# Nova Mentis Life Science Corp.
# (formerly Liberty Leaf Holdings Ltd.)

## Consolidated Financial Statements

December 31, 2020 and 2019

(Expressed in Canadian Dollars)

Nova Mentis Life Science Corp.
(formerly Liberty Leaf Holdings Ltd.)

December 31, 2020

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# INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDERS OF NOVA MENTIS LIFE SCIENCE CORP. (Formerly Liberty Leaf Holdings Ltd.)

### *Opinion*

We have audited the consolidated financial statements of Nova Mentis Life Science Corp. (formerly Liberty Leaf Holdings Ltd.) (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity or the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the 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 consolidated financial position of the Company as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' 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 these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss of $23,248,988 during the year ended December 31, 2020 and, as of that date, had an accumulated deficit of $50,930,456. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *Other Information*

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

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

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. 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.



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### *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 IFRS, 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 related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

### *Auditors' 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 auditors' 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 skepticism 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 auditors' 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 auditors' 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.



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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 auditors' report is Michelle Chi Wai So.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 30, 2021



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## Nova Mentis Life Science Corp.
## (formerly Liberty Leaf Holdings Ltd.)

Consolidated Statements of Financial Position
December 31, 2020 and 2019
(Expressed in Canadian Dollars)

| | 2020 | 2019 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash and cash equivalents (note 5) | $ 2,135,293 | $ 87,005 |
| Short term investments (note 11) | 5,285 | 760,411 |
| Amounts receivable | 17,314 | 6,576 |
| Inventory | 5,438 | 18,108 |
| Prepaid expenses and deposits | 867,821 | 8,220 |
| | 3,031,151 | 880,320 |
| **Property and Equipment** (note 7) | 23,114 | 29,934 |
| **Investment in Just Kush** (note 8) | 2,037,839 | 5,674,681 |
| | $ 5,092,104 | $ 6,584,935 |
| **Liabilities** | | |
| **Current** | | |
| Accounts payable and accrued liabilities (note 12) | $ 382,962 | $ 325,070 |
| | 382,962 | 325,070 |
| **Shareholders' Equity** | | |
| **Share Capital** (note 13) | 48,298,316 | 27,494,138 |
| **Reserves** (note 13) | 7,341,282 | 6,447,195 |
| **Deficit** | (50,930,456) | (27,681,468) |
| | 4,709,142 | 6,259,865 |
| | $ 5,092,104 | $ 6,584,935 |

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

Approved on behalf of the Board:

*"William Rascan"*
……………………………… Director
William Rascan

*"Steven Feldman"*
……………………………… Director
Steven Feldman

**Nova Mentis Life Science Corp.**
**(formerly Liberty Leaf Holdings Ltd.)**
Consolidated Statements of Comprehensive Loss
Years Ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

| | 2020 | 2019 |
|---|---|---|
| **Revenue** | $ **11,472** | $ 7,192 |
| **Cost of Goods Sold** | **(9,743)** | (5,566) |
| **Gross Profit** | **1,729** | 1,626 |
| **Expenses** | | |
| Accounting, legal and audit (note 12) | **99,921** | 131,296 |
| Amortization (note 7) | **6,820** | 9,798 |
| Consulting fees (note 12) | **268,161** | 370,118 |
| Management fees (note 12) | **205,500** | 188,000 |
| Office and general | **59,968** | 112,167 |
| Rent | **-** | 20,000 |
| Share-based payments (notes 12 and 13) | **894,087** | 266,210 |
| Shareholder communications and investor relations (note 12) | **189,044** | 63,345 |
| Research and development costs | **31,323** | - |
| Transfer agent and filing fees | **48,405** | 62,846 |
| **Loss before Other Items** | **(1,801,500)** | (1,222,154) |
| Loss on short term investments (note 11) | **(25,870)** | (27,725) |
| Interest income | **4,120** | 20,750 |
| Recovery of expenses | **19,427** | - |
| Write off of deposit | **-** | (75,000) |
| Impairment of investment in Just Kush (note 8) | **(4,071,263)** | - |
| Equity loss from associate (note 8) | **-** | (93,958) |
| Consideration paid in excess of net assets acquired from Nova (note 9) | **(6,268,583)** | - |
| Consideration paid in excess of net assets acquired from Pilz (note 10) | **(11,105,319)** | - |
| **Net Loss and Comprehensive Loss for the Year** | $ **(23,248,988)** | $ (1,398,087) |
| **Basic and Diluted Loss Per Share** | $ **0.45** | $ 0.04 |
| **Basic and Diluted Weighted Average Number of Common Shares Outstanding** | **51,442,346** | 31,994,926 |

