused volatility in demand for the Company’s technology. This has resulted in a reduction in anticipated revenue and led to delays in the Company’s expectations regarding the rate at which agreements for new user sites will be entered into. Despite the COVID-19 pandemic, treatment sessions are continuing, and the Company continues to identify potential new user sites. The Company continues to evaluate the current and potential impact of the COVID-19 pandemic on its business, affairs, operations, financial condition, liquidity and results of operations.

2 Basis of presentation

Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards (IFRS) and with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (IASB) and interpreted by the IFRS Interpretations Committee (IFRIC). These unaudited interim condensed consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the most recent annual consolidated financial statements of the Company, including the notes thereto, for the year ended December 31, 2021.

These unaudited interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on August 8, 2022.

Basis of Measurement

These interim condensed consolidated financial statements have been prepared on a going concern basis using historical cost, except for items designated as fair value through profit and loss.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, MyndTec US Inc. which was incorporated by the Company in the United States on October 10, 2018. As at June 30, 2022, the US subsidiary is inactive.

The financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies, and the subsidiary is fully consolidated from its date of formation. All intercompany balances, transactions and unrealized gains and losses resulting from intercompany transactions are eliminated on consolidation.

2 Basis of presentation (continued)

Functional currency and presentation currency

These consolidated financial statements are presented in Canadian dollars ("CAD dollars"). The Company's functional currency is CAD dollars, and the functional currency of the Company's wholly owned subsidiary is the United States dollar.

Use of estimates and judgements

The preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- ***Going concern***

Judgement is required in determining if disclosure of a material uncertainty related to events or conditions which cast significant doubt on the Company's ability to continue as a going concern is required. In management's judgement, such disclosure is not required. This judgement is based on management's expectation of revenue and future net cash flows for the 12-month period to June 30, 2023

These financial statements have been prepared on a going concern basis, which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Management routinely plans future activities including forecasting future cash flows and forming judgements collectively with directors of the Company. The Company has incurred net losses of \$1,291,727 for the six-month period ended June 30, 2022 (Six-month period ended June 30, 2021 of \$1,781,425) and has an accumulated deficit of \$17,114,950 (December 31, 2021 - \$15,823,223). The Company had net cash used in operating activities for the six-month period ended June 30, 2022 of \$1,823,317 (Six-month period ended June 30, 2021 - \$488,494).

The Company's ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations or obtain the necessary financing to meet its near and long term obligations such that it can repay its liabilities when they become due. Management plans to continue its efforts to consider additional external financing through the issuance of equity and debt to finance the operations, expansion, and capital expenditures of the Company; however, there can be no certainty that such funds will be available on a timely basis and on terms acceptable to the Company. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

The estimates used by management in reaching this conclusion are based on information available as of the date of that these interim condensed consolidated financial statements were authorized for issuance and included an internally generated cash flow forecast. Accordingly, actual results could differ from those estimates and resulting variances may be material to management's assessment.

- ***Leases***

Values of right-of-use assets and lease liabilities require judgment in determining lease terms such as extension options and the incremental borrowing rate applied. The Company estimates the incremental borrowing rate based on the lease term, collateral assumptions, and the economic environment in which the lease is denominated. Renewal options are only included if management is reasonably certain that the option will be renewed.

MyndTec Inc.

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month periods ended June 30, 2022 and 2021 (unaudited)

- ***Stock options and warrants***

The Company uses the Black-Scholes valuation model to determine the fair value of stock option awards granted and warrants granted in conjunction with the share capital subscriptions. The fair value of the warrants granted in conjunction with the issuance of convertible debentures were determined using the Black Scholes model. Estimates are required for inputs to this model including the fair value of the underlying shares, the expected life of the option, volatility, expected dividend yield, forfeiture rates and the risk-free interest rate. Variation in actual results for any of these inputs will result in a different value of the share option realized from the original estimate. The assumptions and estimates used are further outlined in the share capital note.

- ***Convertible debentures and embedded derivative***

Convertible debentures are compound financial instruments which are accounted for separately by their components: liabilities, equity and warrants. The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment by management. The separation of components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest or liability component. The determination of the fair value of the liability is also based on a number of assumptions including contractual future cash flows, discount rates, and presence of liabilities. Changes in the input assumptions can materially affect the fair value estimates and the Company's classification between debt and equity components.

- ***Fair value of financial instruments***

The individual fair values attributable to the different components of a financing transaction, notably loans and borrowings and convertible debentures are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine the values attributable to each component of a transaction at the time of their issuance. When determining the discount rate used to estimate the fair value of government loans, the Company considers market conditions and other internal and external factors as well as third-party financing agreements entered into by the Company. In determining the fair value of the Health Technology Exchange loan, the Company uses judgment to estimate the future loan repayments based on projected future revenue. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

- ***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.

MyndTec Inc.

