NOVA MENTIS
LIFE SCIENCE

Condensed Interim Consolidated Financial Statements

Three and Six Months Ended
June 30, 2022 and 2021

NOVA MENTIS LIFE SCIENCE

Three and six months Ended June 30, 2022 and 2021

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

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

August 26, 2022

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

As at	Note	June 30, 2022	December 31, 2021
Assets		**$**	$
Current			
Cash and cash equivalents	5	**634,356**	218,733
Amounts receivable		**93,416**	70,212
Prepaid expenses and deposits		**11,647**	38,826
		739,419	327,771
Property and Equipment	6	**16,220**	18,116
Loan receivable from Just Kush	7	**607,951**	535,271
Total assets		**1,363,590**	881,158
Liabilities			
Current			
Accounts payable and accrued liabilities	9	**164,189**	422,056
Total liabilities		**164,189**	422,056
Shareholders' Equity			
Share Capital	10	**49,772,201**	48,368,156
Reserves	10	**8,019,700**	7,689,723
Deficit		**(56,592,500)**	(55,598,777)
Total shareholders' equity		**1,199,401**	459,102
Total liabilities and shareholders' equity		**1,363,590**	881,158

Approved on behalf of the Board:

"William Rascan"	*"Steven Feldman"*
.... Director	.... Director
William Rascan	Steven Feldman

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

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

For the periods ended June 30,	Note	Three months 2022	2021	Six months 2022	2021
	Note	**$**	$	**$**	$
Expenses					
Accounting, legal and audit		**24,453**	758	**35,527**	5,067
Amortization	6	**948**	2,043	**1,896**	2,499
Consulting fees		**227,443**	160,729	**348,413**	392,589
Management fees		**43,500**	49,500	**99,000**	99,000
Office and general		**16,569**	33,804	**278,861**	39,341
Share-based payments	10	**19,684**	2,879	**187,627**	20,995
Shareholder communications and investor relations		**14,823**	12,595	**27,226**	24,595
Transfer agent and filing fees		**4,375**	21,156	**13,684**	61,558
Research and development costs		**47,240**	141,510	**68,919**	396,779
Loss before Other Items		**(399,035)**	(424,974)	**(1,061,153)**	(1,042,423)
Write-off of accounts receivable		**(5,250)**	-	**(5,250)**	-
Interest Income		**-**	4,010	**-**	4,560
Accretion of loan receivable from Just Kush	7	**37,496**	-	**72,680**	-
Net Loss and Comprehensive Loss for the Period		**(366,789)**	(420,964)	**(993,723)**	(1,037,863)
Loss and Comprehensive Loss Per Share, Basic and Diluted		**(0.00)**	(0.00)	**(0.01)**	(0.01)
Weighted Average Number of Common Shares Outstanding - Basic and Diluted		**142,329,660**	111,137,867	**130,417,400**	111,137,867

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

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)
(Expressed in Canadian Dollars)

For the periods ended June 30,	Note	2022	2021
Operating Activities		**$**	$
Net loss for the period		**(993,723)**	(1,037,863)
Items not involving cash			
Amortization		**1,896**	2,499
Accretion of loan receivable from Just Kush	7	**(72,680)**	-
Share-based payments	10	**187,627**	20,995
Interest accrued on short term investments		**-**	(4,560)
Changes in non-cash working capital			
Amounts receivable		**(23,204)**	(19,263)
Prepaid expenses		**27,179**	107,879
Accounts payable and accrued liabilities		**(194,472)**	(88,073)
Cash Used in Operating Activities		**(1,067,377)**	(1,018,386)
Investing Activities			
Short term investments	10	**-**	4,560
Cash Provided by (Used in) Investing Activities		**-**	4,560
Financing Activities			
Shares issued for cash, net of issue costs	10	**1,483,000**	-
Cash Provided by Financing Activities		**1,483,000**	-
Net change in cash		**415,623**	(1,013,826)
Cash, Beginning of the Period		**218,733**	2,135,293
Cash, End of the Period		**634,356**	1,121,467

Supplemental Disclosures with Respect to Cash Flows (note 11)

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

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
Three and Six months Ended June 30, 2022 and 2021
(Expressed in Canadian Dollars)

