Psyched Wellness Ltd.

Unaudited Condensed Interim Consolidated Financial Statements

For the Six Months Ended May 31, 2022 and 2021

(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)

	Notes	As at May 31, 2022 $	As at November 30, 2021 $
<u>**Assets**</u>			
Current Assets			
Cash		**4,162,784**	5,530,353
Accounts receivable	4	**10,499**	55,524
Inventories		**45,617**	-
Prepaid expenses and deposits	5	**72,543**	319,575
Total Current Assets		**4,291,443**	5,905,452
Property and equipment	6	**25,714**	-
Intangible assets	7	**30,333**	28,583
Goodwill	8	**448,611**	448,611
Total Assets		**4,796,101**	6,382,646
<u>**Liabilities**</u>			
Accounts payable and accrued liabilities	9,14	**118,210**	178,149
Total Liabilities		**118,210**	178,149
<u>**Shareholders' Equity**</u>			
Share capital	10	**20,938,245**	20,451,245
Reserve for restricted share units	11	**359,471**	-
Contributed surplus	12	**2,029,168**	1,882,310
Reserve for warrants	13	**3,299,362**	3,302,535
Accumulated deficit		**(21,948,355)**	(19,431,593)
Total Shareholders' Equity		**4,677,891**	6,204,497
Total Liabilities and Shareholders' Equity		**4,796,101**	6,382,646

Nature of operations and going concern	1
Contingencies	18
Subsequent events	20

Approved on behalf of the Board of Directors:

"Jeffrey Stevens"	*"Janeen Stodulski"*
Jeffrey Stevens, Director	Janeen Stodulski, Director

Psyched Wellness Ltd.

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the Three and Six Months Ended May 31, 2022 and 2021
(Expressed in Canadian Dollars)

	Notes	**Three months ended May 31, 2022**	Three months ended May 31, 2021	**Six months ended May 31, 2022**	Six months ended May 31, 2021
		$	$	**$**	$
<u>Expenses</u>					
Stock-based compensation	11,12,14	**290,183**	486,504	**993,329**	692,899
Research costs		**541,189**	138,203	**689,007**	230,328
Management salaries and consulting fees	14	**194,211**	197,795	**398,221**	530,918
Professional fees	14	**119,297**	117,274	**243,309**	271,850
Advertising and promotion		**96,946**	480,750	**186,032**	913,689
Office and general		**74,246**	34,231	**148,833**	94,632
Regulatory compliance		**41,505**	9,546	**49,166**	32,815
Total Expenses		**(1,357,577)**	(1,464,303)	**(2,707,897)**	(2,767,131)
<u>Other Income</u>					
Gain on disposals of properties	17	**193,289**	-	**193,289**	-
Property taxes		**(413)**	(412)	**(6,039)**	(3,701)
Foreign exchange gain (loss)		**1,199**	(7,280)	**712**	(12,438)
Total Other Income (Losses)		**194,075**	(7,692)	**187,962**	(16,139)
Net Loss and Comprehensive Loss		**(1,163,502)**	(1,471,995)	**(2,519,935)**	(2,783,270)
Weighted Average Number of Outstanding Shares					
- Basic and diluted		**135,239,695**	103,156,539	**133,830,354**	118,988,302
Loss per Share					
- Basic and diluted	10	**(0.019)**	(0.014)	**(0.019)**	(0.023)

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, 2022 and 2021
(Expressed in Canadian Dollars)