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month periods ended June 30, 2022 and 2021 (unaudited)

2 Basis of presentation (continued)

Use of estimates and judgements (continued)

- **Revenue recognition**

The Company recognizes revenue on the transfer of promised services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services by applying the following steps:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations; and,
- recognize revenue when, or as, the Company satisfies a performance obligation.

Revenue represents the amount the Company expects to receive for products and services in its contracts with customers, net of discounts and sales taxes. The Company derives treatment revenue based upon the use of the Company's MyndMove devices by treatment clinics, as well as the sale of its products and supplies to research institutions and treatment clinics. Treatment revenue is recognized on a monthly basis as services are provided. The sale of its products and supplies is recognized when delivered to the customer and all performance obligations have been satisfied. The sale of extended warranties is deferred and recognized over the warranty period.

The Company recognizes revenue upon transfer of control of products or services to customers at an amount that reflects the consideration the Company expects to receive in exchange for the products or services transferred. The Company evaluates contracts with customers to determine the appropriate performance obligations for revenue recognition purposes based on whether the product or service is distinct from some or all of the other products or services in the arrangement. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. Non-distinct products and services are combined with other goods or services until they are distinct as a bundle and therefore form a single performance obligation.

The Company determines the transaction price at the outset of each arrangement and the total consideration is allocated to the distinct performance obligations based on their relative fair value. The Company has determined that the recurring services promised in a contract with a customer represent a series of distinct services that are substantially the same and have the same pattern of transfer over time to the customer and each delivery of service is accounted for as a single distinct performance obligation.

The timing of revenue recognition and the contractual payment schedules often differ, resulting in some contractual payments being billed prior to the commencement of service. These amounts that are billed, but not earned, are recognized as deferred revenue in the consolidated statements of financial position. When products or services have been transferred to customers and revenue has been recognized, but not billed, the Company recognizes and includes these amounts as unbilled trade receivables in the consolidated statements of financial position.

The Company has elected to apply the practical expedient to not adjust the total consideration over the contract term for the effect of a financing component if the period between the transfer of services to the customer and the customer's payment for these services is expected to be one year or less.

MyndTec Inc.

Notes to the Interim Condensed Consolidated Financial Statements For the six-month periods ended June 30, 2022 and 2021 (unaudited)

3 Trade and other receivables

The following is the aging of trade and other receivables as at June 30, 2022 and December 31, 2021:

	June 30 <u>2022</u>	December 31 <u>2021</u>
Trade receivables		
0 - 30 days	\$ 60,615	\$ 14,290
60-90 days	678	261,309
Over 90 days	-	2,369
	<u>\$ 61,293</u>	<u>\$ 277,968</u>
Commodity taxes	29,226	27,670
	<u>\$ 90,519</u>	<u>\$ 305,638</u>

4 Inventories

	June 30 <u>2022</u>	December 31 <u>2021</u>
Production parts and clinical supplies	\$ 151,872	\$ 160,699
Finished devices	140,033	140,033
	<u>\$ 291,905</u>	<u>\$ 300,732</u>

During the six-month period ended June 30, 2022, inventory of \$17,249 was recorded to cost of goods sold (2021 - \$26,882). During the six-month period ended June 30, 2022, the Company recognized \$ nil write down of inventory (2021 - \$nil).

5 Right-of-use asset and lease obligations

Changes in right-of-use asset and lease obligations for the six-month period ended June 30, 2022 and year ended December 31, 2021 are as follows:

Right of use asset

	June 30 <u>2022</u>	December 31 <u>2021</u>
Costs		
Balance - beginning of period	\$ 70,056	\$ 121,743
Office lease terminated on July 31, 2021	-	(121,743)
Office lease commenced on August 1, 2021	-	70,056
Balance - end of period	<u>70,056</u>	<u>70,056</u>
Accumulated depreciation		
Balance - beginning of period	9,730	93,443
Office lease terminated on July 31	-	(121,743)
Depreciation	11,676	38,030
Balance - end of period	<u>21,406</u>	<u>9,730</u>
Net book value - end of period	<u>\$ 48,650</u>	<u>\$ 60,326</u>

MyndTec Inc.

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month periods ended June 30, 2022 and 2021 (unaudited)

Lease obligations

	June 30 <u>2022</u>	December 31 <u>2021</u>
Balance - beginning of period	\$ 52,291	\$ 32,450
Office lease commenced on August 1, 2021	-	70,056
Interest expense (note 16)	3,004	5,877
Lease payments	(13,011)	(56,092)
Balance - end of period	<u>42,284</u>	<u>52,291</u>
Less current portion (note 8)	<u>26,964</u>	<u>26,450</u>
Long-term portion	<u>\$ 15,320</u>	<u>\$ 25,841</u>

The Company's right-of-use asset and lease obligations relate to the Company's office premises which was leased through July 2021 and, thereafter, a new three-year lease that commenced on August 1, 2021. The Company's fair value estimate of the new office lease addition and initial liability was \$70,056, utilizing an incremental borrowing rate of 13.5%. Variable lease payments for the six-month period ended June 30, 2022 were \$14,912 (2021 – \$14,309), recognized in general and administrative expenses in the consolidated statements of loss and comprehensive loss for the period.

