



Psyched Wellness Ltd.

Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended May 31, 2021 and 2020

(Expressed in Canadian Dollars)

Notice to Reader

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

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of the management of Psyched Wellness Ltd.

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

Psyched Wellness Ltd.

Unaudited Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

		As at May 31, 2021	As at November 30, 2020
	Notes	\$	\$
<u>Assets</u>			
Current Assets			
Cash		6,473,382	2,059,776
Accounts receivable	5	184,455	150,244
Prepaid expenses	6	506,966	552,247
Total Current Assets		7,164,803	2,762,267
Goodwill	4	448,611	448,611
Total Assets		7,613,414	3,210,878
<u>Liabilities</u>			
Accounts payable and accrued liabilities	7,11	46,727	34,847
Total Liabilities		46,727	34,847
<u>Shareholders' Equity</u>			
Share capital	9	20,344,670	16,902,091
Contributed surplus	9	1,636,529	1,090,334
Reserve for warrants	10	3,302,535	117,383
Accumulated deficit		(17,717,047)	(14,933,777)
Total Shareholders' Equity		7,566,687	3,176,031
Total Liabilities and Shareholders' Equity		7,613,414	3,210,878
Nature of operations and going concern	1		
Contingencies	14		
Subsequent events	16		

Approved on behalf of the Board of Directors:

"Jeffrey Stevens"

Jeffrey Stevens, Director

"Janeen Stodulski"

Janeen Stodulski, Director

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

Psyched Wellness Ltd.

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the Three and Six Months Ended May 31, 2021 and 2020
(Expressed in Canadian Dollars)

		Three months ended May 31, 2021	Three months ended May 31, 2020	Six months ended May 31, 2021	Six months ended May 31, 2020
	Notes	\$	\$	\$	\$
Expenses					
Advertising and promotion		480,750	6,626	913,689	9,126
Stock-based compensation	9,11	486,504	-	692,899	-
Management salaries and consulting fees	11	224,937	108,991	610,298	108,991
Professional fees	11	117,274	85,179	271,850	95,487
Research costs		111,061	-	150,948	-
Office and general		34,231	4,206	94,632	5,829
Regulatory compliance		9,546	10,796	32,815	11,001
Interest on debt settlement		-	7,783	-	7,783
Total Expenses		(1,464,303)	(223,581)	(2,767,131)	(238,217)
Other Losses					
Property taxes		(412)	-	(3,701)	(139)
Interest on promissory notes		-	(81)	-	(740)
Gain on debt settlement	11	-	78,182	-	78,182
Promissory notes interest – related party	11	-	155	-	155
Foreign exchange loss		(7,280)	(831)	(12,438)	(1,658)
Total Other Losses		(7,692)	77,425	(16,139)	75,800
Net Loss and Comprehensive Loss		(1,471,995)	(146,156)	(2,783,270)	(162,417)
Weighted Average Number of Outstanding Shares					
- Basic		129,546,723	28,969,210	118,988,302	17,314,586
- Diluted		133,714,661	28,969,210	123,156,220	17,314,586
Loss per Share					
- Basic and diluted	8	(0.011)	(0.005)	(0.023)	(0.009)

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

Psyched Wellness Ltd.

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the Six Months Ended May 31, 2021 and 2020

(Expressed in Canadian Dollars)

		Number of Shares	Share Capital	Shares to be Issued	Contributed Surplus	Reserve for Warrants	Accumulated Deficit	Total
	Notes	#	\$	\$	\$	\$	\$	\$
Balance, November 30, 2019		5,531,881	12,046,131	-	400,293	-	(12,861,019)	(414,595)
Issuance of shares from Seed Financing	8	33,500,000	670,000	-	-	-	-	670,000
Issuance of shares on debt settlement	8	7,050,090	141,002	-	-	-	-	141,002
Issuance of shares on share exchange agreement	4	18,000,000	360,000	-	-	-	-	360,000
Issuance of shares from Series A Financing	8	16,370,000	1,637,000	135,000	-	-	-	1,772,000
Share issuance costs	8,10	-	(99,207)	-	-	32,983	-	(66,224)
Net loss for the period		-	-	-	-	-	(162,417)	(162,417)
Balance, May 31, 2020		80,451,971	14,754,926	135,000	400,293	32,983	(13,023,436)	2,299,766
Balance, November 30, 2020		104,512,930	16,902,091	-	1,090,334	117,383	(14,933,777)	3,176,031
Issuance of shares from private placement	8	21,300,000	3,930,231	-	-	2,672,769	-	6,603,000
Issuance of agent units from private placement	8	1,095,365	202,114	-	-	137,449	-	339,563
Issuance of broker warrants from private placement	8	-	-	-	-	1,287,542	-	1,287,542
Share issuance costs	8,10	-	(1,239,959)	-	-	(843,239)	-	(2,083,198)
Stock-based compensation	9	-	-	-	692,899	-	-	692,899
Exercise of stock options	8,9	1,787,000	347,904	-	(146,704)	-	-	201,200
Exercise of broker warrants	8,10	1,329,200	202,289	-	-	(69,369)	-	132,920
Net loss for the period		-	-	-	-	-	(2,783,270)	(2,783,270)
Balance, May 31, 2021		130,024,495	20,344,670	-	1,636,529	3,302,535	(17,717,047)	7,566,687