	Notes	Number of Shares	Share Capital	Reserve for Restricted Share Units	Contributed Surplus	Reserve for Warrants	Accumulated Deficit	Total
		#	$	$	$	$	$	$
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	10,13	21,300,000	3,930,231	-	-	2,672,769	-	6,603,000
Issuance of agent units from private placement	10,13	1,095,365	202,114	-	-	137,449	-	339,563
Issuance of broker warrants from private placement	10,13	-	-	-	-	1,287,542	-	1,287,542
Share issuance costs	10,13	-	(1,239,959)	-	-	(843,239)	-	(2,083,198)
Stock-based compensation	12	-	-	-	692,899	-	-	692,899
Exercise of stock options	10,13	1,787,000	347,904	-	(146,704)	-	-	201,200
Exercise of broker warrants	10,13	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**
Balance, November 30, 2021		**130,589,695**	**20,451,245**	**-**	**1,882,310**	**3,302,535**	**(19,431,593)**	**6,204,497**
Stock-based compensation - RSUs	11	-	-	846,471	-	-	-	846,471
Issuance of shares on vesting of RSUs	10,11	4,650,000	487,000	(487,000)	-	-	-	-
Stock-based compensation	12	-	-	-	146,858	-	-	146,858
Expiry of warrants	13	-	-	-	-	(3,173)	3,173	-
Net loss for the period		-	-	-	-	-	(2,519,935)	(2,519,935)
Balance, May 31, 2022		**135,239,695**	**20,938,245**	**359,471**	**2,029,168**	**3,299,362**	**(21,948,355)**	**4,677,891**

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, 2022 and 2021
(Expressed in Canadian Dollars)

	Notes	Six months Ended May 31, 2022 $	Six months Ended May 31, 2021 $
Operating Activities			
Net loss for the period		(2,519,935)	(2,783,270)
Adjustments for non-cash items:			
Stock-based compensation – RSUs	11	846,471	-
Stock-based compensation – options	12	146,858	692,899
Gain on disposals of properties	17	(193,289)	-
		(1,719,895)	(2,090,371)
Net change in non-cash working capital items:			
Accounts receivable		45,025	(34,211)
Inventories		(45,617)	-
Prepaid expenses and deposits		247,032	45,281
Accounts payable and accrued liabilities	9	(59,939)	11,880
Cash Flows (used in) Operating Activities		(1,533,394)	(2,067,421)
Financing Activities			
Proceeds from private placements	10	-	6,603,000
Issuance costs paid on private placements	10	-	(456,093)
Proceeds from exercise of stock options	10,12	-	201,200
Proceeds from exercise of broker warrants	10,13	-	132,920
Cash Flows provided by Financing Activities		-	6,481,027
Investing Activities			
Additions of property and equipment	6	(25,714)	-
Additions of trademarks	7	(1,750)	-
Proceeds on disposals of properties, net	17	204,900	-
Transaction costs paid on disposals of properties	17	(11,611)	-
Cash Flows provided by Investing Activities		165,825	-
(Decrease) increase in cash		(1,367,569)	4,413,606
Cash, beginning of period		5,530,353	2,059,776
Cash, end of period		4,162,784	6,473,382
Supplemental Information			
Commissions from private placement paid in Units	10	-	141,473
Corporate finance fees from private placement paid in Units	10	-	198,090

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

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 life sciences company focused on the production and distribution of health and wellness products derived from the Amanita Muscaria mushroom. 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 common 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 office 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. During the six months ended May 31, 2022, the Company incurred a net and comprehensive loss of $2,519,935 (2021 – $2,783,270), and as of that date, the Company's accumulated deficit was $21,948,355 (November 30, 2021 – $19,431,593). 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. These conditions, including the unpredictability of the psychedelic business, and the continued evolution of the novel coronavirus ("COVID-19") pandemic, 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 unaudited condensed interim consolidated financial statements. Such adjustments could be material.

2. Basis of Presentation

(a) Statement of Compliance

These 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"), and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The 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 25, 2022.

(b) Basis of Measurement

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

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. 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. The conclusion that the Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding the short and long-term operating budgets, expected profitability, investment and financing activities and management's strategic planning. The assumptions used in management's going concern assessment are derived from actual operating results along with industry and market trends. Management believes there is sufficient capital to meet the Company's business obligations for at least the next 12 months, after taking into account expected cash flows, capital commitments, future financings and the Company's cash position at period-end.

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.

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.

Impairment

Long-lived assets, including property and equipment and intangible assets, are reviewed for indicators of impairment at each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is defined as the higher of: (i) value-in-use; or (ii) fair value less cost to sell. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

2. Basis of Presentation (continued)

(e) Significant Accounting Judgments and Estimates (continued)

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 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.