6 Equipment

<u>Net Book Value</u>	Computers		Treatment	
	Software and Equipment	Tooling	Devices	Total
Balance, December 31, 2020	\$ 26,441	\$ 66,596	\$ 192,309	\$ 285,346
Additions during the period	-	-	56,013	56,013
Depreciation during the period	4,816	6,034	21,140	31,990
Balance, June 30, 2021	<u>21,625</u>	<u>60,562</u>	<u>227,182</u>	<u>309,369</u>
Additions during the period	1,754	2,439	4,238	8,431
Depreciation during the period	9,406	6,249	20,350	36,005
Balance, December 31, 2021	<u>13,973</u>	<u>56,752</u>	<u>211,070</u>	<u>281,795</u>
Depreciation during period	4,285	6,228	22,496	33,009
Balance, June 30, 2022	<u>\$ 9,688</u>	<u>\$ 50,524</u>	<u>\$ 188,574</u>	<u>\$ 248,786</u>
 <u>As at December 31, 2021</u>				
Cost	\$ 40,671	\$ 87,198	\$ 449,911	\$ 577,780
Accumulated depreciation	<u>26,698</u>	<u>30,446</u>	<u>238,841</u>	<u>295,985</u>
Net book value	<u>\$ 13,973</u>	<u>\$ 56,752</u>	<u>\$ 211,070</u>	<u>\$ 281,795</u>
 <u>As at June 30, 2022</u>				
Cost	\$ 40,671	\$ 87,198	\$ 449,911	\$ 577,780
Accumulated depreciation	<u>30,983</u>	<u>36,674</u>	<u>261,337</u>	<u>328,994</u>
Net book value	<u>\$ 9,688</u>	<u>\$ 50,524</u>	<u>\$ 188,574</u>	<u>\$ 248,786</u>

MyndTec Inc.

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month periods ended June 30, 2022 and 2021 (unaudited)

7 Deferred revenue

Deferred revenue relates to a four-year extended warranty on devices and was \$76,500 as at June 30, 2022 (December 31, 2021, \$85,000) of which \$21,250 will be recognized in the twelve-months following June 30, 2022.

These warranty revenues were received from the KITE Research Institute at the University Health Network, in Toronto, Canada, which is significantly influenced by a director of the Company (note 9).

8 Current portion of long-term liabilities

	June 30	December 31
	<u>2022</u>	<u>2021</u>
Payable in cash		
Deferred payment agreement (note 9)	\$ 326,500	\$ 27,500
Lease obligations (note 5)	26,964	26,450
Federal Economic Development Agency (note 10)	90,000	60,000
Health Technology Exchange (note 10)	12,711	69,030
Federal CEBA (note 10)	28,670	27,400
	<u>484,845</u>	<u>210,380</u>
To be settled by equity conversions		
Derivative and warrant liabilities (note 11)	-	354,292
Convertible debentures (note 11)	-	1,275,499
	<u>\$ 484,845</u>	<u>\$ 1,840,171</u>

9 Deferred payment agreement

	June 30	December 31
	<u>2022</u>	<u>2021</u>
Balance - beginning of period	\$ 339,000	\$ -
Deferral agreement established	-	339,000
Loan payments	(12,500)	-
Balance - end of period	326,500	339,000
Less current portion (note 8)	326,500	27,500
Long-term portion	<u>\$ -</u>	<u>\$ 311,500</u>

On December 31, 2021, the Company entered into an agreement with a supplier that is not a related party, which was made in settlement for amounts payable by the Company for services provided in 2021 and 2022 up to January 24, 2022. The agreement requires a commitment for payment as follows: i) \$590,835 paid on February 17, 2022, ii) \$42,500 payable at \$2,500 per month beginning February 1, 2022 through to June 1, 2023, and iii) \$296,500 due and payable on June 30, 2023. In the event the Company closes a private placement or public offering, the Company is required to pay down the outstanding balance as follows: i) if the offering is less than \$3 million, the payment will be 5% of the proceeds; ii) if the offering is \$3 million or more, the payment will be for the outstanding balance. Interest will accrue on the balance beginning January 24, 2022, at an annual rate equal to the Royal Bank of Canada prime rate plus 5%, calculated and compounded monthly. Conditional upon the Company respecting the payment terms, the interest will be waived.

As at December 31, 2021, the \$590,835 was recorded in trade and other payables.

As at June 30, 2022, the \$326,500 (December 31, 2021 - \$339,000) deferred payment agreement is recorded in long term liabilities, net of the \$326,500 (December 31, 2021, \$27,500) current portion.

MyndTec Inc.