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

Psyched Wellness Ltd.

Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the Six Months Ended May 31, 2021 and 2020
(Expressed in Canadian Dollars)

		Six months ended May 31, 2021	Six months ended May 31, 2020
	Notes	\$	\$
<u>Operating Activities</u>			
Net loss for the period		(2,783,270)	(162,417)
Adjustments for non-cash items:			
Stock-based compensation	9	692,899	-
Gain on debt settlement	11	-	(78,182)
Interest on promissory notes		-	740
Promissory notes interest – related party	11	-	(155)
		(2,090,371)	(240,014)
Net change in non-cash working capital items:			
Accounts receivable		(34,211)	(38,962)
Prepaid expenses		45,281	(185,400)
Accounts payable and accrued liabilities	7	11,880	161,062
Cash Flows (used in) Operating Activities		(2,067,421)	(303,314)
<u>Financing Activities</u>			
Advances received on promissory notes		-	10,000
Proceeds from private placements	8	6,603,000	2,307,000
Issuance costs paid on private placements	8	(456,093)	(63,440)
Proceeds from subscriptions	8	-	135,000
Proceeds from exercise of stock options	8,9	201,200	-
Proceeds from exercise of broker warrants	8,10	132,920	-
Payments on debt settlement		-	(138,008)
Loans made to Psyched Wellness Corp.	11	-	(117,521)
Cash Flows provided by Financing Activities		6,481,027	2,133,031
Increase in cash		4,413,606	1,829,717
Cash, beginning of period		2,059,776	1,471
Cash, end of period		6,473,382	1,831,188
<u>Supplemental Information</u>			
Commissions from private placement paid in Units	8	141,473	-
Corporate finance fees from private placement paid in Units	8	198,090	-
Settlement of debts with issuance of shares	8,11	-	142,002

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

Psyched Wellness Ltd.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Six Months Ended May 31, 2021 and 2020
(Expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

Psyched Wellness Ltd. (“Psyched Wellness” or the “Company”) is incorporated in the Province of Ontario, Canada. Psyched Wellness is a Canadian-based health supplements company dedicated to the distribution of mushroom-derived products and associated consumer packaged goods. The Company’s objective is to create premium mushroom-derived products that have the potential to become a leading North American brand in the emerging functional food category. The Company is in the process of developing a line of Amanita Muscaria-derived water-based extracts, teas and capsules designed to help with three health objectives: (i) promote stress relief, (ii) relaxation and (iii) assist with restful sleeping.

The Company’s common shares are listed on the Canadian Securities Exchange (the “CSE”) under the ticker symbol “PSYC”. The Company’s shares are also listed in the United States (the “U.S.”) on the OTCQB® Venture Market under the ticker symbol “PSYCF”, and in Germany on the Frankfurt Stock Exchange under the ticker symbol “5U9”.

The Company’s registered address is 77 King Street West, Suite 3000, Toronto, Ontario, M5K 1G8, Canada.

The business of distributing mushroom-derived health supplements and wellness products involves a high degree of risk, and there is no assurance that any prospective project in the psychedelic industry will be successfully initiated or completed. Further, regulatory evolution and uncertainty may require the Company to alter its business plan and make further investments to react to regulatory changes.

