



Consolidated Financial Statements
Years Ended December 31, 2022 and 2021



Years Ended December 31, 2022 and 2021

<u>INDEX</u>	<u>Page</u>
Audit Report	3
Consolidated Financial Statements	
Consolidated Statements of Financial Position	4
Consolidated Statements of Loss and Comprehensive Loss	5
Consolidated Statements of Cash Flows	6
Consolidated Statements of Changes in Shareholders' Equity	7
Notes to the Consolidated Financial Statements	8 - 29



INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Directors of Nova Mentis Life Science Corporation

Opinion

We have audited the accompanying consolidated financial statements of Nova Mentis Life Science Corporation (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and the consolidated statements of loss and comprehensive loss, consolidated statement of changes in equity and consolidated statements of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Nova Mentis Life Science Corp. as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which describe the events and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits 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 is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

The key audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the key audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the key audit matter below providing a separate opinion on the key audit matter or on the accounts or disclosures to which it relates.

Valuation of Financial Instruments

Description of the Matter

We identified the valuation of financial instruments as a key audit matter due to significant auditor and management judgement and estimation involved in determining the fair value of these units, which are based on the Black-Scholes option pricing model. including management's process for developing the estimates and the assumptions used.

Audit Response

Our primary procedures to address this critical audit matter include i) testing the design effectiveness of certain internal controls related to the Company's process to develop the estimates and the assumptions; ii) evaluating the appropriateness of the methodology used; and iii) evaluating the reasonableness of the assumptions used by management. We also assessed the competence, capabilities and objectivity of the Company's personnel involved in preparing the valuation of stock options.



Other Information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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 auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Other Matter

The consolidated financial statements of the Company for the year ended December 31, 2021 were audited by another auditor who expressed an unmodified opinion on the report dated May 2, 2022.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

Kreston GTA LLP

Chartered Professional Accountants
Markham, Canada
April 24, 2023



Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at		December 31, 2022	December 31, 2021
Assets	Note	\$	\$
Current			
Cash and cash equivalents	4	266,519	218,733
Amounts receivable		7,754	70,212
Prepaid expenses and deposits		8,188	38,826
		282,461	327,771
Property and Equipment	6	14,324	18,116
Loan receivable from Just Kush	7	-	535,271
Total assets		296,785	881,158
Liabilities			
Current			
Accounts payable and accrued liabilities	8	255,441	422,056
Total liabilities		255,441	422,056
Shareholders' Equity			
Share Capital	9,11	50,065,571	48,368,156
Shares to be issued	11	8,400	-
Reserves	11	8,032,036	7,689,723
Deficit		(58,064,663)	(55,598,777)
Total shareholders' equity		41,344	459,102
Total liabilities and shareholders' equity		296,785	881,158

Nature of Business and Going Concern (note 1)

Commitments and Contingencies (note 15)

Subsequent Events (note 17)

Approved on behalf of the Board:

"William Rascan"

..... Director

William Rascan

"Derek Ivany"

..... Director

Derek Ivany

The accompanying notes are an integral part of these Consolidated Financial Statements.



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

For the years ended December 31,		2022	2021
	Note	\$	\$
Expenses			
Accounting, legal and audit		84,960	144,089
Amortization	6	3,792	4,998
Consulting fees		779,746	892,380
Management fees		222,000	198,000
Office and general		311,384	349,980
Share-based payments	11	328,453	348,441
Shareholder communications and investor relations		55,250	46,971
Transfer agent and filing fees		36,526	89,149
Research and development costs		115,163	860,074
Loss before Other Items		(1,937,274)	(2,934,082)
Accretion of loan receivable from Just Kush	7	229,505	93,058
Recovery of accounts payable		7,691	132,930
Write-off of accounts receivable		(1,608)	-
Interest Income		576	4,560
Gain (loss) on short-term investments		-	24,353
Write-off of inventory		-	(5,438)
Impairment of loan receivable	7	(764,776)	-
Net Loss and Comprehensive Loss for the Year		(2,465,886)	(2,684,619)
Loss and Comprehensive Loss Per Share, Basic and Diluted		(0.02)	(0.02)
Weighted Average Number of Common Shares Outstanding - Basic and Diluted		136,564,707	111,104,785

The accompanying notes are an integral part of these Consolidated Financial Statements.



Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

For the years ended December 31,		2022	2021
	Note	\$	\$
Operating Activities			
Net loss for the year		(2,465,886)	(2,684,619)
Items not involving cash			
Amortization	6	3,792	4,998
Accretion of loan receivable from Just Kush	7	(229,505)	(93,058)
Share-based payments	11	328,453	348,441
Recovery of accounts payable		(7,691)	(132,930)
Warrants issued for services		22,860	-
Shares issued for services	9	142,020	-
Impairment of loan receivable	7	764,776	-
Write-off of inventory		-	5,438
Loss on short-term investments		-	(24,353)
Changes in non-cash working capital			
Amounts receivable		62,458	(52,897)
Prepaid expenses		30,638	378,994
Accounts payable and accrued liabilities		(95,529)	303,788
Cash Used in Operating Activities		(1,443,614)	(1,946,198)
Investing Activities			
Short term investments		-	29,638
Cash Provided by (Used in) Investing Activities		-	29,638
Financing Activities			
Shares issued for cash, net of issue costs	11	1,483,000	-
Proceeds from exercise of warrants	11	8,400	-
Cash Provided by Financing Activities		1,491,400	-
Net change in cash		47,786	(1,916,560)
Cash, Beginning of the Year		218,733	2,135,293
Cash, End of the Year		266,519	218,733

Supplemental Disclosures with Respect to Cash Flows (note 13)

The accompanying notes are an integral part of these Consolidated Financial Statements.



Consolidated Statements of Changes in Shareholders' Equity
 Years ended December 31, 2022 and 2021
 (Expressed in Canadian Dollars)

	Note	Number of Shares	Share Capital	Shares to be Issued	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		-	-	-	348,441	-	348,441
Shares issued for settlement of debt		1,615,210	131,764	-	-	-	131,764
Shares returned to treasury	7	(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
Private placement	11	29,670,000	1,483,500	-	-	-	1,483,500
Share issuance cost		-	(500)	-	-	-	(500)
Share-based payments	11	-	-	-	328,453	-	328,453
Shares issued for settlement of debt	8	1,056,583	63,395	-	-	-	63,395
RSU settlement	11	150,000	9,000	-	(9,000)	-	-
Shares issued for services	9	2,739,000	142,020	-	-	-	142,020
Exercise of warrants	11	-	-	8,400	-	-	8,400
Issuance of warrants	11	-	-	-	22,860	-	22,860
Net loss for the year		-	-	-	-	(2,465,886)	(2,465,886)
Balance, December 31, 2022		145,118,660	50,065,571	8,400	8,032,036	(58,064,663)	41,344

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, 2022 and 2021
(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 8.

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, 2022 of \$2,465,886 (December 31, 2021 - \$2,684,619). As at December 31, 2022, the Company has an accumulated deficit of \$58,064,663 (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.

Nova Mentis Life Science Corp.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)



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, 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 consolidated financial statements

The consolidated financial statements of the Company for the year ended December 31, 2022 were approved and authorized for issue by the Board of Directors on April 24, 2023.

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.



Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

- 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, 2022 and 2021.

- 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 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.

Nova Mentis Life Science Corp.



Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

- 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 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.

Nova Mentis Life Science Corp.



Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

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.

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

Nova Mentis Life Science Corp.



Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

changes in estimates are accounted for prospectively. The Company does not have any intangible assets as at December 31, 2022 and 2021.

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 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

Nova Mentis Life Science Corp.



Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

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.

(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

Nova Mentis Life Science Corp.



Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

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

Financial liabilities measured at amortized cost

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

Financial liabilities measured at fair value through profit or loss

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

(iii) Derecognition of financial liabilities

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

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

Impairment of financial assets

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

Fair value hierarchy

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Nova Mentis Life Science Corp.



Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

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 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

Nova Mentis Life Science Corp.



Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

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

- 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 Consolidated Financial Statements.

Nova Mentis Life Science Corp.



Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

- 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 – In February 2021, the IASB issued ‘Disclosure of Accounting Policies’ with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for year ends beginning on or after January 1, 2023. 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 8 – In February 2021, the IASB issued ‘Definition of Accounting Estimates’ to help entities distinguish between accounting policies and accounting estimates. The amendments are effective for year ends beginning on or after 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.