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month periods ended June 30, 2022 and 2021 (unaudited)

10 Government loans

	June 30	December 31
	<u>2022</u>	<u>2021</u>
Federal Economic Development Agency (FEDA)	\$ 327,660	\$ 324,365
Health Technology Exchange (HTE)	402,261	399,604
Federal CEBA	28,670	27,400
	<u>758,591</u>	<u>751,369</u>
Less current portion (note 8)	131,381	156,430
Long-term portion	<u>\$ 627,210</u>	<u>\$ 594,939</u>

Federal Economic Development Agency of Southern Ontario (FEDA) loan

The FEDA loan is unsecured, non-interest bearing and provided initial financing of \$919,518. On December 3, 2021, the payment terms for this loan were amended and, as at June 30, 2022, the principal balance outstanding of this loan is \$437,242 (December 31, 2021 – \$467,242), due as follows:

The Company received the loan in tranches based on qualifying expenditures incurred. The Company initially determined the fair value of the loan based on the estimated future cash flows of the loan using a discount rate of 19.2%. During the six-month period ending June 30, 2022, the Company recognized \$33,295 (2021 – \$37,779) of interest and accretion expense (note 16) on this loan.

The payment terms of the loan were amended on December 3, 2021; extending the terms of repayment, and the loan was revalued using an effective interest rate of 19.2%. As a result, the Company recognized a gain on debt modification in the amount \$71,762 which is included in changes in fair value expense in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2021.

During the six-month period ended June 30, 2022, the Company made repayments of \$30,000 (2021 - \$30,000).

Health Technology Exchange (HTE) loan

The HTE loan is unsecured; bears interest at 3.1% per annum; is repayable based on 10% of certain preceding year gross revenue; and, provided initial financing of \$749,600. As at June 30, 2022, the principal balance outstanding on this loan is \$749,600 (December 31, 2021 – \$749,600), compared to the gross book value of the principal and interest payable as at June 30, 2022 of \$736,958 (December 31, 2021 - \$794,370). The amount of the loan payable in the following twelve-months is \$12,711 (December 31, 2021, \$69,030). During the six-month period ended June 30, 2022, the Company made a repayment of \$69,031 (2021 – \$45,604) and the Company recognized \$11,619 (2021 – \$11,619) of accretion expense on this loan.

The Company values the HTE loan at fair value at the end of each quarter, based on the estimated future cash flows of the loan using a discount rate of 20.0% and revenue growth rates between 10% and 20%. Therefore, the fair value of this loan is determined to be \$402,261 as at June 30, 2022 (December 31, 2021 - \$399,604), which resulted in the Company recording a fair value adjustment loss of \$60,069 included in change in fair value on the consolidated statements of comprehensive loss (2021 – \$114,547) (note 16).

Federal Canadian Emergency Business Account (CEBA) loan

The Federal CEBA loan is part of the Canadian federal government's support program in response to the COVID-19 pandemic, wherein the Company was able to obtain a \$40,000 non-interest-bearing loan due on or before December 31, 2022. If the Company fully repays the loan by the due date, \$10,000 of the loan will be forgiven.

On receipt of the loan in 2020, the Company determined the fair value of the loan based on the estimated future cash flows of the loan using a discount rate of 18.8%, which resulted in the Company recording income of \$16,265 that was included in government grants and tax credits on the consolidated statements of loss and comprehensive loss during that year.

During the six-month period ended June 30, 2022, the Company recognized \$1,270 (2021 – \$1,160) of accretion expense on this loan.

MyndTec Inc.

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month periods ended June 30, 2022 and 2021 (unaudited)

10 Government loans (continued)

Change in government loans

Changes in the government loans for the six-month period ended June 30, 2022 and year ended December 31, 2021 are as follows:

	June 30	December 31
	<u>2022</u>	<u>2021</u>
Balance - beginning of period	\$ 751,369	\$ 804,612
Loan payments	(99,031)	(155,605)
Accretion expense (note 16)	46,184	98,552
Fair value adjustment of government loans (note 16)	60,069	3,810
Balance - end of period	<u>758,591</u>	<u>751,369</u>
Less current portion (note 8)	<u>131,381</u>	<u>156,430</u>
Long-term portion	<u>\$ 627,210</u>	<u>\$ 594,939</u>

11 Convertible debentures

Changes in the convertible debentures for the six-month period ended June 30, 2022 and year ended December 31, 2021 are as follows:

	June 30	December 31
	<u>2022</u>	<u>2021</u>
Balance - beginning of period	\$ 1,275,499	\$ 1,060,382
Accretion expense (note 16)	22,807	215,117
Loss on conversion of convertible debentures (note 16)	129,217	-
Conversion to share capital (note 13)	<u>(1,427,523)</u>	<u>-</u>
Balance - end of period	<u>-</u>	<u>1,275,499</u>
Less current portion (note 8)	<u>-</u>	<u>1,275,499</u>
Long-term portion	<u>\$ -</u>	<u>\$ -</u>

The convertible debentures were determined to have completed a qualified transaction on February 4, 2022 and were converted to share capital at a 25% premium to their book value (note 13).