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.

Research and development costs

Judgment is required to distinguish the research phase and the development phase to correctly identify costs that qualify for capitalization.

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, 2021, unless otherwise noted below.

(a) Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and impairment losses. Cost includes the acquisition costs or construction costs, as well as the costs directly attributable to bringing the asset to the location and condition necessary for its use in operations. When property and equipment include significant components with different useful lives, they are recorded and amortized separately.

Depreciation is computed using the straight-line method based on the estimated useful life of the assets and commences when title and ownership have transferred to the Company and is readily available for its intended use. The residual value, useful life and depreciation methods are reviewed at the end of each reporting period. Such a review takes into consideration the nature of the asset, the intended use and impact of technological changes. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of capital assets. Subsequent costs are included in the asset carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation is recorded on a straight-line basis over eight years for machinery.

3. Summary of Significant Accounting Policies (continued)

(b) Restricted Share Units

Restricted share units ("RSUs") are measured at the fair value of the date of grant, based on the closing price of the Company's common shares on the date of grant. The fair value of stock-based compensation on RSUs are recognized as an expense with a corresponding increase in the reserve for RSUs over the vesting period.

(c) Adoption of New Accounting Policies

The Company adopted the following amendments, effective December 1, 2021. The changes were made in accordance with the applicable transitional provisions:

Amendments to IAS 1 – Presentation of Financial Statements ("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. The Company early-adopted these amendments as permitted and had assessed that there was no material impact upon adoption of these amendments on its unaudited condensed interim consolidated financial statements.

(d) Recent Accounting Pronouncements

At the date of authorization of these unaudited condensed interim consolidated financial statements, the IASB and the IFRIC 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 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37")

In May 2020, the IASB issued amendments to update IAS 37. The amendments specify that in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. The amendments also include examples of costs that do, and do not, relate directly to a contract. These amendments are effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted.

Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

In February 2021, the IASB issued *Definition of Accounting Estimates*, which amended IAS 8. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events. The amendments to IAS 8 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted.

4. Accounts Receivable

The Company's accounts receivable balance represents amounts due from government taxation authorities in respect of the Harmonized Sales Tax.

(Expressed in Canadian Dollars)

5. Prepaid Expenses

	May 31, 2022	November 30, 2021
	$	$
Prepaid insurance	12,821	89,744
Advances made to suppliers	59,722	137,729
Advance in transit to supplier	-	92,102
	72,543	319,575

6. Property and Equipment

During the six months ended May 31, 2022, the Company had purchased new equipment of $25,714 (2021 – $nil). As at May 31, 2022, the equipment was not yet available for use, and as a result, no depreciation had been recorded.

7. Intangible Assets

During the year ended November 30, 2021, the Company had submitted an application with the United States Patent and Trademark Office to register the trademark "AME-1" in connection with its Amanita Muscaria extract formulation. As the trademarks are considered to have an indefinite life, they are not subject to amortization.

During the six months ended May 31, 2022, the Company incurred an additional cost of $1,750 (2021 – $nil) in relation to further applications of the AME-1 trademark.

8. Goodwill

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"). Upon closing of the Share Exchange, Psyched Corp. became a wholly-owned subsidiary of the Company.

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 Share Exchange allowed the Company to capitalize and position itself to participate in the growing psychedelic space. Goodwill of $448,611 was recognized in connection with the Share Exchange.

As at November 30, 2021, the Company performed its annual impairment test on goodwill, which compared the carrying amount of Psyched Corp. to its recoverable amount. Psyched Corp. is regarded as its own CGU, being the smallest identifiable group of assets that generates cash inflows, and includes brand name, customer relationships, technical knowledge and goodwill. Using a discounted cash flow model, the Company determined the recoverable amount by calculating its value-in-use using Level 3 inputs. As of November 30, 2021, management determined that the recoverable amount exceeded the carrying value of Psyched Corp. Therefore, no impairment was recognized on goodwill.

As at May 31, 2022, the Company also performed an assessment for indicators of impairment on goodwill. No such indicators were noted.