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

**Nova Mentis Life Science Corp.**
**(formerly Liberty Leaf Holdings Ltd.)**
Consolidated Statements of Changes in Shareholders' Equity
Years ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

| | Number of Shares | Share Capital | Reserves | Deficit | Total |
|---|---|---|---|---|---|
| **Balance, December 31, 2018** | **31,819,033** | $ **27,258,306** | $ **6,266,817** | **$ (26,283,381)** | $ **7,241,742** |
| Shares issued on the exercise of share options | 312,500 | 150,000 | - | - | 150,000 |
| Fair value of share options exercised | - | 85,832 | (85,832) | - | - |
| Share options granted | - | - | 266,210 | - | 266,210 |
| Net loss for the year | - | - | - | (1,398,087) | (1,398,087) |
| **Balance, December 31, 2019** | **32,131,533** | **27,494,138** | **6,447,195** | **(27,681,468)** | **6,259,865** |
| Shares issued on Nova Acquisition | 28,750,002 | 7,475,000 | - | - | 7,475,500 |
| Shares issued on Pilz Acquisition | 50,006,332 | 13,251,678 | - | - | 13,251,678 |
| Shares issued as compensation | 250,000 | 77,500 | | | 77,500 |
| Share options granted | - | - | 894,087 | - | 894,087 |
| Net loss for the year | - | - | - | (23,248,988) | (23,248,988) |
| **Balance, December 31, 2020** | **111,137,867** | **$ 48,298,316** | **$ 7,341,282** | **$ (50,930,456)** | **$ 4,709,143** |

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

**Nova Mentis Life Science Corp.**
**(formerly Liberty Leaf Holdings Ltd.)**

Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

| | 2020 | 2019 |
|---|---|---|
| **Operating Activities** | | |
| Net loss for the year | $ (23,248,988) | $ (1,398,087) |
| Items not involving cash | | |
| Amortization | 6,820 | 9,798 |
| Consideration paid in excess of net assets acquired from Nova | 6,268,583 | - |
| Consideration paid in excess of net assets acquired from Pilz | 11,105,319 | - |
| Share-based payments | 894,087 | 266,210 |
| Write-off of investment in Just Kush | 4,071,263 | - |
| Write-off of deposit | - | 75,000 |
| Loss on short term investments | 25,870 | 27,725 |
| Interest accrued on short term investments | (4,120) | (20,750) |
| Equity loss from associate | - | 93,958 |
| Changes in non-cash working capital | | |
| Amounts receivable | (9,130) | 61,092 |
| Inventory | 12,670 | (18,108) |
| Prepaid expenses and deposits | 20,214 | 8,235 |
| Accounts payable and accrued liabilities | 882 | 16,116 |
| **Cash Used in Operating Activities** | (856,530) | (878,811) |
| **Investing Activities** | | |
| Advances to Just Kush | (434,421) | (413,579) |
| Redemption of short term investments | 715,606 | 800,000 |
| Proceeds on sale of short term investments | 17,770 | 27,002 |
| Net cash acquired from Pilz Acquisition | 1,366,544 | - |
| Net cash acquired from Nova Mentis Acquisition | 1,239,319 | - |
| **Cash Provided by Investing Activities** | 2,904,818 | 413,423 |
| **Financing Activity** | | |
| Shares issued for cash, net of issue costs | - | 150,000 |
| **Cash Provided by Financing Activity** | - | 150,000 |
| **Inflow (Outflow) of Cash** | 2,048,288 | (315,388) |
| **Cash and Cash Equivalents, Beginning of the Year** | 87,005 | 402,393 |
| **Cash and Cash Equivalents, End of the Year** | $ 2,135,293 | $ 87,005 |

Supplemental Disclosures with Respect to Cash Flows (note 14)

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

## 1. NATURE OF OPERATIONS

Nova Mentis Life Science Corp. is a Vancouver, British Columbia, based company incorporated in the province of British Columbia. The Company was previously known as Liberty Leaf Holdings Ltd. and was previously listed on the Canadian Securities Exchange (the "Exchange") under the symbol "LIB". Effective June 26, 2020, the Company consolidated all of its issued and outstanding common shares on the basis of four pre-consolidated shares for every one post-consolidated share and the shares of the Company commenced trading on the Exchange on a consolidated basis under the name "Nova Mentis Life Science Corp." and stock symbol "NOVA". All share references presented in these consolidated financial statements have been retroactively adjusted to reflect the share consolidation.

The principal address of the Company is located at 700 – 838 West Hastings Street, Vancouver, British Columbia, Canada, V6C 0A6.

## 2. GOING CONCERN

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

Several adverse conditions may cast significant doubt on the validity of this assumption. The Company incurred an operating loss during the year ended December 31, 2020 of $23,248,988 (2019 - $1,398,087) and as at that date has a deficit of $50,930,456 (2019 - $27,681,468), has limited resources, no sources of operating cash flow and no assurances that sufficient funding will be available to continue operations for an extended period of time.

