



Consolidated Financial Statements
Years Ended December 31, 2021 and 2020



Years Ended December 31, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF NOVA MENTIS LIFE SCIENCE CORP.

Opinion

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

- ◆ the consolidated statements of financial position as at December 31, 2021 and 2020;
- ◆ the consolidated statements of loss and comprehensive loss for the years then ended;
- ◆ the consolidated statements of cash flows for the years then ended;
- ◆ the consolidated statements of changes in shareholders' equity or 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, 2021 and 2020, 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 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$2,684,619 during the year ended December 31, 2021 and, as of that date, had an accumulated deficit of \$55,598,777. 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.

Emphasis of Matter – Restated Comparative Information

We draw attention to Note 4 to the consolidated financial statements, which explains that certain comparative information presented for the year ended December 31, 2020 has been restated. 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.

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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.

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.

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- ◆ 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.
- ◆ 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

May 2, 2022

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Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at December 31,		2021	2020 (Note 4 – Restated)
Assets	Note	\$	\$
Current			
Cash and cash equivalents	5	218,733	2,135,293
Short term investments	11	-	5,285
Amounts receivable		70,212	17,314
Inventory		-	5,438
Prepaid expenses and deposits		38,826	417,821
		327,771	2,581,151
Property and Equipment	7	18,116	23,114
Investment in Just Kush	8	-	442,213
Loan receivable from Just Kush	8	535,271	-
Total assets		881,158	3,046,478
Liabilities			
Current			
Accounts payable and accrued liabilities	12	422,056	382,962
Total liabilities		422,056	382,962
Shareholders' Equity			
Share Capital	13	48,368,156	48,236,392
Reserves	13	7,689,723	7,341,282
Deficit		(55,598,777)	(52,914,158)
Total shareholders' equity		459,102	2,663,516
Total liabilities and shareholders' equity		881,158	3,046,478

Approved on behalf of the Board:

"William Rascan"

..... Director

William Rascan

"Steven Feldman"

..... Director

Steven Feldman

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



Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

Years Ended December 31,		2021	2020 (Note 4 – Restated)
Revenue	Note	\$	\$
Revenue		-	11,472
Cost of Goods Sold		-	(9,743)
Gross Profit		-	1,729
Expenses			
Accounting, legal and audit		144,089	99,921
Amortization	7	4,998	6,820
Consulting fees	12	892,380	268,161
Management fees	12	198,000	205,500
Office and general		349,980	59,968
Share-based payments	12	348,441	894,087
Shareholder communications and investor relations	12	46,971	189,044
Transfer agent and filing fees		89,149	31,323
Research and development costs		860,074	48,405
Loss before Other Items		(2,934,082)	(1,801,500)
Gain (loss) on short term investments	11	24,353	(25,870)
Interest Income		4,560	4,120
Recovery of expenses		-	19,427
Impairment of investment in Just Kush	8	-	(5,666,889)
Accretion of loan receivable from Just Kush	8	93,058	-
Consideration paid in excess of net assets acquired from Nova	9	-	(6,268,583)
Consideration paid in excess of net assets acquired from Pilz	10	-	(11,493,395)
Write-off of accounts payable		132,930	-
Write-off of inventory		(5,438)	-
Net Loss and Comprehensive Loss for the Year		(2,684,619)	(25,232,690)
Loss and Comprehensive Loss Per Share, Basic and Diluted		(0.02)	(0.49)
Weighted Average Number of Common Shares Outstanding, Basic and Diluted		111,104,785	51,153,928