These unaudited condensed interim consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of operations. The application of the going concern basis is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or, in the absence of adequate cash flows from operations, obtaining additional financing to support operations for the foreseeable future. It is not possible to predict whether financing efforts will continue to be successful in the future or if the Company will attain profitable levels of operations. The unpredictability of the psychedelic business, and the continued evolution of the COVID-19 pandemic also represent material uncertainties which may cast doubt on the Company’s ability to continue as a going concern.

These unaudited condensed interim consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

2. Basis of Presentation

(a) Statement of Compliance

The unaudited condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standards 34 – Interim Financial Reporting (“IAS 34”).

These unaudited condensed interim consolidated financial statements were reviewed, approved, and authorized for issuance by the Board of Directors (the “Board”) of the Company on July 28, 2021.

(b) Basis of Measurement

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS, on the historical cost basis. In addition, these unaudited condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Psyched Wellness Ltd.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Six Months Ended May 31, 2021 and 2020
(Expressed in Canadian Dollars)

2. Basis of Presentation (continued)

(c) Basis of Consolidation

These unaudited condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Psyched Wellness Corp. ("Psyched Corp."). The unaudited condensed interim consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiary after eliminating inter-entity balances and transactions.

(d) Functional Currency

These unaudited condensed interim consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company and its subsidiary, unless otherwise noted. The functional currency is the currency of the primary economic environment in which the Company operates.

(e) Significant Accounting Judgments and Estimates

The preparation of these unaudited condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue, and expenses. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue, and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. These estimates are reviewed periodically, and adjustments are made as appropriate in the period they become known. Items for which actual results may differ materially from these estimates are described as follows:

Going concern

At each reporting period, management exercises judgment in assessing the Company's ability to continue as a going concern by reviewing the Company's performance, resources and future obligations.

Fair value of financial assets and financial liabilities

Fair value of financial assets and financial liabilities on the consolidated statements of financial position that cannot be derived from active markets, are determined using a variety of techniques including the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include, but are not limited to, consideration of model inputs such as volatility, estimated life and discount rates.

Business combination

In a business acquisition, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the acquisition date at their respective fair values. The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree – the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. Management exercises judgment in considering all pertinent facts and circumstances in identifying the acquisition date.

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or asset acquisition can have a significant impact on the entries made on and after acquisition. In determining the fair value of all identifiable assets, liabilities and contingent liabilities acquired, the most significant estimates relate to contingent consideration and intangible assets. Management also exercises judgement in estimating the probability and timing of when earn-outs are expected to be achieved which is used as the basis for estimating fair value.

Psyched Wellness Ltd.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Six Months Ended May 31, 2021 and 2020
(Expressed in Canadian Dollars)

2. Basis of Presentation (continued)

(e) Significant Accounting Judgments and Estimates (continued)

Business combination (continued)

For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

Goodwill

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill has been impaired, the groups of assets (each a “Cash-Generating Unit or a “CGU”) to which goodwill has been allocated must be valued using present value techniques. The Company assesses impairment by comparing the recoverable amount of a long-lived asset, CGU, or CGU group to its carrying value. The recoverable amount is defined as the higher of: (i) value in use; or (ii) fair value less cost to sell. The determination of the recoverable amount involves significant estimates and assumptions. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

Warrants and options

Warrants and options are initially recognized at fair value, based on the application of the Black-Scholes pricing model (“Black-Scholes”). This pricing model requires management to make various assumptions and estimates which are susceptible to uncertainty, including the expected volatility of the share price, expected forfeitures, expected dividend yield, expected term of the warrants or options, and expected risk-free interest rate.

Income taxes

Income taxes and tax exposures recognized in the consolidated financial statements reflect management’s best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

3. Summary of Significant Accounting Policies

The accounting policies applied by the Company in these unaudited condensed interim consolidated financial statements are the same as those noted in the Company’s audited consolidated financial statements for the year ended November 30, 2020, unless otherwise noted below.

(a) Adoption of New Accounting Policies

The Company adopted the following amendments, effective December 1, 2020. The changes were made in accordance with the applicable transitional provisions:

Psyched Wellness Ltd.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Six Months Ended May 31, 2021 and 2020
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3. Summary of Significant Accounting Policies (continued)

(a) Adoption of New Accounting Policies (continued)

IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”)

IAS 1 and IAS 8 were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after December 1, 2020. The Company had assessed that there was no material impact upon adoption of these amendments on its unaudited condensed interim consolidated financial statements.