The application of the going concern concept is dependent upon the Company's ability to satisfy its liabilities as they become due and to obtain the necessary financing to fund its subsidiaries or enter into agreements with other medicinal psychedelic-related businesses. Management is actively engaged in the review and due diligence on opportunities of merit in the medicinal psychedelic sector and is seeking to raise the necessary capital to meet its funding requirements. There can be no assurance that management's plan will be successful. If the going concern assumption were not appropriate for these consolidated financial statements then adjustments may be necessary in the carrying value of assets and liabilities, the reported expenses and the statements of financial position classifications used. Such adjustments could be material.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

## 3. BASIS OF PRESENTATION

a) Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

b) Basis of measurement

These consolidated financial statements have been prepared using the historical cost basis, except for certain financial instruments, which are measured at fair value. These consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

**3. BASIS OF PRESENTATION** (Continued)

c) Principles of consolidation

The consolidated financial statements of the Company consolidate the accounts of the Company and its wholly owned subsidiaries:

| | **Country** | **Principal Activity** | **Ownership interest** |
|---|---|---|---|
| North Road Ventures Ltd. | Canada | Cannabis product development | 100% |
| Nova Mentis Biotech Corp. | Canada | Psilocybin research & development | 100% |
| Pilz Bioscience Corp. | Canada | Psilocybin research & development | 100% |
| Signature Cannabis Retail Ltd. | Canada | Cannabis accessories retail | 100% |

A subsidiary is consolidated from the date upon which control is acquired by the Company and all material intercompany transactions and balances have been eliminated on consolidation. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

d) Approval of the consolidated financial statements

The consolidated financial statements of the Company for the year ended December 31, 2020 were approved and authorized for issue by the Board of Directors on April 30, 2021.

e) Use of estimates and judgments

The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods.

The key areas of judgment applied in the preparation of the consolidated financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities is as follows:

- Going concern

  The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenses, meet its liabilities for the ensuing year, and to fund planned and contractual exploration programs, involves significant judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

**3. BASIS OF PRESENTATION** (Continued)

e) Use of estimates and judgments (Continued)

- Significant influence

  Where the Company holds a significant shareholding in an investment and has the power to exercise significant influence through common officers and board members, such an investment is treated as an associate. Management applies judgment to determine when the Company loses significant influence over an investee by assessing whether it has lost the power to participate in the financial and operating policy decisions of that investee.

- Determination of control in business acquisitions

  The determination of the acquirer in business acquisitions is subject to judgment and requires the Company to determine which party obtains control of the combining entities. Management applies judgment in determining control by assessing the following three factors: whether the Company has power; whether the Company has exposure or rights to variable returns; and whether the Company has the ability to use its power to affect the amount of its returns. In exercising this judgment, management reviewed the representation on the Board of Directors and key management personnel, the party that initiated the transaction, and each of the entities' activities.

  The assessment of whether an acquisition constitutes a business is also subject to judgment and requires the Company to review whether the acquired entity contains all three elements of a business, including inputs, processes and the ability to create output. Management has had to apply judgments relating to the asset purchase transaction with the acquisitions of NOVA (Note 9) and Pilz (Note 10) with respect to whether the acquisition was a business combination or an asset acquisition.

The key estimates applied in the preparation of the consolidated financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- The inputs used in assessing the recoverable amount of deferred tax assets

  The Company estimates the expected manner and timing of the realization or settlement of the carrying value of its assets and liabilities and applies the tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement.

- Share-based payments

  The value of share-based payments is subject to the limitations of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

- Fair value of equity issuances for non-cash consideration.

  In instances where the fair value of assets received, or services rendered cannot be reliably measured management estimates the fair value of common shares issued as non-cash consideration by reference to the closing trading price of its shares in active markets.

**3. BASIS OF PRESENTATION** (Continued)

f) Use of estimates and judgments (Continued)

- Fair value of investment in Just Kush Enterprises Ltd.

  The Company determined the fair value of its interest in its investment in Just Kush on the date that significant influence was lost. The determination of fair value requires management to make estimates regarding the future cash flows expected to flow to the entity from its investment.

Actual results could differ from those estimates. Key judgments and estimates made by management with respect to those areas noted previously have been disclosed in the notes to the consolidated financial statements, as appropriate.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies have been applied consistently throughout the year to the Company for purposes of these consolidated financial statements.

a) Cash and cash equivalents

Cash and cash equivalents comprise cash, bank deposits or highly liquid temporary investments that are readily convertible into known amounts of cash. Term deposits with an original maturity greater than three months and that are non-redeemable are classified as short-term investments.

b) Foreign currency translation

The presentation and functional currency of the Company and its subsidiaries is the Canadian dollar, as this is the principal currency of the economic environment in which it operates.

Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of each reporting period.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined and are not subsequently restated.

All gains and losses on translation of foreign currency balances are included in profit or loss.

c) Property and equipment

*i) Recognition and measurement*

On initial recognition, property and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Property and equipment are subsequently measured at cost less accumulated amortization, less any accumulated impairment losses. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

**4. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*ii) Subsequent costs*

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

*iii) Amortization*

The amortization rates applicable to each category of property and equipment are as follows:

| **Class of equipment** | **Amortization rate** |
|---|---|
| Computer equipment | 55% declining-balance |
| Office equipment | 20% declining-balance |

d) Intangible assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization is provided on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values, and amortization methods are reviewed at each year end, and any changes in estimates are accounted for prospectively.

e) Investment in associate

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated using the equity method of accounting. Under the equity method, investments in associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income (loss) of the associate. When the Company's share of losses of an associate exceeds the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses.

Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of that associate. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

**4. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

f) Share capital

Proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share of the Company upon exercise, with the corresponding balance in reserves transferred to share capital. Share capital issued for non-monetary consideration is valued at the closing market price at the date of issuance. The proceeds from the issuance of units are allocated between common shares and warrants based on the residual value method. Under this method, the proceeds are allocated first to share capital based on the fair value of the common shares at the time the units are priced and any residual value is allocated to the warrants reserve.

g) Financial instruments

Financial assets

(i) Recognition and measurement of financial assets

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

(ii) Classification of financial assets

The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss.

*Financial assets measured at amortized cost*

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company's business model for the such financial assets, is to hold the assets in order to collect contractual cash flows.
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary. The Company's cash and cash equivalents are measured at amortized cost.

*Financial assets measured at fair value through other comprehensive income ("FVTOCI")*

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction costs directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income.

**4. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

e) Financial instruments (Continued)

*Financial assets measured at fair value through profit or loss ("FVTPL")*

A financial asset measured at fair value through profit or loss is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises. The Company's short-term investments in SIRE and investment in Just Kush measured at FVTPL.

(iii) Derecognition of financial assets

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in profit or loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive loss.

Financial liabilities

(i) Recognition and measurement of financial liabilities

The Company recognizes financial liabilities when it becomes a party to the contractual provisions of the instruments.

(ii) Classification of financial liabilities

The Company classifies financial liabilities at initial recognition as financial liabilities: measured at amortized cost or measured at fair value through profit or loss.

*Financial liabilities measured at amortized cost*

A financial liability at amortized cost is initially measured at fair value less transaction cost directly attributable to the issuance of the financial liability. Subsequently, the financial liability is measured at amortized cost based on the effective interest rate method. The Company's accounts payable and accrued liabilities is measured at amortized cost.

*Financial liabilities measured at fair value through profit or loss*

A financial liability measured at fair value through profit or loss is initially measured at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial liability is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

(iii) Derecognition of financial liabilities

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

**4. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

e) Financial instruments (Continued)

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment of financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

| | |
|---|---|
| Level 1: | Quoted prices (unadjusted) in active markets for identical assets or liabilities. |
| Level 2: | Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. |
| Level 3: | Inputs for assets or liabilities that are not based on observable market data. |

f) Share-based payment transactions

The Company grants share options and warrants to acquire common shares of the Company to directors, officers, employees and consultants. The fair value of share-based payments to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period for employees using the graded vesting method. Fair value of share-based payments for non-employees is recognized and measured at the date the goods or services are received based on the fair value of the goods or services received. If it is determined that the fair value of goods and services received cannot be reliably measured, the share-based payment is measured at the fair value of the equity instruments issued using the Black-Scholes option pricing model.

For both employees and non-employees, the fair value of share-based payments is recognized as an expense with a corresponding increase in option reserves. The amount recognized as expense is adjusted to reflect the number of share options expected to vest. Consideration received on the exercise of stock options is recorded in share capital and the related share-based payment in reserves is transferred to share capital. For those options and warrants that expire or are forfeited after vesting, the recorded value remains in reserves.

g) Income taxes

Income tax expense consisting of current and deferred tax expense is recognized in the consolidated statement of comprehensive loss. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regard to previous years.

**4. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

g) Income taxes (Continued)

Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the year that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

h) Earnings (loss) per share

The Company presents basic earnings (loss) per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of shares outstanding during the year. The Company uses the treasury stock method for calculating diluted earnings (loss) per share. Under this method the dilutive effect on earnings per share is calculated on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to purchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

i) Revenue recognition

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. Revenue from sale of goods, as presented in the consolidated statement of comprehensive loss, represents revenue from the sale of goods less expected price discounts, and allowances for customer returns. The Company has concluded that revenue from the sale of these products should be recognized at the point in time when the Company has met its contractual obligation and control is transferred to the customer. Indicators of a transfer of control include an unconditional obligation to pay, legal title, physical possession, transfer of risk and rewards and customer acceptance. This generally occurs when the goods are delivered to the customer.

i) Inventory

The Company defines inventory as finished goods for resale. Products for resale are initially recognized at cost and subsequently valued at the lower of cost and net realizable value ("NRV"). The Company reviews these types of inventory for obsolescence, redundancy and slow turnover to ensure that they are written-down and reflected at NRV. The Company uses judgment in determining the NRV of inventory. When assessing NRV, the Company considers the impact of price fluctuation and inventory damage. If carrying value exceeds the net realizable amount, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist, up to its initial cost.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) New standard adopted

*IFRS 3 Business Combinations*

Effective January 1, 2020, the Company adopted the amendments to IFRS 3 *Business Combinations* ("IFRS 3"). The amendments assist in determining whether a transaction should be accounted for as a business combination or an asset acquisition. The modifications alter the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create goods and services provided to customers, generating investment and other income. The definition also excludes returns in the form of lower costs and other economic benefits. This amendment did not have a material impact on the Company's consolidated financial statements.

k) Standards, amendments and interpretations not yet effective

The Company will be required to adopt the following standards and amendments issued by the IASB as described below.

*IFRS 17 Insurance Contracts*

IFRS 17 is a new standard that requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4, Insurance Contracts, and related interpretations.

Effective for the Company's annual period beginning January 1, 2021. The Company has yet to assess the impact of IFRS 17 on its consolidated financial statements.