	Note	Number of Shares	Share Capital	Reserves	Deficit	Total
			$	$	$	$
Balance, December 31, 2020		**111,137,867**	**48,236,392**	**7,341,282**	**(52,914,158)**	**2,663,516**
Share-based payments		-	-	20,995	-	20,995
Shares returned to treasury	7	(750,000)	-	-	-	-
Net loss for the period		-	-	-	(1,037,863)	(1,037,863)
Balance, June 30, 2021		**110,387,867**	**48,236,392**	**7,362,277**	**(53,952,021)**	**1,646,648**
Share-based payments	10	-	-	327,446	-	327,446
Shares issued for settlement of debt	10	1,615,210	131,764	-	-	131,764
Shares returned to treasury	7	(500,000)	-	-	-	-
Net loss for the period		-	-	-	(1,646,756)	(1,646,756)
Balance, December 31, 2021		**111,503,077**	**48,368,156**	**7,689,723**	**(55,598,777)**	**459,102**
Private placement	10	29,670,000	1,483,500	-	-	1,483,500
Share issuance cost		-	(500)	-	-	(500)
Share-based payments	10	-	-	187,627	-	187,627
Shares issued for settlement of debt	8	1,056,583	63,395	-	-	63,395
RSU settlement	10	100,000	6,000	(6,000)	-	-
Issuance of warrants	10	-	(148,350)	148,350	-	-
Net loss for the period		-	-	-	(993,723)	(993,723)
Balance, June 30, 2022		**142,329,660**	**49,772,201**	**8,019,700**	**(56,592,500)**	**1,199,401**

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

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 8.

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

These condensed interim 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 six months ended June 30, 2022 of $993,723 (June 30, 2021 - $1,037,863). As at June 30, 2022, the Company has an accumulated deficit of $56,592,500 (December 31, 2021 - $55,598,777), 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 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. 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.

(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION

a) Statement of compliance

These condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). These condensed Interim Financial Statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. Accordingly, they do not include all of the information required for full interim financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC.

The policies applied in these Interim Financial Statements are based on IFRSs issued and outstanding as of the date of filing this report. The same accounting policies and methods of computation followed in these condensed interim consolidated financial statements are set out in note 3 of the most recently filed annual financial statements as at and for the year ended December 31, 2021, except where noted below. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2022 could result in restatement of these Condensed Interim Consolidated Financial Statements.

b) Basis of measurement

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

c) Principles of consolidation

The condensed interim consolidated financial statements of the Company consolidate the accounts of the Company and its wholly-owned subsidiaries as at June 30, 2022 and 2021:

	Country	Principal Activity	Ownership interest
Nova Mentis Biotech Corp.	Canada	Psilocybin research & development	100%
Pilz Bioscience Corp.	Canada	Psilocybin research & development	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 condensed interim consolidated financial statements

The condensed interim consolidated financial statements of the Company for the three and six months ended June 30, 2022 were approved and authorized for issue by the Board of Directors on August 26, 2022.

e) Use of estimates and judgments

The preparation of these condensed interim consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the condensed interim 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 condensed interim consolidated financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities is as follows:

- 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 June 30, 2022 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 and Pilz with respect to whether the acquisition was a business combination or an asset acquisition. See Notes 8 and 9 of the Company's Annual Consolidated Financial Statements for the years ended December 31, 2021 and 2020.

The key estimates applied in the preparation of the condensed interim 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. 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.

- 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.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies have been applied by the Company consistently throughout the period for purposes of these condensed interim consolidated financial statements. Additional details regarding Nova's accounting policies, the critical judgments, estimates and assumptions, and how they are applied in the preparation of these condensed interim consolidated financial statements, are reflected in note 3 of the Company's Annual Financial Statements for the years ended December 31, 2021 and 2020.

- Adoption of new accounting standards

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.

IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets ("IAS 37") was amended. The amendments clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract – i.e. a full-cost approach. Such costs include both the incremental costs of the contract (i.e. costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract – e.g. contract management and supervision, or depreciation of equipment used in fulfilling the contract. The amendments are effective for annual periods beginning on January 1, 2022.

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

- 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.

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.

(Expressed in Canadian Dollars)

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 form 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	**5,092,105**	**(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	**5,092,105**	**(2,045,626)**	**3,046,478**

Impact on the consolidated statement of loss 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 Year	**(23,248,988)**	**(1,983,702)**	**(25,232,690)**
Loss and Comprehensive Loss Per Share, Basic and Diluted	**(0.45)**	**(0.04)**	**(0.49)**

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

On June 30, 2022, cash and cash equivalents include $634,356 (December 31, 2021 - $218,733) in the operating bank accounts held with major Canadian financial institutions.

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 cash equivalents, by placing cash with major Canadian financial institutions. As at June 30, 2022, the Company is therefore exposed to credit risk with respect to cash and cash equivalents of $634,356 (December 31, 2021 - $218,733). 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 June 30, 2022, the Company has cash and cash equivalents of $634,356 (December 31, 2021 - $218,733) to meet contractual financial liabilities of $164,189 (December 31, 2021 - $422,056). All of the liabilities presented as accounts payable and accrued liabilities are due within 90 days of June 30, 2022.