(b) Recent Accounting Pronouncements

At the date of authorization of these unaudited condensed interim consolidated financial statements, the IASB and the IFRS Interpretations Committee have issued the following amendments which are effective for annual periods beginning on or after December 1, 2021. Many are not applicable or do not have a significant impact to the Company and have been excluded. The Company is currently assessing the impact upon the adoption of the following amendments on its unaudited condensed interim consolidated financial statements:

Amendments to IAS 1

In January 2020, the IASB issued amendments to IAS 1 which clarify the requirements for classifying liabilities as either current or non-current by: (i) specifying that the conditions which exist at the end of the reporting period determine if a right to defer settlement of a liability exists; (ii) clarifying that settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services; (iii) clarifying that classification is unaffected by management’s expectation about events after the balance sheet date; and (iv) clarifying the classification requirements for debt an entity may settle by converting it into equity.

The amendments clarify existing requirements, rather than make changes to the requirements, and so are not expected to have a significant impact on an entity’s financial statements. However, the clarifications may result in reclassification of some liabilities from current to non-current or vice-versa, which could impact an entity’s loan covenants. Because of this impact, the IASB has provided a longer effective date to allow entities to prepare for these amendments. In July 2020, the IASB issued an amendment to defer the effective date of the amendments by one year from its originally planned effective date to annual periods beginning on or after January 1, 2023 due to the impact of COVID-19. Early application is permitted.

4. Business Combination

On May 5, 2020, the Company entered into a share exchange agreement (the “Share Exchange Agreement”) pursuant to which the Company acquired 100% of the issued and outstanding shares of Psyched Corp. from holders of Psyched Corp. shares (the “Share Exchange”). Psyched Corp. is a private corporation incorporated pursuant to the Canadian Business Corporations Act on January 8, 2019 as “Sushego Ltd.”, which filed articles of amendment on March 25, 2020 to change its name to “Psyched Wellness Corp”. Upon closing of the Share Exchange, Psyched Corp. became a wholly-owned subsidiary of the Company. The Company determined that the Share Exchange was a business combination in accordance with the definition of IFRS 3 – Business Combination, and as such, has accounted for it in accordance with this standard, with the Company being the acquirer on the closing date.

The purchase price for the Share Exchange was \$360,000 and was satisfied in full by the Company issuing to Psyched Corp. shareholders an aggregate of 18,000,000 common shares. The purchase price and other terms of the Share Exchange Agreement were negotiated at arm’s length with the Board of the Company and Psyched Corp. The Share Exchange has allowed the Company to capitalize and position itself to participate in the growing psychedelic space.

Psyched Wellness Ltd.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Six Months Ended May 31, 2021 and 2020
(Expressed in Canadian Dollars)

4. Business Combination (continued)

Purchase Price Allocation

The following table summarizes the final purchase price allocation of the Share Exchange:

Purchase Price Consideration Paid	
	\$
Fair value of common shares issued	360,000
Fair value of settlement of pre-existing balance	117,676
Total consideration paid	477,676
Net Identifiable Asset Acquired	
Accounts receivable	19,868
Prepaid expenses	30,600
Accounts payable and accrued liabilities	(21,403)
Total net identifiable assets acquired	29,065
Goodwill	448,611

Total consideration of \$477,676 paid on the Share Exchange is comprised of the following components that were measured at the estimated fair value on the closing date:

- (i) The fair value of the 18,000,000 common shares, issued to holders of Psyched Corp. shares, was determined to be \$360,000 based on the fair value of founders' shares issued on April 23, 2020.
- (ii) The effective settlement of a pre-existing liability related to the promissory note to the Company by Psyched Corp. of \$117,676, including interest of \$155.

The estimated fair value of the net assets acquired do not include any intangible assets.

Goodwill of \$448,611 recognized on the consolidated statements of financial position in connection with the Share Exchange is primarily attributable to the assembled skills and expertise of Psyched Corp.'s management and the synergies expected to arise after the Company's acquisition of the business.

The net loss attributed to Psyched Corp. for the period of the Share Exchange to November 30, 2020 was \$556,793. Transaction costs of approximately \$56,827 were incurred in association with the Share Exchange.

5. Accounts Receivable

The Company's accounts receivable balance represents amounts due from government taxation authorities in respect of the Harmonized Sales Tax. The Company anticipates full recovery of these amounts and therefore no credit loss has been recorded against these receivables, which are due in less than one year.