## 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include $1,259,189 (2019 - $87,005) in the operating bank accounts and $876,104 (2019 - $Nil) in a redeemable short-term investment certificate with a maturity date of June 26, 2021. The short-term investment earns interest at approximately 0.25% per annum. The investment is redeemable at any time before the maturity date. Interest earned on the investment is included in interest income.

## 6. FINANCIAL INSTRUMENTS

The Company has exposure to the following risks from its use of financial instruments:

a. Credit risk;
b. Liquidity risk; and
c. Market risk.

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company manages credit risk, in respect of cash and certain short term investments, by placing cash with major Canadian financial institutions. As at December 31, 2020, the Company is therefore exposed to credit risk with respect to cash and cash equivalents of $2,135,293 (2019 - $87,005) and short-term investments of $5,285 (2018 - $711,486).

(Expressed in Canadian Dollars)

## 6. FINANCIAL INSTRUMENTS (Continued)

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. As of December 31, 2020, the Company has cash and cash equivalents and short term investments of $2,140,578 (2019 - $847,416) to meet contractual financial liabilities of $382,962 (2019 - $325,070). All of the liabilities presented as accounts payable and accrued liabilities are due within 90 days of December 31, 2020

c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return on capital.

As at December 31, 2020, the Company is exposed to market risk with respect to short term investments of $5,285 (2019 - $48,925) representing the Company's investment in common shares of Sire Bioscience Inc. ("SIRE")

## 7. PROPERTY AND EQUIPMENT

| | | Computer Equipment | | Office Equipment | | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| Balance, December 31, 2018 | $ | 16,173 | $ | 39,880 | $ | 56,053 |
| Additions | | - | | - | | - |
| Balance, December 31, 2019 | $ | 16,173 | $ | 39,880 | $ | 56,053 |
| Additions | | - | | - | | - |
| Balance, December 31, 2020 | $ | 16,173 | $ | 39,880 | $ | 56,053 |
| Accumulated Amortization | | | | | | |
| Balance, December 31, 2018 | $ | 10,884 | $ | 5,437 | $ | 16,321 |
| Amortization | | 2,909 | | 6,889 | | 9,798 |
| Balance, December 31, 2019 | $ | 13,793 | $ | 12,326 | $ | 26,119 |
| Amortization | | 1,309 | | 5,511 | | 6,820 |
| Balance, December 31, 2020 | $ | 15,102 | $ | 17,837 | $ | 32,939 |
| Net Book Value, December 31, 2019 | $ | 2,380 | $ | 27,554 | $ | 29,934 |
| Net Book Value, December 31, 2020 | $ | 1,071 | $ | 22,043 | $ | 23,114 |

## 8. INVESTMENT IN JUST KUSH

On December 6, 2017, the Company signed an agreement to acquire shares of Just Kush Enterprises Ltd. ("Just Kush"), a private British Columbia company with an in process ACMPR license.

Pursuant to the agreement, the Company has advanced payment to Just Kush and the amount pertains to the build out expenditures incurred at the Just Kush facility to further Just Kush's ACMPR application. These amounts have been paid by the Company and are owed to the Company by Just Kush.

(Expressed in Canadian Dollars)

## 8. INVESTMENT IN JUST KUSH (Continued)

The Company previously determined it had significant influence over Just Kush and accounted for its investment using the equity method. The following is a summary of the investment in associate as at December 31, 2019:

| | | **2019** |
|---|---|---|
| Shares issued | $ | 4,350,000 |
| Cash consideration | $ | 150,000 |
| Advances | $ | 1,378,418 |
| Equity loss from associate | $ | (203,737) |
| Impairment | $ | - |
| Investment in associate | $ | 5,674,681 |

Due to deteriorating market conditions in the cannabis industry and a general disagreement between the stakeholders involved regarding terms of the original purchase agreement and whether the Company had an obligation to contribute capital to Just Kush, the Company entered into a rescission agreement dated March 19, 2021 with Just Kush such that the original purchase agreement is null and void. During the year ended December 31, 2020, the Company advanced $434,421 to Just Kush.

Concurrent with the rescission agreement, the Company entered into a loan agreement whereby Just Kush has agreed to repay a principle sum of $2,037,839 representing advances made by the Company to Just Kush in addition to the cash consideration of the original purchase agreement. Terms of the loan are as follows:

Just Kush shall repay the principle amount on or before March 30, 2027 in monthly installments commencing on March 30, 2022, of the greater of $15,000 or 10% of the borrower's gross revenue for the immediately preceding calendar month. The loan does not accrue interest. In the event that on or before March 30, 2026, the borrower has repaid an aggregate of $800,000 of the principle, the Company shall forgive the remaining balance on the loan to Just Kush.

During the year ended December 31, 2020, the Company determined that it no longer had significant influence over Just Kush and is treated as FVTPL. It was determined that the net realizable value of the investment is the value of the loan receivable Accordingly, the Company incurred an impairment loss on the investment of $4,071,263 in accordance with level 3 of the fair value hierarchy and classified its investment in Just Kush as FTVPL.