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 June 30, 2022, management considers the Company's market risk to be low as it held no short-term investments at the period end date (December 31, 2021 - $nil).

(Expressed in Canadian Dollars)

6. PROPERTY AND EQUIPMENT

	Computer Equipment	Office Equipment	Total
Cost	**$**	**$**	**$**
Balance, December 31, 2020	16,173	39,880	56,053
Additions	-	-	-
Balance, December 31, 2021	16,173	39,880	56,053
Additions	-	-	-
Balance, June 30, 2022	**16,173**	**39,880**	**56,053**
Accumulated Amortization			
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
Amortization	133	1,763	1,896
Balance, June 30, 2022	**15,824**	**24,009**	**39,833**
Net Book Value			
Net Book Value, December 31, 2021	482	17,634	18,116
Net Book Value, June 30, 2022	**349**	**15,871**	**16,220**

7. 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 had 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. 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. 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.

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:

(Expressed in Canadian Dollars)

Just Kush shall repay the principal 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. As at June 30, 2022, and up to the date of filing these interim financial statements, the Company had not received its first monthly installment against the loan receivable. On May 1, 2022, Nova entered into a forbearance agreement with Just Kush to waive its rights to enforce the rescission agreement with respect to Just Kush's default, and to grant Just Kush the right to delay the repayment of the loan for a period of three months, until August 1, 2022. Under the forbearance agreement, Just Kush may request, in writing, additional three-month extensions together with an extension fee of $40,000 for each extension to be added to its indebtedness to Nova. On July 31, 2022, Just Kush submitted a written request to extend repayment of the loan to November 1, 2022 and the $40,000 extension fee will be added to the principal of the loan.

In the event that on or before March 30, 2026, the borrower has repaid an aggregate of $840,000 of the principal, the Company shall forgive the remaining balance on the loan to Just Kush.

As at June 30, 2022, the fair value of the loan based on the principal sum of $2,037,839, and using an effective interest rate of 29%, was $607,951 (December 31, 2021 – $535,271). During the three and six months ended June 30, 2022, the Company recognized accretion on the loan receivable of $37,496 (2021 – $nil) and $72,680 (2021 – $nil), respectively.

Continuity of the loan receivable from Just Kush is as follows:

	$
Balance, December 31, 2020	**442,213**
Accretion	93,058
Balance, December 31, 2021	**535,271**
Accretion	72,680
Balance, June 30, 2022	**607,951**

8. DEBT SETTLEMENT

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.

9. RELATED PARTY TRANSACTIONS

Related parties as defined by IAS 24 - *Related Party Disclosures* include members of the Board of Directors, key management personnel, and any companies controlled by these individuals. Key management personnel include those persons having authority and responsibility for planning, directing, and controlling activities of the Company being directors and executive management, comprising of the Chief Executive Officer and the Chief Financial Officer.

(Expressed in Canadian Dollars)

The transactions noted below are in the normal course of business and are approved by the Board of Directors in adherence to conflict-of-interest laws and regulations.

These amounts of key management compensation and other related party transactions are included in the amounts shown on the consolidated statements of loss and comprehensive loss for the three and six months ended June 30, 2022 and 2021:

	Three months		Six months	
For the periods ended June 30,	**2022**	2021	**2022**	2021
	$	$	**$**	$
Consulting fees	**30,000**	30,000	**60,000**	48,000
Management fees	**55,500**	49,500	**111,000**	99,000
Shareholder communications	**7,500**	12,000	**15,000**	24,000
Share-based payments	**-**	-	**120,000**	-

As at June 30, 2022, accounts payable and accrued liabilities included $45,590 (December 31, 2021 - $23,929) 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.

10. SHARE CAPITAL

Authorized share capital
Unlimited number of common shares without par value.

a) Issued share capital

During the period ended June 30, 2022
On January 13, 2022, the Company issued 1,056,583 common shares in settlement of debt to a consultant of the Company. These shares were fair valued at $0.06 to settle $63,395 in debt (Note 8).

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. Insiders and parties related to the Company subscribed for 2,550,000 units for gross proceeds of $127,500. In addition to this, 100,000 RSUs were settled through the issuance of 100,000 shares of the Company.

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.

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.

(Expressed in Canadian Dollars)

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.

b) Warrants

On March 15, 2022, the Company issued 29,670,000 warrants in connection with a non-brokered private placement unit financing (See note 10a). Each warrant entitles the holder to purchase one common share at a price of $0.075 per share for a period of 18 months from the date of issue. The Company applied the residual value method to allocate the proceeds from the issuance of units between common shares and warrants. 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. The fair value of the Company's common shares at the time of pricing the units was $0.045, and the units were sold for $0.05 per unit, leaving a residual value of $0.005, or $148,350, to be assigned to the warrants.