6. Prepaid Expenses

	May 31, 2021	November 30, 2020
	\$	\$
Prepaid insurance	5,501	48,549
Advances made to suppliers	501,465	503,698
	506,966	552,247

Psyched Wellness Ltd.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Six Months Ended May 31, 2021 and 2020
(Expressed in Canadian Dollars)

7. Accounts Payable and Accrued Liabilities

Accounts payable of the Company are principally comprised of amounts outstanding for trade purchases relating to regular business activities and amounts payable for financing activities.

	May 31, 2021	November 30, 2020
	\$	\$
Accounts payable	31,727	5,740
Accrued liabilities	15,000	29,107
	46,727	34,847

The Company's standard term for trade payable is 30 to 60 days.

8. Share Capital

Authorized share capital

The Company is authorized to issue an unlimited number of common shares without par value.

Common shares issued and outstanding as at May 31, 2021 are as follows:

	May 31, 2021	November 30, 2020
	\$	\$
Issued: 130,024,495 common shares		
(November 30, 2020 – 104,512,930 common shares)	20,344,670	16,902,091

Share capital transactions for the six months ended May 31, 2021

On February 17, 2021, the Company closed a bought deal private placement (the "Offering") of 21,300,000 units ("Units") at a price of \$0.31 per Unit, for gross proceeds of \$6,603,000. Each Unit is comprised of one common share of the Company and one common share purchase warrant ("Warrant") exercisable at \$0.43 for a period of 36 months from closing. In connection with the Offering, the Company paid cash commissions of \$320,737 and issued 456,365 Units to the Underwriters, together representing the Underwriters' fee of 7% of the gross proceeds. In addition, the Company also issued 639,000 Units to the Lead Underwriter in settlement of a corporate finance fee of 3.0% of the Units sold under the Offering, and an aggregate of 1,491,000 Broker Warrants Units, representing 7.0% of the Units sold under the Offering. Each Broker Warrant Unit is exercisable into one Unit of the Company at a price of \$0.31 for a period of 36 months from closing.

During the six months ended May 31, 2021, the Company issued 1,787,000 common shares as a result of the exercise of stock options for cash proceeds of \$201,200.

During the six months ended May 31, 2021, the Company also issued 1,329,200 common shares as a result of the exercise of broker warrants for cash proceeds of \$132,920.

Share capital transactions for the six months ended May 31, 2020

On April 23, 2020, the Company closed a non-brokered private placement ("Seed Financing") through the issuance of 33,500,000 common shares at a price of \$0.02 per common share, for gross proceeds of \$670,000.

On April 23, 2020, the Company also settled an aggregate amount of \$141,002 of indebtedness owed to certain arm's length and non-arm's length creditors through the issuance of 7,050,090 common shares of the Company ("Shares-for-Debt Issuances") at a price of \$0.02 per common share.

Psyched Wellness Ltd.

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For the Six Months Ended May 31, 2021 and 2020
(Expressed in Canadian Dollars)

8. Share Capital (continued)

Share capital transactions for the six months ended May 31, 2020 (continued)

On May 5, 2020, the Company acquired all of the outstanding common shares of Psyched Corp. in pursuant of the Share Exchange on a one for one basis. On completion of the Share Exchange, holders of Psyched Corp. shares were issued an aggregate of 18,000,000 common shares of the Company.

On May 22, 2020, the Company completed the first tranche ("Tranche 1") of a non-brokered private placement ("Series A Financing") for gross proceeds of \$1,637,000 through the issuance of 16,370,000 common shares at a price of \$0.10 per common share. In connection with Tranche 1 of the Series A Financing, the Company paid finders' fees of \$63,200 and issued 632,000 broker warrants. Each broker warrant is exercisable into one common share of the Company at a price of \$0.10 for a period of 24 months from closing of Tranche 1 of the Series A Financing.

As at May 31, 2020, the Company had received total proceeds of \$135,000 in relation to subscription of funds of the second tranche of the Series A Financing, which subsequently closed on June 1, 2020.

Basic and diluted loss per share

Basic and diluted loss per share is calculated by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. For the six months ended May 31, 2021, the basic and diluted loss per share was \$0.023 (2020 – \$0.009 basic and diluted).

