Psyched Wellness Ltd.

Consolidated Financial Statements

For the Years Ended November 30, 2022 and 2021

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Psyched Wellness Ltd.

Report on the Audit of the Consolidated financial statements

Opinion
We have audited the consolidated financial statements of Psyched Wellness Ltd. (the Company), which comprise the consolidated statements of financial position as at November 30, 2022 and 2021, and the consolidated statements of loss and comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2022 and 2021, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

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

Material Uncertainty Relating to Going Concern
We draw your attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a comprehensive loss of $4,295,605 during the year ended November 30, 2022. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Information Other than the Consolidated financial statements and Auditor's Report Thereon
Management is responsible for the other information. The other information comprises the annual management's discussion and analysis, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated financial statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated financial statements

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Clearhouse LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
March 29, 2023

Psyched Wellness Ltd.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Notes	As at November 30, 2022 $	As at November 30, 2021 $
Assets			
Current Assets			
Cash		**2,567,567**	5,530,353
Accounts receivable	4	**63,946**	55,524
Inventories	5	**266,789**	-
Prepaid expenses and deposits	6	**292,738**	319,575
Total Current Assets		**3,191,040**	5,905,452
Property and equipment	7	**24,375**	-
Intangible assets	8	**95,368**	28,583
Goodwill	9	**-**	448,611
Total Assets		**3,310,783**	6,382,646
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	10,15	**174,890**	178,149
Deferred revenue		**23,182**	-
Total Liabilities		**198,072**	178,149
Shareholders' Equity			
Share capital	11	**21,001,495**	20,451,245
Reserve for restricted share units	12	**487,000**	-
Contributed surplus	13	**2,048,878**	1,882,310
Reserve for warrants	14	**3,254,521**	3,302,535
Accumulated deficit		**(23,679,183)**	(19,431,593)
Total Shareholders' Equity		**3,112,711**	6,204,497
Total Liabilities and Shareholders' Equity		**3,310,783**	6,382,646
Nature of operations and going concern	1		
Contingencies and commitments	21		
Subsequent events	22		

Approved on behalf of the Board of Directors:

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

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

Psyched Wellness Ltd.

Consolidated Statements of Loss and Comprehensive Loss
For the Years Ended November 30, 2022 and 2021
(Expressed in Canadian Dollars)

	Notes	2022 $	2021 $
Revenue			
Sales revenue	19	14,274	-
Cost of goods sold		(6,732)	-
Gross Profit		7,542	-
Expenses			
Stock-based compensation	12,13,15	1,203,818	957,150
Research costs		952,243	538,772
Management salaries and consulting fees	15	823,979	937,944
Advertising and promotion		386,457	1,210,179
Professional fees	15	363,908	502,858
Office and general		280,499	247,098
Regulatory compliance		68,863	52,105
Depreciation	7	1,339	-
Impairment of goodwill	9	448,611	-
Total Expenses		(4,529,717)	(4,446,106)
Loss before Other Expenses		(4,522,175)	(4,446,106)
Other Income			
Gain on disposals of properties	20	219,489	-
Property taxes		(6,871)	(3,701)
Allowance for expected credit losses	4	-	(34,983)
Foreign exchange gain (loss)		13,953	(13,026)
Total Other Income (Expenses)		226,571	(51,710)
Net Loss and Comprehensive Loss		(4,295,604)	(4,497,816)
Weighted Average Number of Outstanding Shares			
- Basic and diluted		134,631,133	124,642,240
Loss per Share			
- Basic and diluted	11	(0.032)	(0.036)