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. CASH AND CASH EQUIVALENTS

On December 31, 2022, cash and cash equivalents include \$266,519 (December 31, 2021 - \$218,733) in the operating bank accounts held with major Canadian financial institutions.

5. 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.



Nova Mentis Life Science Corp.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

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 December 31, 2022, the Company is therefore exposed to credit risk with respect to cash and cash equivalents of \$266,519 (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 December 31, 2022, the Company has cash and cash equivalents of \$266,519 (December 31, 2021 - \$218,733) to meet contractual financial liabilities of \$255,441 (December 31, 2021 - \$422,056). All of the liabilities presented as accounts payable and accrued liabilities are due within 90 days of December 31, 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 December 31, 2022, management considers the Company's market risk to be low as it held no short-term investments at the year-end date (December 31, 2021 - \$nil).

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, December 31, 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	265	3,527	3,792
Balance, December 31, 2022	15,956	25,773	41,729

Nova Mentis Life Science Corp.



Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

Net Book Value

Net Book Value, December 31, 2021	482	17,634	18,116
Net Book Value, December 31, 2022	217	14,107	14,324

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", or the "borrower"), 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 had 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 had agreed 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 December 31, 2022, and up to the date of filing these 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 each of July 31, 2022 and October 31, 2022, Just Kush submitted a written request to extend repayment of the loan to November 1, 2022, and February 1, 2023, respectively. As at December 31, 2022, extension fees of \$80,000 were discounted as noted below, and added to the principal of the loan included on the Statements of Financial Position as at December 31, 2022. Prior to expiry of the February 1, 2023 extension date, the Company had not received any further extension request from Just Kush.

At December 31, 2021, the fair value of the loan based on the principal sum of \$2,117,839, and using an effective interest rate of 29%, was \$535,271. During the year ended December 31, 2022, the Company recognized accretion on the loan receivable of \$229,505 (2021 – \$93,058).

Nova Mentis Life Science Corp.



Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

At December 31, 2022, management believed that the future recoverability of the loan was uncertain. As such, at December 31, 2022, Nova has recorded an impairment loss on the fair value of the loan after accretion of \$764,776 which is included on the statement of loss and comprehensive loss for the year then ended.

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	229,505
Impairment loss	(764,776)
Balance, December 31, 2022	-

8. DEBT SETTLEMENT

On January 13, 2022, the Company has entered into a debt settlement agreement related to outstanding consulting fees 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.

9. SHARES FOR SERVICES

On November 17, 2022, Nova announced that it had entered into a research services agreement (the "Agreement") with KGK Sciences Inc. ("KGK") whereby KGK shall provide Clinical Research Organization services to oversee Nova's Health Canada Phase 2A Clinical Trial.

Pursuant to the Agreement, KGK shall provide the services in consideration of the Company issuing units of the Company (the "Units") upon certain performance milestones being met, in the aggregate amount of up to \$488,951. Each Unit shall consist of one common share in the capital of the Company (the "Shares") and one-half of one warrant to purchase common shares in the capital of the Company ("Warrants"). The Units shall be issued at a deemed price equal to the greater of (a) \$0.05 and (b) the closing market price of the Company's Shares on the Canadian Securities Exchange ("CSE") less the maximum allowable discount under the policies of the CSE, at the time of issuance. The Warrants shall be valid for a term of two (2) years from issuance and each whole warrant shall be exercisable at a price equal to the greater of (a) \$0.075 and (b) the closing market price of the Company's Shares on the CSE, at the time of issuance. The Units shall be subject to a four month and one day hold period commencing on the day of issuance.

On November 23, 2022, the Company issued 1,143,000 units (the "Units") in connection with the Agreement at a deemed price of \$0.05 per Unit. A total of 1,143,000 shares and 571,500 warrants were issued in connection with this issuance for a total deemed value of \$57,150. The fair value of the shares on the date of issuance was \$0.03 per share and \$34,290 was added to share capital on the statement of financial position for the year ended December 31, 2022. The residual value \$22,860 was assigned to the warrants and added to reserves on the statement of financial position.