9. Contributed Surplus

The Company maintains a stock option plan (the "Option Plan") whereby certain key employees, officers, directors and consultants may be granted stock options for common shares of the Company. The Option Plan provides that the aggregate number of securities reserved for issuance will be up to 10% of the number of the common shares issued and outstanding from time to time. The Option Plan is administered by the Board, which has full and final authority with respect to granting stock options thereunder. As at May 31, 2021, the Company had 2,477,450 common shares that are issuable under the Option Plan.

Under the Option Plan, the exercise price of stock options grants will be determined by the Board, will not be less than the greater of the closing market prices of the underlying securities on: (a) the trading day prior to the date of grant of the stock options; and (b) the date of grant of the stock options. All stock options granted under the Option Plan will expire not later than the date that is ten years from the date that such options are granted. Stock options terminate earlier as follows: (i) immediately in the event of dismissal with cause; (ii) 90 days from the date of termination other than for cause employment (or such other date as Board or a committee thereof may determine); (iii) one year from the date of death or disability. Vesting terms are determined at the discretion of the Board.

The following summarizes the options activity for the six months ended May 31, 2021 and 2020:

	May 31, 2021		May 31, 2020	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	#	\$	#	\$
Outstanding, beginning of period	10,062,000	0.12	-	-
Granted	250,000	0.225	-	-
Granted	2,000,000	0.39	-	-
Exercised	(1,337,000)	0.10	-	-
Exercised	(450,000)	0.15	-	-
Outstanding, end of period	10,525,000	0.17	-	-

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9. Contributed Surplus (continued)

Options grants for the six months ended May 31, 2021

On December 3, 2020, the Company granted 250,000 options to a consultant. The options are exercisable at a price of \$0.225 per common share for a period of five years. The options vest three months from the date of grant, and were valued using Black-Scholes with the following assumptions: expected volatility of 100% based on the estimated volatility for the psychedelic industry, expected dividend yield of 0%, risk-free interest rate of 0.46% and an expected life of five years. The grant date fair value attributable to these options was \$41,595 was recorded as stock-based compensation in connection with the vesting of options during the six months ended May 31, 2021.

On March 15, 2021, the Company granted 2,000,000 options to a director and other consultants. The options are exercisable at a price of \$0.39 per common share for a period of five years. The options vest three months from the date of grant, and were valued using Black-Scholes with the following assumptions: expected volatility of 100% based on the estimated volatility for the psychedelic industry, expected dividend yield of 0%, risk-free interest rate of 1.02% and an expected life of five years. The grant date fair value attributable to these options was \$579,621, of which \$485,118 was recorded as stock-based compensation in connection with the vesting of options during the six months ended May 31, 2021.

Options grants for the six months ended May 31, 2020

No options were granted during the six months ended May 31, 2020.

The following table summarizes information of stock options outstanding and exercisable as at May 31, 2021:

Date of expiry	Number of options outstanding	Number of options exercisable	Exercise price	Weighted average remaining contractual life
	#	#	\$	Years
July 13, 2025	5,975,000	5,975,000	0.10	4.12
October 23, 2025	1,050,000	1,050,000	0.15	4.40
November 13, 2025	500,000	500,000	0.145	4.46
November 24, 2025	750,000	750,000	0.185	4.51
December 3, 2025	250,000	250,000	0.225	4.51
March 15, 2026	2,000,000	-	0.39	4.79
	10,525,000	8,525,000	0.17	4.33

10. Reserve for Warrants

The following summarizes the warrant activity for the six months ended May 31, 2021 and 2020:

	May 31, 2021		May 31, 2020	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
	#	\$	#	\$
Outstanding, beginning of period	2,249,200	0.10	-	-
Issued from Offering / Series A Financing	22,395,365	0.43	632,000	0.10
Broker warrants issued from Offering	1,491,000	0.31	-	-
Exercised	(1,269,200)	0.10	-	-
Outstanding, end of period	24,866,365	0.10	632,000	0.10

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10. Reserve for Warrants (continued)

Warrant issuances for the six months ended May 31, 2021

On February 17, 2021, the Company issued 21,300,000 Warrants in connection with the Offering, as disclosed in Note 8. Each Warrant is exercisable at \$0.43 to purchase one common share of the Company for a period of 36 months after closing of the Offering. If, at any time following the date that is four months and one day following closing, the daily volume weighted average trading price of the common shares on the CSE is greater than \$0.70 per common share for the preceding five consecutive trading days, the Company shall have the right to accelerate the expiry date of the Warrants to a date that is at least 30 days following the date of such written notice. The grant date fair value of the Warrants issued was estimated to be \$2,672,769 using Black-Scholes with the following assumptions: expected volatility of 100% based on the estimated volatility for the psychedelic industry, expected dividend yield of 0%, risk-free interest rate of 0.26% and an expected life of three years.