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

Psyched Wellness Ltd.
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended November 30, 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	11,14	21,300,000	3,930,231	-	-	2,672,769	-	6,603,000
Issuance of agent units from private placement	11,14	1,095,365	202,114	-	-	137,449	-	339,563
Issuance of broker warrants from private placement	11,14	-	-	-	-	1,287,542	-	1,287,542
Share issuance costs	11,14	-	(1,239,959)	-	-	(843,239)	-	(2,083,198)
Issuance of shares on debt settlement		315,200	63,105	-	-	-	-	63,105
Stock-based compensation	13	-	-	-	957,150	-	-	957,150
Exercise of stock options	11,14	2,037,000	391,374	-	(165,174)	-	-	226,200
Exercise of broker warrants	11,14	1,329,200	202,289	-	-	(69,369)	-	132,920
Net loss for the year		-	-	-	-	-	(4,497,816)	(4,497,816)
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	12	-	-	1,037,250	-	-	-	1,037,250
Issuance of shares on vesting of RSUs	11,12	5,200,000	550,250	(550,250)	-	-	-	-
Stock-based compensation	13	-	-	-	166,568	-	-	166,568
Expiry of warrants	14	-	-	-	-	(48,014)	48,014	-
Net loss for the year		-	-	-	-	-	(4,295,604)	(4,295,604)
Balance, November 30, 2022		**135,789,695**	**21,001,495**	**487,000**	**2,048,878**	**3,254,521**	**(23,679,183)**	**3,112,711**

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

Psyched Wellness Ltd.

Consolidated Statements of Cash Flows
For the Years Ended November 30, 2022 and 2021
(Expressed in Canadian Dollars)

	Notes	2022 $	2021 $
Operating Activities			
Net loss for the year		(4,295,604)	(4,497,816)
Adjustments for non-cash items:			
Stock-based compensation – RSUs	12	1,037,250	-
Stock-based compensation – options	13	166,568	957,150
Depreciation expense	7	1,339	-
Impairment of goodwill	9	448,611	-
Gain on disposals of properties	20	(219,489)	-
Allowance for expected credit losses	4	-	34,983
		(2,861,325)	(3,505,683)
Net change in non-cash working capital items:			
Accounts receivable		(12,692)	59,737
Inventories		(266,789)	-
Prepaid expenses and deposits		31,107	232,672
Accounts payable and accrued liabilities	10	(3,259)	206,407
Deferred revenue		23,182	-
Cash Flows (used in) Operating Activities		(3,089,776)	(3,006,867)
Financing Activities			
Proceeds from private placements	11	-	6,603,000
Issuance costs paid on private placements	11	-	(456,093)
Proceeds from exercise of stock options	11,13	-	226,200
Proceeds from exercise of broker warrants	11,14	-	132,920
Cash Flows provided by Financing Activities		-	6,506,027
Investing Activities			
Additions of property and equipment	7	(25,714)	-
Additions of intangible assets	8	(66,785)	(28,583)
Proceeds on disposals of properties	20	233,900	-
Transaction costs paid on disposals of properties	20	(14,411)	-
Cash Flows provided by (used in) Investing Activities		126,990	(28,583)
(Decrease) increase in cash		(2,962,786)	3,470,577
Cash, beginning of year		5,530,353	2,059,776
Cash, end of year		2,567,567	5,530,353
Supplemental Information			
Commissions from private placement paid in Units	11	-	141,473
Corporate finance fees from private placement paid in Units	11	-	198,090

The accompanying notes are an integral part of these 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 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 currently producing and 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 products involves a high degree of risk, and there is no assurance that any prospective project in the health and wellness 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 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 year ended November 30, 2022, the Company incurred a net and comprehensive loss of $4,295,604 (2021 – $4,497,816), and as of that date, the Company's accumulated deficit was $23,679,183 (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 represent material uncertainties which may cast doubt on the Company's ability to continue as a going concern.

These 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 financial statements. Such adjustments could be material.

2. Basis of Presentation

(a) Statement of Compliance

These 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. The accounting policies set out below were consistently applied to all periods presented unless otherwise noted.

These consolidated financial statements were reviewed, approved, and authorized for issuance by the Board of Directors (the "Board") of the Company on March 29, 2023.

(b) Basis of Measurement

These 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, as explained in the significant accounting policies set out in Note 3. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(c) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Psyched Wellness Corp. ("Psyched Corp."). Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are-deconsolidated from the date control ceases. The 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.