9. 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, 2022	November 30, 2021
	$	$
Accounts payable	36,633	13,157
Accrued liabilities	81,577	164,992
	118,210	178,149

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

(Expressed in Canadian Dollars)

10. 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, 2022 are as follows.

	May 31, 2022	November 30, 2021
	$	$
Issued: 135,239,695 common shares (November 30, 2021 – 130,589,695 common shares)	**20,938,245**	20,451,245

Share capital transactions for the six months ended May 31, 2022

During the six months ended May 31, 2022, the Company issued 4,650,000 common shares as a result of the vesting of RSUs. These common shares were valued at an amount of $487,000. See Note 11 for more details.

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 (each a "Broker Warrants Unit"), 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.

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, 2022, the basic and diluted loss per share was $0.019 (2021 – basic and diluted loss of $0.023).

11. Reserve for Restricted Share Units

On January 24, 2022, the Company implemented a RSU plan (the "RSU Plan"). Under the RSU Plan, Eligible Persons (as such term is defined in the RSU Plan) may, at the discretion of the Compensation Committee of the Board, be allocated a number of RSUs, which are subject to a maximum vesting term of three years from the end of the calendar year in which RSUs were granted.

On January 24, 2022, the Company granted 8,800,000 RSUs to certain officers and advisors. Half of the RSUs vested immediately, with the other half vesting upon launch of the Company's products. Stock-based compensation of $803,128 in connection with the vesting of these RSUs was recorded during the six months ended May 31, 2022.

On January 27, 2022, the Company granted an additional 500,000 RSUs to certain officers and advisors, under the same vesting terms. Stock-based compensation of $43,343 in connection with the vesting of these RSUs was also recorded during the six months ended May 31, 2022.

As at May 31, 2022, the Company had 4,650,000 RSUs which are issuable under the RSU Plan.

(Expressed in Canadian Dollars)

12. 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, 2022, the Company had 648,969 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, 2022 and 2021:

	May 31, 2022		May 31, 2021	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
	#	**$**	#	$
Outstanding, beginning of period	**11,375,000**	**0.18**	10,062,000	0.12
Granted	**1,500,000**	**0.145**	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	**12,875,000**	**0.17**	10,525,000	0.17

Options grants for the six months ended May 31, 2022

On December 1, 2021, the Company granted 1,500,000 options to an officer. The options are exercisable at a price of $0.145 per common share for a period of five years. 50% of the options vested immediately on grant, 25% vest on June 1, 2022, and the final 25% vest on December 1, 2022. The options 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 1.35% and an expected life of five years. The grant date fair value attributable to these options was $155,541, of which $135,724 was recorded as stock-based compensation in connection with the vesting of options during the six months ended May 31, 2022.

During the six months ended May 31, 2022, as the Company also recorded stock-based compensation of $11,134 in connection with the vesting of options which were granted prior to December 1, 2021.

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 vested 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 of $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 vested 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.

(Expressed in Canadian Dollars)

12. Contributed Surplus (continued)

The following table summarizes information of stock options outstanding and exercisable as at May 31, 2022:

Date of expiry	Number of options outstanding	Number of options exercisable	Exercise price	Weighted average remaining contractual life
	#	#	$	Years
July 13, 2025	5,725,000	5,725,000	0.10	3.12
October 23, 2025	1,050,000	1,050,000	0.15	3.40
November 13, 2025	500,000	500,000	0.145	3.46
November 24, 2025	750,000	750,000	0.185	3.49
December 3, 2025	250,000	250,000	0.225	3.51
March 15, 2026	2,000,000	2,000,000	0.39	3.79
June 24, 2026	250,000	250,000	0.23	4.07
June 30, 2026	750,000	750,000	0.23	4.08
November 15, 2026	100,000	100,000	0.19	4.46
December 1, 2026	1,500,000	750,000	0.145	4.51
	12,875,000	**12,125,000**	**0.17**	**3.54**

13. Reserve for Warrants

The following summarizes the warrant activity for the six months ended May 31, 2022 and 2021:

	May 31, 2022		May 31, 2021	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
	#	$	#	$
Outstanding, beginning of period	**24,806,365**	**0.10**	2,249,200	0.10
Issued from Offering	-	-	22,395,365	0.43
Broker warrants issued from Offering	-	-	1,491,000	0.31
Exercised	-	-	(1,269,200)	0.10
Expired	(60,800)	0.10	-	-
Outstanding, end of period	**24,745,565**	**0.10**	24,866,365	0.10

Warrant issuances for the six months ended May 31, 2022

There were no warrant issuances during the six months ended May 31, 2022.