On May 19, 2020, the Company issued unsecured convertible debentures with a maturity date of December 31, 2022, in an aggregate principal amount of \$1,250,000. Interest accrued at a fixed annual interest rate of 8%, compounded annually and was payable on the maturity date. When converted, these convertible debentures and accrued interest convert into common shares at the fair market value of the respective common shares at the date of conversion, as determined by the Board, unless the conversion is a result of a qualified financing. On the occurrence of a qualified financing, the convertible debentures and accrued interest convert at a price per security equal to 80% of the price per security issued in the qualified financing. The convertible debenture was recorded at amortized cost using the effective interest rate of 18.4%. The fair value of the conversion option was determined to be \$304,236 on issuance, using a discount rate of 1%, probability of 95% and expected timing of a qualified financing of June 2021.

MyndTec Inc.

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month periods ended June 30, 2022 and 2021 (unaudited)

11 Convertible debentures (continued)

As at December 31, 2021, the fair value of the conversion option was determined to be \$354,292 using a discount rate of nil%, probability of 100% and expected timing of qualified financing of February 2022. On February 4, 2022 a fair value expense of \$2,587 was recorded and on February 7, 2022 the convertible debentures were converted into share capital (note 13).

Derivative and warrant liabilities

The embedded derivative and warrant liabilities (note 13) related to the convertible debentures are as follows:

	Conversion		
	Option	Warrants	Total
Balance - December 31, 2020	\$ 324,731	\$ 18,966	\$ 343,697
Fair value loss or (gain)	29,561	(18,966)	10,595
Balance - December 31, 2021	354,292	-	354,292
Fair value loss (note 16)	2,586	-	2,586
Conversion to share capital (note 13)	(356,878)	-	(356,878)
Balance - June 30, 2022	\$ -	\$ -	\$ -

12 Related party balances and transactions

During the six-month periods ended June 30, 2022 and 2021, the Company recognized treatment revenues from LBB Applied Technology Inc., a shareholder of the Company and key distributor for the Company in the United States.

The Company has a shareholder and director, who is employed by the KITE Research Institute at the University Health Network in Toronto, Canada (KITE), an Institution over which he has significant influence and to which the Company is committed to a long-term license agreement (note 19), requiring the semi-annual payment of royalty fees. In addition, the Company has entered into contracts with this Institution to sell MyndMove devices, which have been modified for research purposes; and to purchase research and development (R&D) services.

In 2017, the Board approved the remuneration of a director, related to interim CEO services provided to the Company in addition to his role as director. As at June 30, 2022 and December 31, 2021, the entire \$75,000 amount remains unpaid and is included in trade and other payables.

\$1,807,500 of the \$2,954,302 in private placement funds raised in 2021, as described in note 13, was from directors, officers and a significant shareholder.

MyndTec Inc.

Notes to the Interim Condensed Consolidated Financial Statements For the six-month periods ended June 30, 2022 and 2021 (unaudited)

12 Related party transactions (continued)

A summary of the Company's related party transactions follows:

	<u>June 30</u> <u>2022</u>	<u>June 30</u> <u>2021</u>	<u>December 31</u> <u>2021</u>
Revenue during the six months ended			
Treatment revenues	\$ 92,149	\$ 46,694	
	<u>\$ 92,149</u>	<u>\$ 46,694</u>	
Expenses during the six months ended			
Share-based compensation for directors and senior officers	\$ 62,294	\$ (8,216)	
Salaries, fees and benefits for directors and senior officers	285,316	527,748	
License fees	5,084	4,234	
R&D services	-	148,635	
	<u>\$ 352,694</u>	<u>\$ 672,401</u>	
Assets - as at the date specified			
Accounts receivable for treatment revenues	\$ 7,736		\$ 15,147
Liabilities - as at the date specified			
Due to director for pre-2020 compensation	\$ 75,000		\$ 75,000
License fees payable	\$ 5,084		\$ 9,757
Deferred revenue	\$ 76,500		\$ 85,000

13 Share capital, warrants and stock options

The Company is authorized to issue an unlimited number of common shares.

	<u>Common</u> <u>Shares</u>	<u>Warrants</u>	<u>Stock</u> <u>Options</u>	<u>Fully</u> <u>Diluted</u> <u>Total</u>
Balance, December 31, 2020	15,730,737	2,146,152	1,007,858	18,884,747
Rights forfeited or expired	-	(2,146,152)	(620,358)	(2,766,510)
Share subscription	1,369,059	1,259,535	-	2,628,594
Options issued	-	-	500,000	500,000
Balance, June 30, 2021	17,099,796	1,259,535	887,500	19,246,831
Options issued	-	-	100,000	100,000
Balance, December 31, 2021	17,099,796	1,259,535	987,500	19,346,831
Rights forfeited or expired	-	-	(117,500)	(117,500)
Options issued	-	-	250,000	250,000
Private placement	2,954,302	2,954,302	-	5,908,604
Conversion of convertible debentures	1,784,402	1,784,402	-	3,568,804
Balance, June 30, 2022	21,838,500	5,998,239	1,120,000	28,956,739

MyndTec Inc.