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



Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

Years ended December 31,		2021	2020 (Note 4 – Restated)
	Note	\$	\$
Operating Activities			
Net loss for the year		(2,684,619)	(25,232,690)
Items not involving cash			
Amortization		4,998	6,820
Accretion of loan receivable from Just Kush		(93,058)	-
Consideration paid in excess of net assets acquired from Nova Biotech	9	-	6,268,583
Consideration paid in excess of net assets acquired from Pilz	10	-	11,493,395
Share-based payments		348,441	894,087
Recovery of accounts payable		(132,930)	-
Write-off of investment in Just Kush		-	5,666,889
(Gain) Loss on short term investments		(24,353)	25,870
Write-off of Inventory		5,438	
Interest accrued on short term investments		-	(4,120)
Changes in non-cash working capital			
Amounts receivable		(52,897)	(9,130)
Inventory		-	12,670
Prepaid expenses		378,994	20,214
Accounts payable and accrued liabilities		303,788	882
Cash Used in Operating Activities		(1,946,198)	(856,530)
Investing Activities			
Advances to associate	8	-	(434,421)
Net cash acquired from Nova Biotech acquisition	9	-	1,239,319
Net cash acquired from Pilz acquisition	10	-	1,366,544
Short term investments	11	29,638	733,376
Cash Provided by Investing Activities		29,638	2,904,818
Net change in cash		(1,916,560)	2,048,288
Cash, Beginning of the Year		2,135,293	87,005
Cash, End of the Year		218,733	2,135,293

Supplemental Disclosures with Respect to Cash Flows (note 14)

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



Consolidated Statements of Changes in Shareholders' Equity
 Years ended December 31, 2021 and 2020
 (Expressed in Canadian Dollars)

	Note	Number of Shares	Share Capital	Reserves	Deficit	Total
			\$	\$	\$	\$
Balance, December 31, 2019		32,131,533	27,494,138	6,447,195	(27,681,468)	6,259,865
Shares issued on Nova Biotech Acquisition		28,750,002	7,475,000	-	-	7,475,000
Shares issued on Pilz Acquisition		50,006,332	13,189,754	-	-	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		-	-	-	(25,232,690)	(23,232,690)
Balance, December 31, 2020		111,137,867	48,236,392	7,341,282	(52,914,158)	2,663,516
Share options granted		-	-	348,441	-	348,441
Shares issued for settlement of debt	13	1,615,210	131,764	-	-	131,764
Shares returned to treasury	8	(1,250,000)	-	-	-	-
Net loss for the year		-	-	-	(2,684,619)	(2,684,619)
Balance, December 31, 2021		111,503,077	48,368,156	7,689,723	(55,598,777)	459,102

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

Nova Mentis Life Science Corp.



Notes to the Consolidated Financial Statements
For the years ended December 31, 2021 and 2020
(Expressed in Canadian Dollars)

1. NATURE OF BUSINESS AND GOING CONCERN

Nova Mentis Life Science Corp. (the "Company") is a company based in Vancouver, British Columbia, and incorporated in the province of British Columbia. The Company is listed on the Canadian Securities Exchange (the "Exchange") under the symbol "NOVA". 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 shares of the Company commenced trading on the Canadian Securities Exchange on a consolidated basis under the name "Nova Mentis Life Science Corp." and stock symbol "NOVA". More information regarding the transaction is provided in note 9.

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

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 cast significant doubt on the validity of this assumption. The Company incurred an operating loss during the year ended December 31, 2021 of \$2,684,619 (2020 - \$25,232,690). As at December 31, 2021, the Company has an accumulated deficit of \$55,598,777 (2020 - \$52,914,158), has limited resources, and no sources of operating cash flow. There are 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 was 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. While the COVID-19 pandemic has not significantly impacted the Company's operations during 2021, the extent to which COVID-19 may adversely impact the Company's business and financing opportunities going forward will depend on future developments such as the geographic spread of the disease, the duration of the outbreak, travel restrictions and social distancing, business closures or business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease.

Nova Mentis Life Science Corp.



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2. 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.

c) Principles of consolidation

The consolidated financial statements of the Company consolidate the accounts of the Company and its wholly owned subsidiaries as at December 31, 2021 and 2020:

	Country	Principal Activity	Ownership interest
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, 2021 were approved and authorized for issue by the Board of Directors on May 2, 2022.

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:

Nova Mentis Life Science Corp.



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- Research and development expenditures

Costs to develop products that will be sold are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 Intangible Assets are met. Those criteria require that the product is technically, and economically feasible, which management assessed based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible. The Company has not capitalized any product development costs as at December 31, 2021 and 2020.

- 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.

- 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 Biotech (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:

Nova Mentis Life Science Corp.