2. Basis of Presentation (continued)

(d) Functional Currency

These consolidated financial statements are presented in Canadian dollars ("$" or "CAD"), 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, Estimates and Assumptions

The preparation of these 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 cash position at year-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.

Valuation of inventories

The valuation of work in process and finished goods requires the estimate of production costs incurred, which become part of the carrying amount for inventories. The Company must also determine if the cost of any inventories exceeds its net realizable value ("NRV"), such as cases where prices have decreased, or inventories have spoiled or otherwise been damaged. The Company estimates the NRV of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and gross profit.

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, Estimates and Assumptions (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.

Warrants, options and restricted share units

Management determines the costs for share-based compensation on options, restricted share units ("RSUs"), and share purchase warrants using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgments are used in applying the valuation techniques. These assumptions and judgments include 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. Such assumptions and judgments are inherently uncertain. Changes in these assumptions can affect the fair value estimates of share-based compensation.

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.

Expected credit losses on financial assets

Determining an allowance for expected credit losses ("ECL") for amounts receivable and all debt financial assets not held at fair value through profit and loss requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

Research and development costs

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

Functional currency

The functional currency for the Company and its subsidiary is the currency of the primary economic environment in which it operates. Determination of functional currency involves significant judgments and other entities may make different judgments based on similar facts. The Company reconsiders periodically the functional currency of its businesses if there is a change in the underlying transactions, events or conditions which determine its primary economic environment.

3. Summary of Significant Accounting Policies

(a) Cash

Cash on the consolidated statements of financial position comprises bank balances held in a Canadian chartered bank, and funds held in trust with the Company's legal counsel which is available on demand.

(b) Revenue from Contracts with Customers

The Company's policy for the timing and amount of revenue to be recognized is based on the following 5-step process:

- Identify the contract with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price, which is the total consideration provided by the customer.
- Allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
- Recognize revenue when the relevant criteria are met for each unit (at a point in time or over time).

Revenue is recognized at the transaction price, which is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer. Net revenue from sale of goods, as presented in the consolidated statements of loss and comprehensive loss, represents revenue from the sale of goods less expected price discounts and related transaction fees.

The Company's contracts with customers for the distribution of mushroom-derived products and associated consumer packaged goods consist of only one performance obligation. The Company has concluded that revenue from the sale of these products should be recognized at the point in time when control is transferred to the customer, which is on shipment of goods.

The Company's payment terms vary by customer types. Payment is due immediately before the transfer of control.

Deferred revenue

Deferred revenue comprises the value of sales of goods which had been charged to a customer when an order is placed, for which will be delivered in the future.

The revenue from the sale of goods is deferred until shipment of mushroom-derived products and associated consumer packaged goods is completed. Deposits received on products not yet shipped are presented in the consolidated statements of financial position as deferred revenue.

(c) Financial Instruments

The Company classifies and measures financial instruments in accordance with IFRS 9 – Financial Instruments ("IFRS 9"). A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Company recognizes financial assets and financial liabilities on the consolidated statements of financial position when it becomes a party to the financial instrument or derivative contract.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: (a) those to be measured subsequently at fair value through profit or loss ("FVTPL"); (b) those to be measured subsequently at fair value through other comprehensive income ("FVTOCI"); and (c) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For financial assets and financial liabilities measured at fair value, gains and losses are recorded in profit or loss.

The Company reclassifies financial assets when its business model for managing those assets changes. Financial liabilities are not reclassified.

3. Summary of Significant Accounting Policies (continued)

(c) Financial Instruments (continued)

Classification (continued)

Fair value through profit or loss

This category includes derivative instruments as well as quoted equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVTOCI. This category would also include debt instruments whose cash flow characteristics fail the solely principal and interest ("SPPI") criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognized in profit or loss. As at November 30, 2022 and 2021, the Company did not have any financial assets at FVTPL.

Financial assets at fair value through other comprehensive income

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in FVTOCI instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at FVTOCI are initially measured at fair value and changes therein are recognized in other comprehensive income (loss). As at November 30, 2022 and 2021, the Company did not have any financial assets at FVTOCI.