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month periods ended June 30, 2022 and 2021 (unaudited)

13 Share capital, warrants and stock options (continued)

Second Private placement transaction and public company listing

On December 10, 2021, the Company completed a second private financing, for a total of \$2,954,302 of which \$594,860 was received by the Company and the balance remains in escrow. The subscribers received 2,954,302 subscription receipt units, with the expectation that these will be exchanged for 2,954,302 common shares of the Company and 2,954,302 warrants to acquire common shares of the Company at \$1.00. The warrants will expire sixty months following the date that the subscription receipts are exchanged.

Of the \$2,954,302 in proceeds, \$594,860 had been received out of escrow by the Company and was recorded as deposits for future share financings in long-term liabilities. The remaining \$2,359,442 was received by the Company, from the Escrow Trustee, on February 18, 2022. Of the \$2,852,598 in net proceeds, \$1,062,662 was allocated to the value of the warrants issued, based on a Black Scholes valuation of the warrants with an exercise price of \$1.00; an estimated \$0.65 value of common shares; a volatility rate of 80.8%; an expected 5-year life for the warrants; and a risk-free interest rate of 1.31%. Offsetting those amounts allocated to share capital and contributed surplus, the Company incurred \$101,705 of share issue costs that were recorded in prepaid expenses and deposits as at December 31, 2021.

The exchange of the subscription receipts units into common shares and warrants was conditional on the Company obtaining conditional listing approval on a stock exchange in Canada by February 28, 2022. The conditional listing was accomplished on February 16, 2022. On February 17, 2022, the Company exchanged each share subscription receipt into one (1) common share and (1) warrant at \$1.00 that will expire sixty months following the date of such approval.

Total listing costs were approximately \$1,270,000 of which \$1,095,940 was recorded in the Company's consolidated statement of loss and comprehensive loss, as at December 31, 2021.

Conversion of Convertible debentures

The secondary private placement created a qualified financing, as defined in the convertible debenture agreements, for the Company's existing convertible debentures. Effective February 4, 2022, the Company's outstanding convertible debentures and accumulated interest and the related conversion liability (note 11), amounting to \$1,784,402, were converted into 1,784,402 subscription receipt units at \$0.80 per subscription receipt unit. Of the \$1,784,402 in total proceeds, \$641,849 was allocated to the value of the warrants issued, based on a Black Scholes valuation of the warrants with an exercise price of \$1.00; an estimated \$0.65 value of common shares; a volatility rate of 80.8%; an expected 5-year life for the warrants; and a risk-free interest rate of 1.31%.

First Private Placement

On May 3, 2021, the Company completed a private financing transaction, led by Company investors, wherein the Company raised \$1,259,535 of share capital proceeds, entirely from existing shareholders. This financing resulted in the issuance of 1,369,059 common shares at a price of \$0.92 and 1,259,535 common share warrants with an exercise price of \$1.06 and expiration date of May 3, 2023.

- \$285,184 of the proceeds less share issue costs were allocated to the value of the warrants, based on a Black Scholes valuation as described below.
- \$375,000 of the proceeds were received by December 31, 2020 and are recorded in the Company's December 31, 2020 consolidated statement of financial position as deposits for future share financings.
- \$59,134 of share issue costs were incurred in respect of these financings, of which \$45,785 was recorded in the December 31, 2020 consolidated statement of financial position as part of prepaid expenses and deposits.

Warrants and Options

On June 30, 2022, the Company had 1,259,535 of fully vested warrants outstanding, exercisable into one common share per warrant at an exercise price of \$1.06, that expire on May 3, 2023.

On June 30, 2022, the Company had 1,120,000 options outstanding, with a weighted average exercise price of \$0.93 and weighted average remaining life of 7.93 years. 465,000 of the 1,120,000 options are fully vested.

MyndTec Inc.

Notes to the Interim Condensed Consolidated Financial Statements For the six-month periods ended June 30, 2022 and 2021 (unaudited)

13 Share capital, warrants and stock options (continued)

Share-based compensation

The Company has issued the following options since December 31, 2020:

	<u>2022</u>		<u>2021</u>	
	<u>May 3</u>	<u>March 1</u>	<u>August 16</u>	<u>June 1</u>
Options	200,000	50,000	100,000	500,000
Exercise Price	\$0.95	\$1.00	\$1.00	\$1.00
Estimated share price value	\$0.95	\$0.95	\$0.71	\$0.71
Volatility	80.80%	80.80%	78.80%	78.80%
Expected life in years	5	5	7	7
Risk-free interest rate	2.93%	1.62%	1.41%	1.41%
Dividend yield	nil	nil	nil	nil
Estimated value per option	\$0.627	\$0.607	\$0.474	\$0.474
Total Valuation	\$125,382	\$30,354	\$47,395	\$236,976