## 9. ACQUISITION OF NOVA MENTIS BIOTECH CORP.

On June 26, 2020, the Company completed a share purchase agreement with Nova Mentis Biotech Corp. ("NOVA"), pursuant to which the Company acquired all of the issued and outstanding shares in the capital of NOVA in exchange for 28,750,002 common shares in the capital of the Company.

NOVA is a research and development driven company that is focused on investigating the anti-inflammatory effects of psilocybin in underexplored metabolic indications such as obesity and diabetes.

The transaction is accounted for in accordance with guidance provided in IFRS 2 *Share-Based Payment* ("IFRS 2") and IFRS 3. As the NOVA did not qualify as a business according to the definition in IFRS 3, the acquisition does not constitute a business combination; rather, it is treated as an asset acquisition. The consideration paid was allocated to the net assets and liabilities acquired with the excess included in net loss as consideration paid in excess of net assets acquired.

(Expressed in Canadian Dollars)

**9. ACQUISITION OF NOVA MENTIS BIOTECH CORP.** (Continued)

| | | |
|---|---|---|
| Fair value of consideration – 28,750,002 common shares at $0.26 | $ | 7,475,000 |
| Transaction costs | | 8,181 |
| | | 7,483,181 |
| Net Assets Acquired: | | |
| Cash | $ | 1,247,500 |
| Amounts receivable | | 1,608 |
| Accounts payable and accrued liabilities | | (34,510) |
| | | 1,214,598 |
| Consideration paid in excess of net assets acquired | $ | 6,268,583 |

**10. PILZ BIOSCIENCE CORP.**

On November 30, 2020, the Company completed an agreement with Pilz Bioscience Corp. (“Pilz”), pursuant to which the Company acquired all of the issued and outstanding shares in the capital of Pilz in exchange for 50,006,332 common shares in the capital of the Company (the “Transaction”).

The Transaction was effected by way of a “three-cornered” amalgamation, in which: (a) The Company formed a subsidiary which amalgamated with Pilz to form an amalgamated company (“Amalco“); (b) all issued and outstanding shares of Pilz were then exchanged for common shares of the Company on a 1:1 basis; and (c) Amalco became a wholly-owned subsidiary of the Company and was renamed Pilz Bioscience Corp.

Of the shares exchanged, 12,250,000 are subject to a voluntary pooling agreement whereas certain former Pilz shareholders have agreed to resale restrictions on the shares of the Company received: 20% to be released upon closing of the Transaction, a further 40% to be released three months following closing, and the remaining 40% to be released six months following closing. In connection with the transaction, the Company issued 250,000 common shares with a fair value of $77,500 in the capital of the Company to a consultant.

Pilz Bioscience Corp. (“Pilz”) is a biotechnology company developing medicinal psychedelics for neuroinflammatory conditions with a significant cognitive component and high unmet therapeutic needs.

The Transaction is accounted for in accordance with guidance provided in IFRS 2 and IFRS 3. As Pilz did not qualify as a business according to the definition in IFRS 3, the acquisition does not constitute a business combination; rather, it is treated as an asset acquisition. The consideration paid was allocated to the net assets and liabilities acquired with the excess included in net loss as consideration paid in excess of net assets acquired.

(Expressed in Canadian Dollars)

**10. PILZ BIOSCIENCE CORP.**

| | | |
|---|---|---|
| Fair value of consideration – 50,006,332 common shares at $0.265 | $ | 13,251,678 |
| Transaction costs – Cash | | 7,331 |
| Transaction costs – Common shares | | 77,500 |
| | | 13,336,509 |
| Net Assets Acquired: | | |
| Cash | $ | 1,373,875 |
| Prepaid expenses | | 879,815 |
| Accounts payable and accrued liabilities | | (22,500) |
| | | 2,231,190 |
| Consideration paid in excess of net assets acquired | $ | 11,105,319 |

**11. SHORT TERM INVESTMENTS**

As at December 31, 2020, the Company had short-term investments of $Nil (2019 - $711,486) in a redeemable short-term investment certificate. The short-term investment earned interest at 2% and matured February 4, 2020.

The Company holds common shares of SIRE. During the year ended December 31, 2020, the Company sold 900,000 (2019 – 43,000) SIRE shares for $17,770 (2019 - $3,350) in proceeds.

As at December 31, 2020, the Company held 1,057,000 shares with a fair value of $5,285 (2019 – 1,957,000 shares with a fair value of $48,925). During the year ended December 31, 2020 the Company recognized a fair value loss during the year of $25,870 (2019 – loss of $27,725).

(Expressed in Canadian Dollars)

## 12. RELATED PARTY TRANSACTIONS

These amounts of key management compensation and other related party transactions are included in the amounts shown on the consolidated statements of comprehensive loss for the years ended December 31, 2020 and 2019:

| | | **2020** | | **2019** |
|---|---|---|---|---|
| Consulting fees | $ | 107,500 | $ | 45,000 |
| Management fees | $ | 205,500 | $ | 188,000 |
| Accounting fees | $ | - | $ | 9,575 |
| Shareholder communications | $ | 53,000 | $ | 48,000 |
| Share-based payments | $ | 270,454 | $ | 101,149 |

These transactions were in the normal course of operations. During the year ended December 31, 2020, the Company engaged:

- The Chief Executive Officer ("CEO"), to provide management services to the Company in consideration of $155,000 (2019 - $150,000);
- The CFO to provide management services in consideration of $50,500 (2019 - $38,000 and $9,575 in accounting fees);
- A director to provide shareholder communication services for consideration of $53,000 (2019 - $48,000);
- Directors to provide consulting services for consideration of $73,750 (2019 - $45,000);
- An immediate family member of the CEO to provide consulting services for consideration of $17,500 (2019 - $nil); and
- An immediate family member of the CEO to provide consulting services for consideration of $16,250 (2019 - $17,500).