Amortized cost

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. Financial asset classified in this category are measured at amortized cost using the effective interest method.

The Company's classification of financial assets and financial liabilities under IFRS 9 are summarized below:

Cash	Fair value
Accounts receivable (excluding sales tax recoverable)	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (loss) (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income (loss).

Expected credit loss impairment model

IFRS 9 introduced a single ECL impairment model, which is based on changes in credit quality since initial application. The adoption of the ECL impairment model had resulted in a provision of ECL recorded on the Company's consolidated statements of loss and comprehensive loss.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

3. Summary of Significant Accounting Policies (continued)

(c) Financial Instruments (continued)

Expected credit loss impairment model (continued)

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts.

Derecognition

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

The Company derecognizes financial liabilities only when its obligation under the financial liabilities is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of loss and comprehensive loss.

Fair value hierarchy

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 November 30, 2022 and 2021, the Company did not have any financial instruments measured at fair value.

(d) Inventories

Inventories are initially recognized at cost, and subsequently measured at the lower of cost and NRV, which is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale, using the "weighted-average cost" method. Cost comprises all costs of purchase, and other costs incurred in bringing the inventories to their present location and condition.

All inventories are reviewed for impairment due to slow-moving stock and obsolescence. The provision for obsolete, slow-moving and defective inventories are recognized in profit or loss. Previous write-downs to NRV are reversed to the extent there is a subsequent increase in the NRV of the inventories.

(e) Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and impairment losses. Cost includes acquisition costs or construction costs, as well as 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)

(f) Intangible Assets

Intangible assets comprised of trademarks and costs from internally-generated intangible assets associated with research costs incurred on the Company's Amanita Muscaria Extract, "AME-1", and are recorded at cost less accumulated amortization and accumulated impairment losses. The estimated useful life, amortization method, and residual values are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with an indefinite useful life, are not amortized. These intangible assets are, however, reviewed for impairment on an annual basis, and whenever there is an indicator of impairment.

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of a business over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the CGU or CGUs which are expected to benefit from the synergies of the combination. Goodwill has an indefinite useful life that is not subject to amortization and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment on goodwill is determined by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any impairment loss for goodwill is recognized directly in profit or loss and any impairment loss recognized for goodwill is not reversed in subsequent periods.

(g) Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

As at November 30, 2022 and 2021, the Company had no material provisions.

(h) Income Taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income (loss).

Current income tax is recognized and measured at the amount expected to be recovered from, or payable to, the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recorded for temporary differences at the date of the consolidated statements of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of a deferred tax asset is reviewed at the end of the reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Unrecognized deferred tax assets are reassessed at the end of the reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if, and only if, they relate to income taxes levied by the same taxation authority and the Company has the legal rights and intent to offset.

3. Summary of Significant Accounting Policies (continued)

(h) Income Taxes (continued)

Estimates

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

(i) Share Capital

In situations where the Company issues units, the value of units is bifurcated and the value of warrants is included as a separate reserve for warrants of the Company's equity. The proceeds from the issuance of units are allocated between common shares and warrants on a pro-rated basis using the relative fair value method. The fair value of the common shares is determined using the share price at the date of issuance of the units. The fair value of the warrants is determined using the Black-Scholes pricing model ("Black-Scholes").

(j) Share Issuance Costs

Costs incurred in connection with the issuance of share capital are netted against the proceeds received. Costs related to the issuance of share capital and incurred prior to issuance are recorded as deferred share issuance costs and subsequently netted against proceeds when they are received.

(k) Loss Per Share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, in the weighted average number of common shares outstanding during the year, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the year.

(l) Share-Based Payments

The Company operates an employee stock option plan (the "Option Plan"). Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received, or at the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The fair value of options is determined using Black–Scholes. The fair value of equity-settled share-based transactions is recognized as a stock-based compensation expense with a corresponding increase in contributed surplus.