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

	Number of Warrants	Weighted Average Exercise Price
		$
Balance, December 31, 2021	**-**	**-**
Issued	29,670,000	0.075
Balance, June 30, 2022	**29,670,000**	**0.075**

The following warrants were outstanding as at June 30, 2022:

Expiry Date	Exercise Price $	Number of Warrants Outstanding	Weighted Average Remaining Life (yrs)
September 15, 2023	0.075	29,670,000	1.21
	0.075	**29,670,000**	

c) 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 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.

(Expressed in Canadian Dollars)

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, 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**
Granted	1,450,000	0.08
Expired	(700,000)	0.17
Balance at June 30, 2022	**9,225,000**	**$ 0.16**

During the period ended June 30, 2022

On March 22, 2022, 1,250,000 options were granted to consultants of the Company. The options have an exercise price of $0.08. 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 1.99%; expected dividend yield of zero; expected share price volatility of 111%; and an expected life of 1 year. The Company used historical volatility to estimate the volatility of the share price. The weighted average grant date fair value of each option was $0.034. Accordingly, $42,693 was recognized as share-based payment expense during the period ended June 30, 2022.

On May 11, 2022, 200,000 options were granted to a consultant of the Company. The options have an exercise price of $0.085. 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 2.73%; expected dividend yield of zero; expected share price volatility of 142%; and an expected life of 2 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 $0.059. Accordingly, $11,809 was recognized as share-based payment expense during the period ended June 30, 2022.

During the period ended June 30, 2022, 700,000 options expired unexercised.

During the period ended June 30, 2021

There were no changes to share options during the period ended June 30, 2021.

The following share options were outstanding and exercisable as at June 30, 2022:

(Expressed in Canadian Dollars)

Expiry Dates	Exercise Price $	Weighted Average Remaining Life (yrs)	Number of Options Outstanding	Number of Options Exercisable
September 17, 2022	0.20	0.22	2,050,000	2,050,000
November 6, 2022	0.20	0.35	1,800,000	1,800,000
December 1, 2022	0.265	0.42	200,000	200,000
December 11, 2022	0.30	0.45	200,000	200,000
February 10, 2023	0.235	0.62	100,000	100,000
March 8, 2023	0.20	0.69	25,000	25,000
March 14, 2023	0.08	0.73	1,250,000	1,250,000
July 14, 2023	0.12	1.04	950,000	950,000
August 17, 2023	0.14	1.13	100,000	100,000
December 17, 2023	0.29	1.47	200,000	200,000
May 11, 2024	0.085	1.87	200,000	200,000
October 22, 2024	0.09	2.32	250,000	250,000
July 14, 2026	0.12	4.04	1,900,000	1,900,000
	0.16	**1.33**	**9,225,000**	**9,225,000**

d) Restricted Share Units

On January 11, 2022, the Company granted 2,350,000 Restricted Share Units ("RSUs") to directors, officers, and consultants of the Company. The RSUs expire 24 months from the date of grant. The RSUs are governed by the Company's RSU Plan, which was approved by the Company's shareholders on December 22, 2020.

The total fair value of the RSUs on the date of grant was $141,000, which is based on the market price of the Company's shares on the date of grant. RSUs granted to directors and officers vested immediately, while RSUs granted to certain consultants of the Company will vest at 50% on July 11, 2022, and 50% on January 11, 2023.

Nova recognized $7,875 in share-based payments on the Statement of loss and comprehensive loss during the three months ended June 30, 2022 (2021 – $nil) for RSUs that vested during the period then-ended. The Company recognized $133,125 for the six months ended June 30, 2022 (2021 – $nil).

On March 15, 2022, 100,000 RSUs were settled through the issuance of 100,000 shares of the Company and the fair value of $6,000 was transferred from Reserves to Share Capital on the Statements of Financial Position as at June 30, 2022.

11. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

For the periods ended June 30,	2022	2021
	$	$
Shares issued for settlement of debt (note 8)	**63,395**	-
Shares issued to settle RSUs (note 10)	**6,000**	-
Warrants issued in connection with unit financing (note 10)	**(148,350)**	-

12. 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 wholly-owned subsidiaries, Nova Mentis Biotech Corp., and Pilz Bioscience Corp. All of the Company's long-term assets are located in Canada.

13. 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 period ended June 30, 2022. The Company is not subject to external restrictions on its capital.

14. SUBSEQUENT EVENTS

a) There were no significant reportable financial events subsequent to the period ended June 30, 2022.