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- 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. In instances where common shares issued are subject to internally imposed hold periods, management applies a discount to the value of the shares. A discount rate of 4.8% was applied to certain shares issued in accordance with the acquisition of Pilz which were subject to a voluntary pooling agreement (Note 10).

- 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.

- Loan receivable from Just Kush Enterprises Ltd.

The loan is recorded at the estimated recoverable amount. Management applies judgment in estimating the recoverable amount as well as the timing of receipt of cash.

Management also uses estimation in determining the effective interest rate used to measure the loan. Management applies judgment in determining an appropriate discount rate based on the debtor's credit worthiness.

Nova Mentis Life Science Corp.

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3. 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.

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.

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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. The Company does not have any intangible assets as at December 31, 2021 and 2020.

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.

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

Nova Mentis Life Science Corp.



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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 give 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 and loan receivable from Just Kush 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.

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 and investment in Just Kush are measured at FVTPL.

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(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 are 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.

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.

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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.

h) 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.

i) 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.

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

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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.

j) 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.

k) 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.

l) 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 inventories 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 to exist, up to its initial cost.

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m) Adoption of new accounting standards

IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”) were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

IFRS 3 – Business Combinations (“IFRS 3”) was amended in October 2018 to clarify the definition of a business. This amended definition states that a business must include inputs and a process and clarified that the process must be substantive and the inputs and process must together significantly contribute to operating outputs. In addition, it narrows the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The Company has adopted these new standards and has determined there was no significant impact on the consolidated financial statements.

n) Standards, amendments and interpretations issued and effective for the year ended December 31, 2022

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

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in January 2020 to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company’s right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company’s own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1, 2023.

IAS 16 – Property, Plant and Equipment (“IAS 16”) was amended. The amendments introduce new guidance, such that the proceeds from selling items before the related property, plant and equipment is available for its intended use can no longer be deducted from the cost. Instead, such proceeds are to be recognized in profit or loss, together with the costs of producing those items. The amendments are effective for annual periods beginning on January 1, 2022.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined; however, early adoption is permitted.

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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.

The Company is currently assessing the impact of these standards.

4. RESTATEMENT

During the year ended December 31, 2021, the Company became aware of errors in discounting the Loan Receivable from Just Kush and the purchase allocation in the acquisition of Pilz Bioscience Corp. resulting in a restatement of the previously issued consolidated financial statements for the year ended December 31, 2020. The errors caused an overstatement of the loan receivable from Just Kush of \$1,595,626, an overstatement of prepaid assets of \$450,000, an overstatement of share capital of \$61,924 and an understatement of net loss and comprehensive loss of \$1,983,702.

The following tables outline the effect of the changes made to the consolidated financial statements originally filed.

Impact on the consolidated statement of financial position as at December 31, 2021:

	Previously Reported	Change	Restated
	\$	\$	\$
Prepaid assets	867,821	(450,000)	417,821
Loan receivable from Just Kush	2,037,839	(1,595,626)	442,213
Total Assets	5,092,104	(2,045,627)	3,046,478
Share capital	48,298,316	(61,924)	48,236,392
Deficit	(50,930,456)	(1,983,702)	(52,914,158)
Total shareholders’ equity	4,709,142	(2,045,626)	2,663,516
Total liabilities and shareholders’ equity	5,092,104	(2,045,626)	3,046,478

Impact on the consolidated statement of operations and comprehensive loss for the year ended December 31, 2020:

	Previously Reported	Change	Restated
	\$	\$	\$
Impairment of investment in Just Kush	(4,071,263)	(1,595,626)	(5,666,889)
Consideration paid in excess of net assets acquired from Pilz	(11,105,319)	(388,076)	(11,493,395)
Net Loss and Comprehensive Loss for the Period	(23,248,988)	(1,983,702)	(25,232,690)
Loss and Comprehensive Loss Per Share, Basic and Diluted	(0.45)	(0.04)	(0.49)

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All adjustments affected only non-cash items; therefore, there was no impact to cash provided by operating activities and also no impact to cash used in investing activities or cash provided by financing activities.