The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount ultimately recognized for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

Upon the exercise of stock options and warrants, proceeds received from the stock option or warrant holders are recorded as an increase to share capital and the related reserves is transferred to share capital. Expired warrants are also transferred to accumulated deficit.

The Company also operates a RSUs Plan, where RSUs are granted to directors, employees and consultants from time to time. 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 is recognized as an expense with a corresponding increase in the reserve for RSUs over the vesting period.

3. Summary of Significant Accounting Policies (continued)

(m) Research and Development Costs

Expenditures during the research phase are expensed as incurred. Expenditures incurred during the development phase are capitalized as internally-generated intangible assets if the Company can demonstrate each of the following criteria:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete the intangible assets and use or sell it;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

(n) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(o) 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. The Company had assessed that there was no material impact upon the adoption of these following amendments on its consolidated financial statements:

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.

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. The Company early-adopted these amendments as 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. The Company early-adopted these amendments as permitted.

(Expressed in Canadian Dollars)

4. Accounts Receivable

The Company's accounts receivable balance comprises amounts due from government taxation authorities in respect of the Harmonized Sales Tax and other receivables from suppliers. The Company anticipates full recovery of these amounts and therefore no ECL has been recorded against these receivables during the year ended November 30, 2022, which are due in less than one year.

During the year ended November 30, 2021, the Canada Revenue Agency completed an assessment of HST filings on the Company's subsidiary, for the filing period ended December 31, 2020. As a result of the assessment, a portion of HST refund claimed was disallowed, and the Company recorded an allowance for ECL of $34,983 which is included in other expenses.

5. Inventories

As at November 30, 2022, the Company's inventories consisted of raw materials held with the Company's U.S.-based contract manufacturing organization partner, and those in transit, and finished goods.

	November 30, 2022	November 30, 2021
	$	$
Raw materials	**244,414**	-
Finished goods	**22,375**	-
	266,789	-

During the year ended November 30, 2022, inventories of finished goods expensed to cost of goods sold was $3,322 (2021 – $nil).

6. Prepaid Expenses

	November 30, 2022	November 30, 2021
	$	$
Prepaid insurance	**23,735**	89,744
Advances made to suppliers	**269,003**	137,729
Advance in transit to supplier	**-**	92,102
	292,738	319,575

7. Property and Equipment

	Machinery	**Total**
	$	**$**
Cost at:		
November 30, 2021	-	**-**
Additions	25,714	**25,714**
November 30, 2022	25,714	**25,714**
Accumulated depreciation at:		
November 30, 2021	-	**-**
Depreciation expense	1,339	**1,339**
November 30, 2022	1,339	**1,339**
Net book value:		
November 30, 2022	24,375	**24,375**

(Expressed in Canadian Dollars)

8. 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 year ended November 30, 2022, the Company incurred an additional cost of $66,785 in relation to internally-generated research costs incurred on AME-1 (2021 – $nil).

9. 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 $477,676 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, 2022, 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. Management determined that the carrying value of Psyched Corp. exceeded its recoverable amount and recognized an impairment loss of $448,611 in the consolidated statements of loss and comprehensive loss during the year ended November 30, 2022.

10. Accounts Payable and Accrued Liabilities

Accounts payable of the Company are principally comprised of amounts outstanding for trade purchases relating to regular business activities. The Company's standard term for trade payable is 30 to 60 days.

	November 30, 2022	November 30, 2021
	$	$
Accounts payable	**105,545**	13,157
Accrued liabilities	**69,345**	164,992
	174,890	178,149

11. 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 November 30, 2022 and 2021 are as follows.

	Number of common shares	**Amount**
	#	**$**
Balance, November 30, 2020	**104,512,930**	**16,902,091**
Shares issued on private placement financing	22,395,365	4,132,345
Share issuance costs	-	(1,239,959)
Shares issued on debt settlement	315,200	63,105
Shares issued on exercise of stock options	2,037,000	391,374
Shares issued on exercise of broker warrants	1,329,200	202,289
Balance, November 30, 2021	**130,589,695**	**20,451,245**
Shares issued on vesting of RSUs	5,200,000	550,250
Balance, November 30, 2022	**135,789,695**	**21,001,495**

11. Share Capital (continued)

Share capital transactions for the year ended November 30, 2022

During the year ended November 30, 2022, the Company issued 5,200,000 common shares as a result of the vesting of RSUs. These common shares were valued at an amount of $550,250. See Note 12 for more details.