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 10. 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.

(Expressed in Canadian Dollars)

13. Reserve for Warrants (continued)

Warrant issuances for the six months ended May 31, 2021 (continued)

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.

The following table summarizes information of warrants outstanding as at May 31, 2022:

Date of expiry	Number of warrants outstanding	Exercise price	Weighted average remaining contractual life
	#	$	Years
June 1, 2022	859,200	0.10	0.00
February 17, 2024	22,395,365	0.43	1.72
February 17, 2024	1,491,000	0.31	1.72
	24,745,565	**0.41**	**1.66**

14. Related Party Transactions

In accordance with IAS 24 – Related Party Disclosures, key management personnel, including companies controlled by them, are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. The remuneration of directors and key executives is determined by the compensation committee of the Board.

The remuneration of directors and other members of key management personnel during the six months ended May 31, 2022 and 2021 were as follows:

	2022	2021
	$	$
Management salaries and consulting fees	**313,330**	156,000
Professional fees	**49,000**	42,750
Stock-based compensation	**135,725**	159,694
	498,055	358,444

On March 25, 2020, Psyched Wellness and S4 Management Group Inc. ("S4 Management"), an entity controlled by the Chief Executive Officer ("CEO") and also a director of the Company, entered into a consulting agreement, for a monthly renumeration of $8,000 in consideration for the CEO's services. Effective October 1, 2020, the CEO's renumeration was adjusted to $12,000 per month. During the six months ended May 31, 2021, S4 Management charged $76,000 for consulting services provided to the Company, which are included in management salaries and consulting fees. As at May 31, 2022, no balance was owed to S4 Management (November 30, 2021 – $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, 2022, the Company recorded management salaries of $120,000 (2021 – $20,000) in relation to the CEO's employment compensation.

On March 25, 2020, Psyched Wellness and the Chief Operating Officer ("COO") of the Company, entered into a consulting agreement, for a monthly renumeration of $8,000 in consideration for the COO's services. Subsequently, the COO's renumeration had been adjusted to $10,000 per month, which was further adjusted to $16,666 per month effective January 1, 2022. During the six months ended May 31, 2022, the COO charged $93,330 (2021 – $60,000) for consulting services provided to the Company, which are included in management salaries and consulting fees. As at May 31, 2022, $890 (November 30, 2021 – $nil) owing to the COO was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

14. Related Party Transactions (continued)

On December 1, 2021, Psyched Wellness and the Chief Commercial Officer ("CCO") of the Company, entered into an executive agreement, whereas the Company agreed to pay an annual base salary of $200,000 for the CCO's services. During the six months ended May 31, 2022, the Company recorded management salaries of $100,000 in relation to the CCO's employment compensation. As at May 31, 2022, no balance was owed to the CCO (November 30, 2021 – $nil).

During the six months ended May 31, 2022, Branson Corporate Services Ltd. ("Branson"), where the Chief Financial Officer ("CFO") of the Company is employed, charged fees of $49,000 (2021 – $42,750), for CFO services, as well as other accounting and administrative services, which are included in professional fees. As at May 31, 2022, no balance was owed to Branson (November 30, 2021 – $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.

On December 1, 2021, the Company granted 1,500,000 options to the CCO, of which 50% vested immediately, 25% vest on June 1, 2022, and the final 25% vest on December 1, 2022. During the six months ended May 31, 2022, stock-based compensation of $135,725 attributable to these options was recorded in connection with the vesting of options.

15. 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 since the Company's most recently financial reporting period.