The restatement had no impact on the consolidated statement of financial position as at January 1, 2020.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include \$218,733 (2020 - \$1,259,189) in the operating bank accounts and \$Nil (2020 - \$876,104) in a redeemable short-term investment certificate which matured on June 26, 2021. The short-term investment earned interest at approximately 0.25% per annum. The investment was 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, 2021, the Company is therefore exposed to credit risk with respect to cash and cash equivalents of \$218,733 (2020 - \$2,135,293) and short-term investments of \$Nil (2020 - \$5,285). Furthermore, the Company is exposed to credit risk associated with the Loan Receivable from Just Kush. Management assesses the credit worthiness of entities it advances loans to prior to and on a periodic basis. If it is determined that the counterparty is undergoing financial difficulty management estimates a recoverable amount and books an allowance for expected credit losses.

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, 2021, the Company has cash and cash equivalents and short-term investments of \$218,733 (2020 - \$2,140,578) to meet contractual financial liabilities of \$422,056 (2020 - \$382,962). All of the liabilities presented as accounts payable and accrued liabilities are due within 90 days of December 31, 2021.

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

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risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return on capital.

As at December 31, 2021, the Company is exposed to market risk with respect to short term investments of \$Nil (2020 - \$5,285), representing the Company's investment in common shares of PlantFuel Life Inc. "FUEL" (Note 11).

7. PROPERTY AND EQUIPMENT

	Computer Equipment	Office Equipment	Total
Cost	\$	\$	\$
Balance, December 31, 2019	16,173	39,880	56,053
Additions	-	-	-
Balance, December 31, 2020	16,173	39,880	56,053
Additions	-	-	-
Balance, December 31, 2021	16,173	39,880	56,053
Accumulated Amortization			
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
Amortization	589	4,409	4,998
Balance, December 31, 2021	15,691	22,246	37,937
Net Book Value			
Net Book Value, December 31, 2020	1,071	22,043	23,114
Net Book Value, December 31, 2021	482	17,634	18,116

8. LOAN RECEIVABLE FROM 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.

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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)
Investment in associate	5,674,681

During the year ended December 31, 2020, the Company advanced \$434,421 to Just Kush.

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.

Concurrent with the rescission agreement, the Company entered into a loan agreement whereby Just Kush has agreed to repay a principal 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 principal amount on or before March 30, 2027 in monthly instalments 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 effective March 19, 2021 and determined that the net realizable value of any such investment is the value of the loan receivable. Management assessed that Just Kush reaching \$800,000 in aggregate repayments by March 26, 2026 was unlikely and therefore determined the fair value of the loan based on the principal sum of \$2,037,839 repayable on or before March 30, 2027. Management applied an effective interest rate of 29% in calculating the present value of the loan. Accordingly, the Company incurred an impairment loss on the investment of \$5,666,889 in accordance with level 3 of the fair value hierarchy and classified its investment in Just Kush as FTVPL.

In accordance with the rescission agreement, shares involved in the original purchase agreement were returned to capital: 750,000 escrow shares were returned to capital on March 31, 2021, and 500,000 shares were returned to capital on April 21, 2021.

Continuity of the loan receivable from Just Kush is as follows

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	\$
Balance, December 31, 2019	-
Additions	442,213
Balance, December 31, 2020	442,213
Accretion	93,058
Loan receivable	535,271

9. ACQUISITION OF NOVA MENTIS BIOTECH CORP.

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

Nova Biotech 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 *Business Combination* ("IFRS 3"). As Nova Biotech 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.

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").

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The Transaction was affected 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% were released upon closing of the Transaction, a further 40% were released three months following closing, and the remaining 40% were released six months following closing.

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.

Fair value of consideration – 50,006,332 common shares at \$0.265	\$	13,189,764
Transaction costs – Cash		7,331
Transaction costs – Common shares		77,500
		<u>13,336,509</u>
Net Assets Acquired:		
Cash	\$	1,373,875
Prepaid expenses		429,825
Accounts payable and accrued liabilities		(22,500)
		<u>2,231,190</u>
Consideration paid in excess of net assets acquired	\$	11,493,395

11. SHORT TERM INVESTMENTS

As at December 31, 2021, the Company holds \$Nil common shares of PlantFuel Life Inc. “FUEL”, formerly Sire Biosciences Inc. (2020 - 17,617) with a fair value of \$Nil (2020 - \$5,285).