Share capital transactions for the year ended November 30, 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.

On September 21, 2021, the Company issued 315,200 common shares to settle an amount of USD $50,000 ($63,105) to a supplier for services performed. The common shares were measured at the fair value of goods or services received.

During the year ended November 30, 2021, the Company issued 2,037,000 common shares as a result of the exercise of stock options for total cash proceeds of $226,200.

During the year ended November 30, 2021, the Company also issued 1,329,200 common shares as a result of the exercise of broker warrants for total cash proceeds of $132,920.

Basic and diluted loss per share

Basic and diluted loss per share is calculated by dividing the net loss of $4,295,604 for the year ended November 30, 2022 (2021 – $4,497,816) by the weighted average number of common shares outstanding during the year. For the year ended November 30, 2022, the basic and diluted loss per share was $0.032 (2021 – basic and diluted loss of $0.036).

12. Reserve for Restricted Share Units

On January 24, 2022, the Company implemented 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 $924,000 in connection with the vesting of these RSUs was recorded during the year ended November 30, 2022.

On January 27, 2022, the Company granted another 500,000 RSUs to certain officers and advisors, under the same vesting terms as those RSUs granted on January 24, 2022. Stock-based compensation of $50,000 in connection with the vesting of these RSUs was also recorded during the year ended November 30, 2022.

On August 11, 2022, the Company granted 275,000 RSUs to a consultant. These RSUs vested immediately. Stock-based compensation of $39,875 in connection with the vesting of these RSUs was recorded during the year ended November 30, 2022.

On November 16, 2022, the Company granted an additional 275,000 RSUs to a consultant. These RSUs vested immediately. Stock-based compensation of $23,375 in connection with the vesting of these RSUs was recorded during the year ended November 30, 2022.

As at November 30, 2022, the Company had 4,650,000 RSUs which are issuable under the RSU Plan.

(Expressed in Canadian Dollars)

13. Contributed Surplus

The Company maintains 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 November 30, 2022, the Company had 703,969 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 years ended November 30, 2022 and 2021:

	2022		2021	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
	#	**$**	#	$
Outstanding, beginning of year	**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
Granted	-	-	1,000,000	0.23
Granted	-	-	100,000	0.19
Exercised	-	-	(1,587,000)	0.10
Exercised	-	-	(450,000)	0.15
Outstanding, end of year	**12,875,000**	**0.17**	11,375,000	0.18

Options grants for the year ended November 30, 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 $155,434 was recorded as stock-based compensation in connection with the vesting of options during the year ended November 30, 2022.

Options grants for the year ended November 30, 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 year ended November 30, 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 of $579,621 was recorded as stock-based compensation in connection with the vesting of options during the year ended November 30, 2021.

(Expressed in Canadian Dollars)

13. Contributed Surplus (continued)

Options grants for the year ended November 30, 2021 (continued)

On June 24, 2021, the Company granted 250,000 options to an officer. 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 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 0.97% and an expected life of five years. The grant date fair value attributable to these options was $39,449, of which $29,158 was recorded as stock-based compensation in connection with the vesting of options during the year ended November 30, 2021.

On June 30, 2021, the Company granted 750,000 options to a director. 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 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 0.97% and an expected life of five years. The grant date fair value attributable to these options of $128,130 was recorded as stock-based compensation in connection with the vesting of options during the year ended November 30, 2021.

On November 15, 2021, the Company granted 100,000 options to an arm's length advisor. The options are exercisable at a price of $0.19 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 1.48% and an expected life of five years. The grant date fair value attributable to these options was $13,303, of which $11,134 was recorded as stock-based compensation in connection with the vesting of options during the year ended November 30, 2022 (2021 – $2,169).