Nova Mentis Life Science Corp.



Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

On December 28, 2022, the Company issued 1,596,000 units (the "Units") in connection with the Agreement at a price of \$0.0675 per Unit for a deemed value of \$107,730. A total of 1,596,000 shares and 798,000 warrants were issued in connection with this issuance. The fair value of the shares at the time of issuance was \$0.09 leaving a residual value of nil assigned to the warrants.

10. 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.

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 years ended December 31, 2022 and 2021:

For the years ended December 31,	2022	2021
	\$	\$
Consulting fees	140,000	90,000
Management fees	222,000	148,500
Shareholder communications	30,000	33,000
Share-based payments	162,567	191,705

As at December 31, 2022, accounts payable and accrued liabilities included \$136,578 (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.

11. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

a) Issued share capital

During the year ended December 31, 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



Nova Mentis Life Science Corp.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

\$127,500. In addition to this, 100,000 RSUs were settled through the issuance of 100,000 shares of the Company.

On November 23, 2022 and December 28, 2022, the Company issued 1,143,000 shares at a fair value of \$34,290, and 1,596,000 shares at a fair value of \$107,730, respectively, in connection with the research services agreement with KGK (note 10).

On December 13, 2022, 50,000 shares of the Company were issued to settle 50,000 RSUs.

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.

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 \$0.06, and the units were sold for \$0.05 per unit, leaving a residual value of \$nil to be assigned to the warrants.

On November 23, 2022 and December 28, 2022, the Company issued 571,500 and 798,000 warrants, respectively, in connection with the research services agreement with KGK (note 10).

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

	Number of Warrants	Weighted Average Exercise Price
		\$
Balance, December 31, 2021	-	-
Issued	31,039,500	0.075
Balance, December 31, 2022	31,039,500	0.075

Nova Mentis Life Science Corp.



Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

The following warrants were outstanding as at December 31, 2022:

Expiry Date	Exercise Price \$	Number of Warrants Outstanding	Weighted Average Remaining Life (yrs)
September 15, 2023	0.075	29,670,000	0.71
November 22, 2024	0.05	571,500	1.90
December 28, 2024	0.09	798,000	1.99
	0.075	31,039,500	0.76

c) 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.

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.

Option transactions and the number of 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	6,050,000	0.06
Expired	(4,950,000)	0.20
Balance at December 31, 2022	9,575,000	0.08

Nova Mentis Life Science Corp.



Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

During the year ended December 31, 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 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 year ended December 31, 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 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 year ended December 31, 2022.

On September 28, 2022, 4,600,000 options were granted to officers, directors, and consultants of the Company. The options have an exercise price of \$0.05, and a range of expiry dates from one to five years. The Company applied the fair value method using the Black-Scholes option pricing model in accounting for its options granted with the following weighted-average assumptions: risk-free interest rate of 3.29%; expected dividend yield of zero; expected share price volatility of 139%; and an expected life between one and five 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 \$0.029. Accordingly, \$133,826 was recognized as share-based payment expense during the year ended December 31, 2022.

During the year ended December 31, 2022, 4,950,000 options expired unexercised. The options had a weighted average exercise price of \$0.20.

During the year ended December 31, 2021

During the year ended December 31, 2021, 3,325,000 options were granted to officers, directors and consultants of the Company. The options had a weighted average exercise price of \$0.12.

Nova Mentis Life Science Corp.



Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

The following options were outstanding and exercisable as at December 31, 2022:

Expiry Dates	Exercise Price \$	Weighted Average Remaining Life (yrs)	Number of Options Outstanding	Number of Options Exercisable
February 10, 2023	0.235	0.11	100,000	100,000
March 8, 2023	0.20	0.18	25,000	25,000
March 23, 2023	0.08	0.22	1,250,000	1,250,000
July 14, 2023	0.12	0.53	950,000	950,000
August 17, 2023	0.14	0.63	100,000	100,000
September 28, 2023	0.05	0.74	200,000	200,000
December 17, 2023	0.29	0.96	200,000	200,000
May 11, 2024	0.085	1.36	200,000	200,000
September 28, 2024	0.05	1.75	300,000	300,000
October 22, 2024	0.09	1.81	250,000	250,000
July 14, 2026	0.12	3.54	1,900,000	1,900,000
September 28, 2027	0.05	4.75	4,100,000	4,100,000
	0.08	2.99	9,575,000	9,575,000

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 \$140,125 in share-based payments on the Statement of loss and comprehensive loss year ended December 31, 2022 (2021 – \$nil) for RSUs that vested during the year then-ended.