During the year ended December 31, 2021, the Company sold 17,617 (2020 - 15,000) FUEL shares for \$29,638 (2020 - \$17,770) in proceeds and recognized a fair value gain of \$24,353 (2020 - loss of \$25,870).

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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, 2021 and 2020:

	2021	2020
	\$	\$
Consulting fees	144,000	107,500
Management fees	198,000	205,500
Shareholder communications	40,500	53,000
Share-based payments	191,705	270,454

These transactions were in the normal course of operations. During the year ended December 31, 2021, the Company engaged:

- The Chief Executive Officer (“CEO”), to provide management services to the Company in consideration of \$150,000 (2020 - \$155,000);
- The Chief Financial Officer (“CFO”), to provide management services in consideration of \$48,000 (2020 - \$50,500);
- The Chief Operating Officer (“COO”), to provide consulting services to the Company in consideration of \$108,000 (2020 - \$29,000);
- A director to provide shareholder communication services for consideration of \$40,500 (2020 - \$53,000);
- Directors to provide consulting services for consideration of \$36,000 (2020 - \$44,750); and
- Immediate family members of the CEO to provide consulting services for consideration of \$Nil (2020 - \$33,750).

As at December 31, 2021, accounts payable and accrued liabilities included \$23,929 (2020 - \$65,355) 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, 2021

The Company rescinded its agreement with Just Kush as detailed in Note 7. As a result of that rescission, on March 31, 2021, 750,000 escrow shares were cancelled, and on April 21, 2021, 500,000 common shares were returned to treasury.



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On June 10, 2021, the Company issued 1,513,306 common shares in settlement of debt to a consultant. These shares were fair valued at \$0.08 to settle \$121,064 in debt to a consultant.

On August 24, 2021, the Company issued 101,904 common shares in settlement of debt to a Director of the Company. These shares were fair valued at \$0.105 to settle \$10,700 in debt.

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 8.

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 9.

Certain former Pilz shareholders have agreed to a voluntary hold period pursuant to which 9,800,000 of the consideration shares were subject to trading restrictions. Specifically, 4,900,000 of the consideration Shares were released on the three-month anniversary of the closing the transaction, and 4,900,000 of the consideration shares were 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.

Warrants

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

	Number of Warrants	Weighted Average Exercise Price \$
Balance at December 31, 2019	672,086	2.40
Expired	(672,086)	2.40
Balance at December 31, 2020 and 2021	-	-

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 optionee's position with the Company, provided that if the cessation of office, directorship, employment or

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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:

	Number of Options	Weighted Average Exercise Price \$
Balance at December 31, 2019	2,387,500	1.23
Granted	6,225,000	0.21
Expired	(1,812,500)	1.49
Balance at December 31, 2020	6,800,000	0.23
Granted	3,575,000	0.12
Expired	(1,900,000)	0.27
Balance at December 31, 2021	8,475,000	\$ 0.17

During the year ended December 31, 2021

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 0.65%; expected dividend yield of zero; expected share price volatility of 154%; and expected life of 3.71 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 \$0.10. Accordingly, \$348,441 was recognized as share-based payment expense during the year ended December 31, 2021.

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.

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The following share options are outstanding and exercisable as at December 31, 2021:

Expiry Dates	Exercise Price \$	Weighted Average Remaining Life (yrs)	Number of Options Outstanding	Number of Options Exercisable
September 17, 2022	0.20	0.71	2,500,000	2,500,000
November 6, 2022	0.20	0.85	1,800,000	1,800,000
December 1, 2022	0.265	0.92	200,000	200,000
December 11, 2022	0.30	0.95	200,000	200,000
February 10, 2023	0.235	1.11	100,000	100,000
March 8, 2023	0.20	1.18	25,000	25,000
July 14, 2023	0.12	1.53	1,200,000	1,200,000
August 17, 2023	0.14	1.63	100,000	100,000
December 17, 2023	0.29	1.96	200,000	200,000
October 22, 2024	0.09	2.81	250,000	250,000
July 14, 2026	0.12	4.54	1,900,000	1,900,000
	0.17	1.83	8,475,000	8,475,000