Incentive stock options were granted to key management during the year ended December 31, 2020 with a fair value of $270,454 (2019 - $101,149) estimated using the Black Scholes option pricing model.

As at December 31, 2020, accounts payable and accrued liabilities included $65,355 (2019 - $35,402) due to officers and directors or companies controlled by current or former officers and directors. The amounts due are non-interest-bearing, unsecured and without stated terms of repayment.

## 13. SHARE CAPITAL

**Authorized share capital**

Unlimited number of common shares without par value.

**Issued share capital**

*During the year ended December 31, 2020*

On June 26, 2020, the Company issued 28,750,002 common shares with a fair value of $7,475,000 in the capital of the Company as part of the acquisition of NOVA detailed in note 9.

On November 30, 2020, the Company issued 50,006,332 common shares with a fair value of $13,251,678 in the capital of the Company as part of the acquisition of Pilz detailed in note 10.

(Expressed in Canadian Dollars)

**13. SHARE CAPITAL** (Continued)

Certain former Pilz shareholders have agreed to a voluntary hold period pursuant to which 9,800,000 of the consideration shares will be subject to trading restrictions. Specifically, 4,900,000 of the consideration shares will be released on the three month anniversary of the closing the transaction, and 4,900,000 of the consideration shares will be released on the six month anniversary of closing the transaction. In connection with the transaction, the Company issued 250,000 common shares with a fair value of $77,500 in the capital of the Company to a consultant.

*During the year ended December 31, 2019*

During the year ended December 31, 2019, the Company issued 312,500 common shares of the Company for gross proceeds of $150,000 on the exercise of 312,500 stock options. The Company transferred $85,832 from reserves to share capital in conjunction with the exercises.

**Warrants**

Warrant transactions and the number of warrants outstanding are summarized as follows:

| | **December 31, 2020** | | **December 31, 2019** | |
|---|---|---|---|---|
| | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| Outstanding, beginning of year | 672,086 | $ 2.40 | 826,086 | $ 2.12 |
| Expired | (672,086) | 2.40 | (154,000) | 0.80 |
| Outstanding, end of year | - | - | 672,086 | $ 2.40 |

The following warrants are outstanding and exercisable:

| Expiry Date | Weighted Average Remaining Contractual Life in Years | Exercise Price | **December 31, 2019** |
|---|---|---|---|
| January 22, 2020 * | 0.06 | $ 2.40 | 657,436 |
| April 5, 2020*, * | 0.26 | $ 2.40 | 14,650 |
| | 0.06 | $ 2.40 | 672,086 |

**Share options**

The Company has adopted a share option plan pursuant to which the Board of Directors of the Company may, from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants of the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares at the time of grant and the options are exercisable for a period not to exceed 10 years from the date of grant. The number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. Options may be exercised within 90 days following cessation of the

(Expressed in Canadian Dollars)

**13. SHARE CAPITAL** (Continued)

**Options** (Continued)

optionee's position with the Company, provided that if the cessation of office, directorship, employment or consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option.

Options granted to directors, employees and consultants vest immediately. Options granted to consultants engaged in investor relations activities will vest in stages over a minimum period of 12 months with no more than one-quarter of the options vesting in any three-month period.

Share option transactions and the number of share options outstanding and exercisable are summarized as follows:

| | **December 31, 2020** | | **December 31, 2019** | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding and exercisable, beginning of year | 2,387,500 | $ 1.23 | 1,937,500 | $ 1.40 |
| Granted | 6,225,000 | 0.21 | 1,387,500 | 0.48 |
| Exercised* | - | - | (312,500) | 0.48 |
| Expired | (1,812,500) | 1.49 | (625,000) | 1.20 |
| Outstanding and exercisable, end of year | 6,800,000 | $ 0.23 | 2,387,500 | $ 1.23 |

* weighted average share price for options exercised during the year ended December 31, 2019 was $0.48

*During the year ended December 31, 2020*

The Company applied the fair value method using the Black-Scholes option pricing model in accounting for its share options granted with the following weighted-average assumptions: risk-free interest rate of 0.24%; expected dividend yield of zero; expected share price volatility of 170%; and expected life of 1.82 years. The Company used historical volatility to estimate the volatility of the share price. The weighted average grant date fair value of each option was $0.14. Accordingly, $894,087 was recognized as share-based payment expense during the year ended December 31, 2020.

*During the year ended December 31, 2019*

The Company applied the fair value method using the Black-Scholes option pricing model in accounting for its share options granted with the following weighted-average assumptions: risk-free interest rate of 1.61%; expected dividend yield of zero; expected share price volatility of 108%; and expected life of 1.41 years. The Company used historical volatility to estimate the volatility of the share price. The weighted average grant date fair value of each option was $0.06. Accordingly, $266,210 was recognized as share-based payment expense during the year ended December 31, 2019.