In connection with the Offering, 456,365 Warrants were issued to the Underwriters, for the underwriters' fee of 7% of the gross proceeds of the Offering, and 639,000 Warrants were issued to the Lead Underwriter in settlement of a corporate finance fee of 3.0% of the Units sold under the Offering. These Agent Warrants are exercisable at \$0.43 to purchase one common share of the Company for a period of 36 months from closing.

In addition, the Company also issued an aggregate of 1,491,000 Broker Warrants Units, representing 7.0% of the Units sold under the Offering. Each Broker Warrant Unit is exercisable into one Unit of the Company, each comprised of one common share and one Warrant, at a price of \$0.31 for a period of 36 months from closing. Each underlying warrant is exercisable for \$0.43 to purchase one common share of the Company for a period of 36 months from closing.

Warrant issuances for the six months ended May 31, 2020

On May 22, 2020, the Company issued 632,000 broker warrants as compensation to finders in connection with the closing of Tranche 1 of the Series A Financing, as disclosed in Note 8. Each broker warrant is exercisable at \$0.10 to purchase one common share of the Company for a period of 24 months from closing of Tranche 1. The grant date fair value of the broker warrants issued was estimated to be \$32,983 using Black-Scholes with the following assumptions: share price of \$0.10, expected volatility of 100% based on estimated volatility for the psychedelic industry, expected dividend yield of 0%, risk-free interest rate of 0.29% and an expected life of two years.

The following table summarizes information of warrants outstanding as at May 31, 2021:

Date of expiry	Number of warrants outstanding	Exercise price	Weighted average remaining contractual life
	#	\$	Years
May 22, 2022	60,800	0.10	0.98
June 1, 2022	919,200	0.10	1.00
February 17, 2021	22,395,365	0.43	2.72
February 17, 2021	1,491,000	0.31	2.72
	24,866,365	0.41	2.65

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11. Key Management Compensation and Related Party Transactions

Key management personnel compensation

Key management includes the Company's directors and officers with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly.

The remuneration of directors and other members of key management personnel during the six months ended May 31, 2021 and 2020 were as follows:

	2021	2020
	\$	\$
Management salaries and consulting fees	156,000	32,000
Professional fees	42,750	27,625
Stock-based compensation	159,694	-
	358,444	59,625

On March 25, 2020, Psyched Wellness and S4 Management Group Inc. ("S4 Management"), an entity controlled by Jeffrey Stevens, the Chief Executive Officer ("CEO") and also a director of the Company, entered into a consulting agreement, for a monthly remuneration of \$8,000 in consideration of the CEO's services to be provided to the Company. Effective October 1, 2020, the CEO's remuneration had been adjusted to \$12,000 per month. During the six months ended May 31, 2021, S4 Management charged \$76,000 (2020 – \$16,000) for consulting services provided to the Company, which are included in management salaries and consulting fees. As at May 31, 2021, no balance was owed to S4 Management (November 30, 2020 – \$nil).

Effective May 1, 2021, the Company and the CEO entered into an executive agreement which superseded the consulting agreement, whereas the Company agreed to pay an annual base salary of \$240,000 for the CEO's services. The CEO may also be eligible to receive an annual bonus at the discretion of the Compensation Committee of up to 50% of his annual base salary, based on criteria set by the Board. During the six months ended May 31, 2021, the Company recorded management salaries of \$20,000 in relation to the CEO's employment compensation.

On March 25, 2020, Psyched Wellness and David Shisel, the Chief Operating Officer ("COO") of the Company, entered into a consulting agreement, for a monthly remuneration of \$8,000 in consideration of the COO's services to be provided to the Company. Effective October 1, 2020, the COO's remuneration had been adjusted to \$10,000 per month. During the six months ended May 31, 2021, the COO charged \$60,000 (2020 – \$16,000) for consulting services provided to the Company, which are included in management and consulting fees. As at May 31, 2021, no balance was owed to the COO (November 30, 2020 – \$nil).