The following share options are outstanding and exercisable as at December 31, 2020:

Expiry Dates	Exercise Price \$	Weighted Average Remaining Life (yrs)	Number of Options Outstanding	Number of Options Exercisable
July 12, 2021	0.42	0.53	575,000	575,000
November 6, 2021	0.20	0.85	1,200,000	1,200,000
November 13, 2021	0.22	0.87	13,000	13,000
December 1, 2021	0.265	0.92	112,000	112,000
September 17, 2022	0.20	1.71	2,500,000	2,500,000
November 6, 2022	0.20	1.85	1,800,000	1,800,000
December 1, 2022	0.265	1.92	200,000	200,000
December 11, 2022	0.30	1.95	200,000	200,000
December 17, 2023	0.29	2.96	200,000	200,000
	0.23	1.53	6,800,000	6,800,000

14. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

	2021	2020
	\$	\$
Shares issued for settlement of debt	131,764	-
Fair value of shares issued on acquisition of Nova Biotech	-	\$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

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15. SEGMENTED DISCLOSURE AND SUBSIDIARIES

The Company currently operates in one industry segment, being research and development of psilocybin, and in one geographic area, being Canada, through its subsidiaries Nova Mentis Biotech Corp., and Pilz Bioscience Corp. All of the Company's long-term assets are located in Canada.

16. 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, 2021. The Company is not subject to external restrictions on its capital.

17. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27% (2020 - 27%) to income before income taxes.

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

	2021	2020
	\$	\$
Loss before income taxes	(2,684,619)	(25,232,690)
Statutory income tax rate	27.00%	27.00%
Income tax benefit computed at statutory tax rate	(724,847)	(6,812,826)
Items not deductible for income tax purposes	94,079	5,467,956
Change in timing differences	(376,737)	32,787
Unrecognized benefit of deferred income tax assets	1,007,505	1,312,083
Income tax benefit	-	-

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

	2021	2020
	\$	\$
Non-capital losses carried forward	19,407,535	16,958,944
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	40,036	35,038
Excess of tax value over carrying value of short-term investments	-	11,860
Share issue costs	-	212,798
Capital losses	1,430,459	1,430,459
Excess of tax value over carrying value of loan receivable from Just Kush	1,502,568	-
Unrecognized deferred tax assets	29,052,671	23,071,171

The Company has non-capital losses of approximately \$19,368,000 available for carry-forward to reduce future years' income for income tax purposes. These losses expire as follows:

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
2041		2,449,000
	\$	19,408,000

18. SUBSEQUENT EVENTS

- On January 13, 2022, the Company has entered into a debt settlement agreement pursuant to which the Company has agreed to issue 1,056,583 common shares (each, a "Share"), at a deemed price of \$0.06 per Share, to settle indebtedness of \$63,395 (the "Transaction"). All Shares issued pursuant to the Transaction are subject to a statutory four-month and one-day hold period from the date of issue.

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- b) On March 15, 2022, the Company announced the closing of a non-brokered private placement through the issuance of 29,670,000 units at \$0.05 per unit for total gross proceeds of \$1,483,500 (the "Placement"). Each unit is comprised of one common share of the capital of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.075 for a period of 18 months from the date of issue. The common shares are subject to a statutory 4-month hold period. Insiders and parties related to the Company subscribed for 2,550,000 units for gross proceeds of \$127,500.
- c) On January 11, 2022, the Company issued 2,350,000 Restricted Share Units ("RSUs") to directors, officers, and consultants of the Company. The RSUs vest when certain conditions have been met and expire 24 months from the date of issue. The RSUs are governed by the Company's RSU Plan, which was approved by the Company's shareholders on December 22, 2020.
- d) On March 22, 2022, 1,250,000 options were granted to consultants of the Company. The options have an exercise price of \$0.08 and expire one year from the date of grant.
- e) Subsequent to the year ended December 31, 2021, the Company engaged certain consultants to provide marketing, social media, and investor relations services. Consideration paid totaled \$207,660 and the services will be provided over terms ranging from three to four months. In connection with these contracts, the Company has granted 1,250,000 options (Note 18(d)).
- f) On March 31, 2022, 450,000 options were forfeited.