The following table summarizes information of stock options outstanding and exercisable as at November 30, 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	2.62
October 23, 2025	1,050,000	1,050,000	0.15	2.90
November 13, 2025	500,000	500,000	0.145	2.96
November 24, 2025	750,000	750,000	0.185	2.99
December 3, 2025	250,000	250,000	0.225	3.01
March 15, 2026	2,000,000	2,000,000	0.39	3.29
June 24, 2026	250,000	250,000	0.23	3.57
June 30, 2026	750,000	750,000	0.23	3.58
November 15, 2026	100,000	100,000	0.19	3.96
December 1, 2026	1,500,000	1,125,000	0.145	4.01
	12,875,000	**12,500,000**	**0.17**	**3.03**

(Expressed in Canadian Dollars)

14. Reserve for Warrants

The following summarizes the warrant activity for the years ended November 30, 2022 and 2021:

	2022		2021	
	Number of warrants	**Weighted average exercise price**	Number of warrants	Weighted average exercise price
	#	**$**	#	$
Outstanding, beginning of year	**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	**-**	**-**	(1,329,200)	0.10
Expired	**(920,000)**	**0.10**	-	-
Outstanding, end of year	**23,886,365**	**0.42**	24,806,365	0.10

Warrant issuances for the year ended November 30, 2022

There were no warrant issuances during the year ended November 30, 2022.

Warrant issuances for the year ended November 30, 2021

On February 17, 2021, the Company issued 21,300,000 Warrants in connection with the Offering, as disclosed in Note 11. 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.

The following table summarizes information of warrants outstanding as at November 30, 2022:

Date of expiry	**Number of warrants outstanding**	**Exercise price**	**Weighted average remaining contractual life**
	#	**$**	**Years**
February 17, 2024	22,395,365	0.43	1.22
February 17, 2024	1,491,000	0.31	1.22
	23,886,365	**0.42**	**1.22**

(Expressed in Canadian Dollars)

15. 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 other members of key management personnel during the years ended November 30, 2022 and 2021 were as follows:

	2022	2021
	$	$
Management salaries and consulting fees	633,326	336,000
Professional fees	94,000	80,000
Stock-based compensation	810,434	350,899
	1,537,760	766,899

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 year ended November 30, 2021, S4 Management charged $76,000 for consulting services provided to the Company, which are included in management salaries and consulting fees. As at November 30, 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 year ended November 30, 2022, the Company recorded management salaries of $240,000 (2021 – $140,000) in relation to the CEO's employment compensation. As at November 30, 2022, $4,115 (November 30, 2021 – $nil) owing to the CEO was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

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 year ended November 30, 2022, the COO charged $193,326 (2021 –$120,000) for consulting services provided to the Company, which are included in management salaries and consulting fees. As at November 30, 2022, no balance was owed to the COO (November 30, 2021 – $nil).

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 year ended November 30, 2022, the Company recorded management salaries of $200,000 in relation to the CCO's employment compensation. As at November 30, 2022, $3,072 (November 30, 2021 – $nil) owing to the CCO was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

During the year ended November 30, 2022, Branson Corporate Services Ltd. ("Branson"), where the Chief Financial Officer ("CFO") of the Company is employed, charged fees of $94,000 (2021 – $80,000), for CFO services, as well as other accounting and administrative services, which are included in professional fees. As at November 30, 2022, $8,492 (November 30, 2021 – $nil) owing to Branson was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

Stock-based compensation

During the years ended November 30, 2022 and 2021, the Company had granted certain options and RSUs to various officers and directors. In 2022, total stock-based compensation of $810,434 was recorded in connection with the vesting of these securities (2021 – stock-based compensation of $350,899 related to options).