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

16. Risk Management

The Company is exposed to various risks as it relates to financial instruments. Management, in conjunction with the Board, mitigates these risks by assessing, monitoring and approving the Company's risk management process. There have not been any changes in the nature of these risks or the process of managing these risks from the previous reporting periods.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, and accounts receivable (excluding sales tax recoverable), which expose the Company to credit risk should the borrower default on maturity of the instruments. Cash is held with a reputable Canadian chartered bank 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 cash, and accounts receivable (excluding sales tax recoverable) is minimal.

(Expressed in Canadian Dollars)

16. Risk Management (continued)

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. The Company endeavors to have sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot be reasonably predicted.

As at May 31, 2022, the Company had a cash balance of $4,162,784 (November 30, 2021 – $5,530,353) to settle current liabilities of $118,210 (November 30, 2021 – $178,149), and had the following contractual undiscounted obligations:

	Carrying amount	Year 1	Year 2 to 3	Year 4 to 5
	$	$	$	$
Accounts payable and accrued liabilities	118,210	118,210	-	-

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.

Management believes there is sufficient capital to meet short-term business obligations, after taking into account cash flow requirements from operations and the Company's cash position as at May 31, 2022.

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. As at May 31, 2022, the Company had no financial instruments which are interest-bearing, and had no hedging agreements in place with respect to floating interest rates. Management believes that the interest rate risk concentration with respect to financial instruments is minimal.

Foreign exchange risk

Foreign exchange risk is the risk that the Company will be subject to foreign currency fluctuations in satisfying obligations related to its foreign activities. The Company's operations are based in Canada, but may have, from time to time, transactions denominated in foreign currencies. The Company's primary exposure to foreign exchange risk is that transactions denominated in foreign currency may expose the Company to the risk of exchange rate fluctuations. Based on its current operations, management believes that the foreign exchange risk remains minimal.

Fair value

Fair value estimates of financial instruments are made at a specific point in time based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

As at May 31, 2022, the Company's financial instruments consisted of cash, and accounts payable and accrued liabilities. The fair value of cash and accounts payables and accrued liabilities are approximately equal to their carrying value due to their short-term nature.

16. Risk Management (continued)

Fair value (continued)

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

As at May 31, 2022, the Company did not have any financial instruments which were carried at fair value (November 30, 2021 – $nil).

COVID-19

In December 2019, COVID-19 surfaced in Wuhan, China. The World Health Organization declared a global emergency on January 30, 2020 with respect to the outbreak then characterized it as a pandemic on March 11, 2020. The outbreak has spread globally, and it has continued to cause companies and various international jurisdictions to impose restrictions, such as quarantines, closures, cancellations and travel restrictions. The duration of the business disruptions internationally and related financial impact to the global economy remains highly uncertain at this time, as COVID-19 continues to evolve.

The Company's operations had been impacted by a delay in projects and restricted access to financing, but management expects the situation to improve once lockdown restrictions will be lifted with vaccine roll-out. Ultimately, the extent to which the COVID-19 pandemic impacts the Company's financial results will depend on future developments, which remain highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 pandemic and actions taken to contain it or its impact, among others. These uncertainties arise from the inability to predict the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put in place by Canada, and other countries to fight the virus.

While the extent of the impact remains unknown, the Company anticipates this outbreak may cause supply chain disruptions, and increased government regulations, all of which may negatively impact the Company's business and financial condition.

17. Other Income

During the six months ended May 31, 2022, the Company disposed of two non-core legacy properties located in the Red Lake District in northwestern Ontario, Canada for gross proceeds of $204,900. A gain on disposals of $193,289, net of commissions and other selling costs of $11,611, was included in other income on the unaudited condensed interim consolidated statements of loss and comprehensive loss.

18. 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, 2022, 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.

19. Reclassification

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

20. Subsequent Events

Subsequent to May 31, 2022, 859,200 broker warrants exercisable at $0.10 expired unexercised.

Subsequent to May 31, 2022, the Company disposed of a vacant lot subject to a registered plan of subdivision in the Town of Red Lake, Ontario, for gross proceeds of $34,900.