During the six months ended May 31, 2021, Branson Corporate Services Ltd. ("Branson"), where the Chief Financial Officer ("CFO") of the Company is employed, charged fees of \$42,750 (2020 – \$27,625), for CFO services, as well as other accounting and administrative services, which are included in professional fees. As at May 31, 2021, no balance was owed to Branson (November 30, 2020 – \$nil).

Stock-based compensation

On November 13, 2020, the Company granted 500,000 options to a director, which vested three months from the date of grant. During the six months ended May 31, 2021, stock-based compensation of \$38,415 attributable to these options was recorded in connection with the vesting of options.

On March 15, 2021, the Company granted 2,000,000 options, of which 500,000 options were granted to a director, which vested three months from the date of grant. During the six months ended May 31, 2021, stock-based compensation of \$121,279 attributable to these options was recorded in connection with the vesting of options.

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11. Key Management Compensation and Related Party Transactions (continued)

Other related party transactions

On March 5, 2020, the Company entered into a Debt Settlement with E. Salsberg, a former director, and D. Shaddrick, as debts of \$216,190 previously owed to the parties were settled for payments of \$79,173 and \$58,835, respectively. As a result, the Company recorded a gain of \$78,182 on the Debt Settlement. E. Salsberg was issued 1,000,000 common shares of the Company at a price of \$0.02 per common share, as part of the Shares-for-Debt Issuances on April 23, 2020, to settle a remaining debt balance of \$20,000.

On April 23, 2020, the Company entered into a Shares-for-Debt Issuance with Branson through the issuance of 1,779,750 common shares at a price of \$0.02 per share, to settle outstanding obligations of \$35,595.

On May 1, 2020, the Company advanced funds of \$117,521 to Psyched Corp., in exchange of a promissory note. The promissory note is unsecured, due on demand and bears interest at a rate of 12% per annum. Upon closing of the Share Exchange, the balance was eliminated on consolidation. The Company recognized interest income of \$155 on the promissory note from the period from issuance to May 5, 2020.

12. Capital Management

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern and to maintain optimal returns to shareholders and benefits for its stakeholders. While the Company does not yet have any commercial operations, management monitors its capital structure and makes adjustments according to market conditions to meet its objectives given the current outlook of the business and industry in general. The Board does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the management team to sustain the future development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company's capital management objectives, policies and processes have remained unchanged during the six months ended May 31, 2021, and the year ended November 30, 2020.

The Company is not subject to any externally imposed capital requirements.

13. Risk Management

The Company's financial instruments consist primarily of cash and accounts payable. The Company is exposed to certain risks as it relates to these financial instruments. There have not been any changes in the nature of these risks or the process of managing these risks from previous reporting periods.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Cash is held with reputable Canadian chartered banks and in trust with the Company's legal counsel, which is closely monitored by management. Management believes that the credit risk concentration with respect to financial instruments is minimal. The maximum exposure to credit risk at period-end is limited to the accounts receivable balance.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at May 31, 2021, the Company had a cash balance of \$6,473,382 (November 30, 2020 – \$2,059,776) to settle current liabilities of \$46,727 (November 30, 2020 – \$34,847).

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13. Risk Management (continued)

Liquidity risk (continued)

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities as at May 31, 2021:

	Carrying amount	Year 1	Year 2 to 3	Year 4 to 5
	\$	\$	\$	\$
Accounts payable and accrued liabilities	46,727	46,727	-	-

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet its liabilities as they come due. The Company has undertaken several proposed restructuring initiatives and other corporate measures to rationalize its capital and debt structure to better position the Company for future opportunities and meet its obligations as they come due. Until these initiatives and efforts are finalized, there is no assurance that one or any of these initiatives will be successful.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not hold any instruments subject to interest rate risk as at May 31, 2021.

14. Contingencies

The Company's psychedelics operations are subject to a variety of provincial, state and federal regulations in Canada and the U.S. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations in that specific state or local jurisdiction. While management believes that the Company is in compliance with applicable local and state regulations as at May 31, 2021, regulations on the psychedelic industry continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

15. Reclassification

Certain comparative figures have been reclassified to conform to the current period's presentation on the unaudited condensed interim consolidated statements of loss and comprehensive loss. Net loss and comprehensive loss reported in the comparative period has not been affected by these reclassifications.

16. Subsequent Events

Subsequent to May 31, 2021, the Company granted 750,000 and 250,000 options, respectively, to a director and a consultant. The options are exercisable at a price of \$0.23 per common share for a period of five years. The options vest three months from the date of grant.