(Expressed in Canadian Dollars)

## 13. SHARE CAPITAL (Continued)

**Options** (Continued)

The following share options are outstanding and exercisable:

| Expiry Date | Weighted Average Remaining Contractual Life in Years | Exercise Price | **December 31, 2020** | **December 31, 2019** |
|---|---|---|---|---|
| January 5, 2020 | - | $ 2.96 | - | 625,000 |
| March 18, 2020 | - | $ 0.60 | - | 375,000 |
| July 12, 2020 | - | $ 0.42 | - | 312,500 |
| August 1, 2020 | - | $ 0.98 | - | 500,000 |
| July 12, 2021 | 0.53 | $ 0.42 | 575,000 | 575,000 |
| November 6, 2021 | 0.85 | $ 0.20 | 1,200,000 | - |
| November 13, 2021 | 0.87 | $ 0.22 | 13,000 | - |
| December 1, 2021 | 0.92 | $ 0.265 | 112,000 | - |
| September 17, 2022 | 1.71 | $ 0.20 | 2,500,000 | - |
| November 6, 2022 | 1.85 | $0.20 | 1,800,000 | - |
| December 1, 2022 | 1.92 | $ 0.265 | 200,000 | - |
| December 11, 2022 | 1.95 | $ 0.30 | 200,000 | - |
| December 17, 2023 | 2.96 | $ 0.29 | 200,000 | - |
| | 1.53 | $ 0.23 | 6,800,000 | 2,387,500 |

## 14. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

| | **2020** | **2019** |
|---|---|---|
| Fair value of shares issued on acquisition of NOVA | $ 7,475,000 | $ - |
| Fair value of shares issued on acquisition of Pilz | $ 13,251,678 | $ - |
| Fair value of shares issued as transaction costs on acquisition of Pilz | $ 77,500 | $ - |

## 15. SEGMENTED DISCLOSURE AND SUBSIDIARIES

The Company currently operates in two industry segments, being development of cannabis products and research and development of psilocybin, and in one geographic area, being Canada through the following subsidiaries. All of the Company’s long-term assets are located in Canada.

## 16. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27% (2019 - 27%) to income before income taxes.

(Expressed in Canadian Dollars)

## 16. INCOME TAXES (Continued)

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

| | 2019 | 2019 |
|---|---|---|
| Loss before income taxes | $ (23,248,988) | $ (1,398,087) |
| Statutory income tax rate | 27.00% | 27.00% |
| Income tax benefit computed at statutory tax rate | (6,277,227) | (377,483) |
| Items not deductible for income tax purposes | 4,932,357 | 97,245 |
| Change in timing differences | 32,787 | 41,688 |
| Unrecognized benefit of deferred income tax assets | 1,312,083 | 238,550 |
| Income tax benefit | $ - | $ - |

Significant tax benefits and unused tax losses for which no deferred tax asset is recognized as of December 31 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Non-capital losses carried forward | $ 16,958,944 | $ 11,955,397 |
| Excess of tax value over carrying value of exploration and evaluation assets | 4,422,073 | 4,422,073 |
| Excess of tax value over carrying value of property and equipment | 35,038 | 28,218 |
| Excess of tax value over carrying value of short term investments | 11,860 | - |
| Share issue costs | 212,798 | 274,806 |
| Capital losses | 1,430,459 | 1,430,459 |
| Non-refundable income tax credit | - | 55,009 |
| Unrecognized deferred tax assets | $ 23,071,171 | $ 18,165,962 |

The Company has non-capital losses of approximately $16,959,000 available for carry-forward to reduce future years' income for income tax purposes. These losses expire as follows:

(Expressed in Canadian Dollars)

## 16. INCOME TAXES (Continued)

| | |
|---|---|
| 2026 | $ 92,000 |
| 2027 | 404,000 |
| 2028 | 607,000 |
| 2029 | 1,385,000 |
| 2030 | 727,000 |
| 2031 | 802,000 |
| 2032 | 839,000 |
| 2033 | 245,000 |
| 2034 | 442,000 |
| 2035 | 744,000 |
| 2036 | 1,572,000 |
| 2037 | 1,508,000 |
| 2038 | 1,588,000 |
| 2039 | 1,056,000 |
| 2040 | 4,948,000 |
| | $ 16,959,000 |

## 17. CAPITAL MANAGEMENT

The Company considers its capital to be comprised of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares. Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will continue this method of financing due to the current difficult market conditions.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

Management reviews the capital structure on a regular basis to ensure that the above objectives are met. There have been no changes to the Company's approach to capital management during the year ended December 31, 2020. The Company is not subject to external restrictions on its capital.

## 18. SUBSEQUENT EVENTS

Subsequent to the year ended December 31, 2020 the Company:

a) granted 100,000 share options to a consultant of the Company on February 10, 2021, with a term to expiry of two years and an exercise price of $0.235.

b) granted 25,000 share options to a consultant of the Company on March 8, 2021, with a term to expiry of two years and an exercise price of $0.20.