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 December 31, 2022.

On December 13, 2022, 50,000 RSUs were settled through the issuance of 50,000 shares of the Company and the fair value of \$3,000 was transferred from Reserves to Share Capital on the Statements of Financial Position as at December 31, 2022.

e) Shares to be Issued

In December 2022, the Company received proceeds of \$8,400 for the exercise of 112,000 warrants at an exercise price of \$0.075 per warrant. The underlying common shares were issued in January 2023. The Company recorded the shares to be issued on the Statement of Financial Position at December 31, 2022.

Nova Mentis Life Science Corp.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)



12. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

For the years ended December 31,	2022	2021
	\$	\$
Shares issued for settlement of debt (note 9)	63,395	131,764
Shares issued for services (note 10)	142,020	-
Shares issued to settle RSUs (note 12d)	9,000	-

13. 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.

14. 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, 2022. The Company is not subject to external restrictions on its capital.

15. COMMITMENTS AND CONTINGENCIES

The Company has termination and change of control provisions included in its agreements with executive management. In the event of a transaction that constitutes a change of control of the Company, certain amounts would be required to be paid out to those individuals based on their annual base fees and salaries, if certain conditions are met. These contracts contain minimum commitments of approximately \$390,000. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

16. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27% (2021 – 27%) to income before income taxes.

Nova Mentis Life Science Corp.



Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

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

	2022	2021
	\$	\$
Loss before income taxes	(2,465,886)	(2,684,619)
Statutory income tax rate	27.00%	27.00%
Income tax benefit computed at statutory tax rate	(665,789)	(724,847)
Items not deductible for income tax purposes	89,706	94,079
Change in timing differences	(489,860)	(376,737)
Unrecognized benefit of deferred income tax assets	1,065,943	1,007,505
Income tax benefit	-	-

Significant tax benefits and unused tax losses for which no deferred tax asset is recognized as of December 31, 2022 and 2021 are as follows:

	2022	2021
	\$	\$
Non-capital losses carried forward	21,541,176	19,407,535
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	43,828	40,036
Capital losses	1,430,459	1,430,459
Excess of tax value over carrying value of loan receivable from Just Kush	2,037,839	1,502,568
Unrecognized deferred tax assets	29,475,375	29,052,670

The Company has non-capital losses of approximately \$21,541,000 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
2042		2,133,000
	\$	21,541,000

Nova Mentis Life Science Corp.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)



17. SUBSEQUENT EVENTS

- a) Subsequent to the year ended December 31, 2022, 1,375,000 options expired, unexercised. The options had a weighted average exercise price of \$0.09.
- b) Subsequent to the year ended December 31, 2022, 300,000 shares were issued in connection with warrants that were exercised at a weighted average exercise price of \$0.075. 112,000 of these warrants were exercised in December 2022, and 188,000 of the warrants were exercised in January 2023.
- c) On January 17, 2023, 2,750,000 RSUs were granted to directors, officers, and consultants of the Company. The RSUs vest on the date of grant, 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 February 14, 2023, 100,000 options were exercised at a price of \$0.05 for proceeds of \$5,000.
- e) On March 29, 2023, Nova announced that it had granted 500,000 RSUs to a consultant of the Company. The RSUs have a fair value of \$27,500 and are valid for a two-year term and are governed by the Company's RSU Plan, approved by the Company's shareholders on December 22, 2020. The RSUs are subject to a statutory hold period of four months and one day from the date of issuance.
- f) In March 2023, the Company entered into an agreement with Octagon Media Corp., doing business as Wall Street Reporter ("WSR"), whereby WSR shall provide marketing services for a period of four (4) months commencing on March 27, 2023, in consideration of 1,400,000 common shares in the capital of the Company (the "Shares") at a deemed price of approximately \$0.057 per Share. The Shares are subject to a statutory hold period of four months and one day from the date of issuance.