(Expressed in Canadian Dollars)

16. Income Taxes

The reported recovery of income taxes differs from amounts computed by applying the combined Canadian federal and provincial income tax rates to the reported loss before income taxes due to the following:

	November 30, 2022	November 30, 2021
	$	$
Reported loss before income taxes	**(4,295,604)**	(4,497,815)
Combined statutory income tax rate	**26.5%**	26.5%
Expected income tax recovery at current rate	**(1,138,335)**	(1,191,921)
Increase (decrease) to the income tax expense resulting from:		
Non-deductible stock-based compensation	**319,012**	253,645
Share issue costs charged directly to equity	**-**	(328,589)
Prior year's true-up	**17,960**	-
Goodwill impairment	**118,882**	-
Other permanent differences	**(58,875)**	(39,977)
Change in tax benefits not recognized	**741,356**	1,306,842
	-	-

Deferred tax balances

Deferred income taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying values of assets and liabilities. The temporary differences and unused tax losses that give rise to deferred income tax assets are presented below:

	November 30, 2022	November 30, 2021
	$	$
Non-capital losses carried forward	**3,092,181**	2,277,855
Capital losses	**720,732**	720,732
Land	**39,750**	39,750
Property and equipment	**7,574**	-
Financing costs	**222,673**	303,218
	4,082,910	3,341,555
Less: Deferred tax assets not recognized	**(4,082,910)**	(3,341,555)
Net deferred tax assets	**-**	-

As at November 30, 2022 and 2021, the Company had a 100% valuation allowance against its deferred income tax balances as it is not considered probable that sufficient future tax profit will allow the deferred tax assets to be realized.

Finance costs will be fully amortized in 2026 and other temporary differences may be carried forward indefinitely.

Tax losses carried forward

As at November 30, 2022 and 2021, the Company had the following tax losses available:

	November 30, 2022	**Expiry dates**	November 30, 2021	Expiry dates
	$		$	
Share issue costs	**840,277**	**2023-2025**	1,144,220	2022-2025
Non-capital losses	**9,679,265**	**2026-2042**	7,430,437	2026-2041
Capital losses	**5,439,490**	**N/A**	5,439,490	N/A

(Expressed in Canadian Dollars)

17. 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 adjusts 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 in the current financial reporting period.

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

18. 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.

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 November 30, 2022, the Company had a cash balance of $2,567,567 (November 30, 2021 – $5,530,353) to settle current liabilities of $198,072 (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	174,890	174,890	-	-

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 November 30, 2022.

(Expressed in Canadian Dollars)

18. Risk Management (continued)

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 November 30, 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 November 30, 2022, the Company's financial instruments consisted of cash, accounts receivable (excluding sales tax recoverable), and accounts payable and accrued liabilities. The fair value of cash, accounts receivable (excluding sales tax recoverable) and accounts payables and accrued liabilities are approximately equal to their carrying value due to their short-term nature.

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

19. Revenues

The Company's revenues for the years ended November 30, 2022 and 2021 were comprised of the following:

	2022	2021
	$	$
Mushroom-derived products	**13,685**	-
Apparels and accessories	**589**	-
	14,274	-

20. Other Income

During the year ended November 30, 2022, the Company disposed of three non-core legacy properties located in the Red Lake District in northwestern Ontario, Canada, for total gross proceeds of $233,900. A gain on disposals of $219,489, net of commissions and other selling costs of $14,411, was included in other income on the consolidated statements of loss and comprehensive loss.

21. Contingencies and Commitments

The Company's 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 November 30, 2022, regulations 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.

22. Subsequent Events

Subsequent to November 30, 2022, the Company cancelled an aggregate 7,150,000 options previously granted to directors, advisory board members, employees, advisors and consultants (the "Participants"), exercisable at prices ranging from $0.145 to $0.39 per common share, as per disclosed in Note 13. On February 5, 2023, the Company, in compliance with the policies of the CSE, granted an equal number of options to such Participants at an exercise price of $0.10. These options vested immediately on grant, and will expire three years from the date of grant.

On March 15, 2023, the Company granted 500,000 options to certain employees. The options are exercisable at a price of $0.10 per common share for a period of five years. The options will vest four months from the date of grant.