14 Breakdown of expenses by nature

	<u>2022</u>	<u>2021</u>
Salaries and benefits (note 15)	\$ 206,851	\$ 459,860
Accounting, legal and professional fees	156,498	200,075
Technology expense	32,752	25,310
Additional rent	14,912	14,309
Insurance	60,076	18,011
Other expenses	13,482	27,206
Total general and administration expenses	<u>\$ 484,571</u>	<u>\$ 744,771</u>
Salaries and benefits (note 15)	\$ 173,712	\$ 181,522
Patent expenses	38,140	38,039
Other development expenses	17,805	223,983
Total research and development expenses	<u>\$ 229,657</u>	<u>\$ 443,544</u>

15 Salaries and benefits (note 12)

	<u>2022</u>	<u>2021</u>
General and administration (note 14)	\$ 206,851	\$ 459,860
Research and development (note 14)	173,712	181,522
Selling and marketing	33,406	34,503
Clinical trial (note 18)	79,760	43,175
	<u>\$ 493,729</u>	<u>\$ 719,060</u>

MyndTec Inc.

Notes to the Interim Condensed Consolidated Financial Statements

For the six-month periods ended June 30, 2022 and 2021 (unaudited)

16 Interest and accretion expense and changes in fair value

	<u>2022</u>	<u>2021</u>
FEDA loan (note 10)	\$ 33,295	\$ 37,779
CEBA loan (note 10)	1,270	1,160
HTE loan (note 10)	11,619	11,619
Total for government loans	<u>46,184</u>	<u>50,558</u>
Lease obligations (note 5)	3,004	2,400
Convertible debentures (note 11)	<u>22,807</u>	<u>101,719</u>
Total accretion expense	71,995	154,677
Short term interest	<u>(3,628)</u>	<u>4</u>
Total interest and accretion expense	<u>\$ 68,367</u>	<u>\$ 154,681</u>
Government loan - FEDA	\$ -	\$ -
Government loan - HTE	<u>60,069</u>	<u>114,547</u>
Total for government loans (note 10)	60,069	114,547
Convertible debenture conversion liabilities (note 11)	2,586	11,327
Loss on conversion of convertible debentures (note 11)	129,217	-
Warrant liabilities (note 13)	<u>-</u>	<u>(18,966)</u>
Total change in fair value	<u>\$ 191,872</u>	<u>\$ 106,908</u>

17 Government grants and tax credits

Scientific research and experimental development tax credits

The Company periodically makes claims for SR&ED deductions and related expenses for income tax purposes, based on management's interpretation of the applicable legislation in the Income Tax Act (Canada). No SR&ED credits were received in the six-month periods ended June 30, 2022 or 2021. The Company's SR&ED claim for the year ended December 31, 2021 is expected to be received before December 31, 2022.

On February 16, 2022, when the Company became publicly listed, it no longer qualifies for cash refundable SR&ED credits from that date forward, which will cause the Company's net research and development expenses to increase.

18 Clinical trial

The Company is party to an arrangement funded by the United States Department of Defense, for a total of US\$2,014,378, wherein the Company is responsible to manage a clinical trial of its MyndMove device. The Company has no obligation as to the outcome of this trial and is eligible to recover all costs of the participating clinics and supervising clinic once the respective funds have first been received from the US Federal Government. This trial was completed on July 28, 2022.

19 Commitments and contingencies

On August 29, 2012, the Company entered into an agreement with a health services institution whereby it granted the Company an exclusive worldwide license to commercialize certain intellectual property related to a functional electrical stimulation device and system; for which the Institution received 400,000 of the Company's common shares, with a fair value of \$400,000. In addition, the Company is committed to paying a cumulative royalty on the net sales of stimulators used to treat motor dysfunction, as follows:

- 0% on the first \$1,000,000 cumulative net sales;
- 4% on the cumulative net sales exceeding \$1,000,000 but not greater than \$7,500,000; and,
- 1% on the cumulative net sales exceeding \$7,500,000.

During the six-month period ended June 30, 2022, the Company accrued license fees of \$5,084 (2021 - \$4,234).

The Company's lease commitments are disclosed in note 5.

MyndTec Inc.

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20 Capital management

The Company's capital management objectives are to maintain financial flexibility to pursue its product development and commercialization strategy, and ultimately provide long-term returns to its shareholders. This strategy relies significantly on the Company's ability to demonstrate growing efficacy creation in its medical devices, to convince potential investors to invest more capital in the Company's development efforts.

The Company defines capital as the aggregate of its share capital and borrowings. The Company manages its capital structure in accordance with changes in economic conditions. To maintain or adjust its capital structure, the Company may elect to issue or repay financial liabilities, issue shares, repurchase shares, pay dividends or undertake any other activities as deemed appropriate under the specific circumstances. The Company is not subject to any externally imposed capital requirements. Management reviews its capital management approach on an ongoing basis. There were no material changes to this approach during the period ended June 30, 2022.

21 Financial instruments and risk management

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from deposits with banks and outstanding receivables. The Company trades only with recognized, creditworthy third parties. The Company performs credit checks for all customers who wish to trade on credit terms.

The Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

Credit loss impairment is determined based upon review of specific accounts as the Company does not have significant historical uncollectable receivables. As at June 30, 2022, the Company had \$nil in overdue trade and other receivables (December 31, 2021 – \$2,369).

Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they come due. The Company's exposure to liquidity risk is dependent on the Company's ability to raise additional financing to meet its commitments and sustain operations. The Company mitigates liquidity risk by management of working capital, cash flows, the issuance of share capital and if desired, the issuance of debt. The Company's trade and other payables are all due within twelve months from the date of these consolidated financial statements.

If unanticipated events occur that impact the Company's ability to meet its forecast and continue to fund customer acquisition cost, research and development, and administrative requirements, the Company may need to take additional measures to increase its liquidity and capital resources, including obtaining additional debt or equity financing or strategically altering the business forecast and plan. In this case, there is no guarantee that the Company will obtain satisfactory financing terms or adequate financing. Failure to obtain adequate financing on satisfactory terms could have a material adverse effect on the Company's results of operations or financial condition.

The Company is obligated to the following contractual maturities of undiscounted cash flows as at June 30, 2022:

	Payments Due			Total
	Less than 1 year	2 - 3 years	After 3 years	
Trade and other payables	\$ 457,388	\$ -	\$ -	\$ 457,388
Deferred payment agreement	326,500	-	-	326,500
Office lease - base rent and common area	26,964	15,320	-	42,284
Government loans (undiscounted)	132,711	471,426	600,064	1,204,201
	<u>\$ 943,563</u>	<u>\$ 486,746</u>	<u>\$ 600,064</u>	<u>\$ 2,030,373</u>

Notes to the Interim Condensed Consolidated Financial Statements

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21 Financial instruments and risk management (continued)

Market risk

Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk:

- **Foreign currency risk** arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Company's primary exposure with respect to foreign currencies is from United States dollar denominated cash, trade and other receivables, and trade and other payables. As at June 30, 2022, a 1% change in the foreign exchange rates would result in a \$658 impact to the consolidated financial statements (December 31, 2021 - \$568).
- **Interest rate risk** is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk because its indebtedness is at fixed rates.
- **Other price risk** is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to other price risk.

Fair values

The carrying values of cash, trade and other receivables excluding HST, trade and other payables excluding HST, and lease obligations are considered representative of their respective fair values due to the short-term period to maturity. The convertible debentures, deferred payment agreement and FEDA and CEBA Government loans approximate their fair value as the interest and discount rates are consistent with the current rates offered by the Company for its loans with similar terms. The Company does not use derivative financial instruments to manage this risk.

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest-level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

- **Level 1** – Unadjusted quoted prices as at the measurement date for identical assets or liabilities in active markets.
- **Level 2** – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- **Level 3** – Significant unobservable inputs that are supported by little or no market activity. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. During the period, there were no transfers of amounts between levels. The fair value of derivative and warrant liabilities and HTC government loan are determined using level 3 inputs.

Financial instruments measured at fair value using level 3 inputs:

	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value
Derivative liabilities	Probability weighted discounted cash flow (note 11)	- Discount rate - Expected timing and probability of qualified transaction	An increase in the probably or earlier expected date of Qualified Financing would increase the fair value of the derivative liability.
Warrant liabilities	Black Scholes (note 11)	- Share price - Volatility	An increase in share price or volatility would increase the fair value of the warrant liabilities.
HTC government loan	Discounted cash flows (note 10)	- Discount rate - Expected timing of repayments based on revenue forecast	An increase revenue growth or decrease in discount rate would increase the fair value of the HTC government loan.

MyndTec Inc.

Notes to the Interim Condensed Consolidated Financial Statements

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22 Segmented information

The Company reports segment information based on internal reports used by the chief operating decision maker (“CODM”) to make operating and resource decisions and to assess performance. The CODM is the Chief Executive Officer.

The Company has revenues from sales in Canada and to the United States and has one operating segment which includes income related to its MyndMove device and a variation of that device, called MyndSearch, which has been modified for research purposes. The two types of revenue that are earned from MyndMove include: (1) treatment fees, from treatment clinics that use the Company’s MyndMove devices and (2) product sales, which are revenues from the sale of MyndMove or MyndSearch devices to clinics or research institutions and the sale of treatment supplies.

All treatment devices are located in Canada, except for two devices located in the United States. In the six months ended June 30, 2022 there was a sale of one device (2021 nil), which was shipped to the United States. Revenues by geographical location and by services and products delivered, for the six months ended June 30, 2022 and 2021, were as follows:

	<u>2022</u>	<u>2021</u>
Revenue by geographic location of customers		
Canada	\$ 43,590	\$ 59,298
United States	92,149	46,694
	<u>\$ 135,739</u>	<u>\$ 105,992</u>
Revenue by services and products delivered		
Treatment fees	\$ 79,507	\$ 105,860
Product sales	56,100	-
Other	132	132
	<u>\$ 135,739</u>	<u>\$ 105,992</u>