



Condensed Interim Financial Statements
(Expressed in Canadian Dollars)

For the Three and Six Months Ended May 31, 2022 and 2021
(Unaudited)

NOTICE TO READER

The accompanying condensed interim financial statements of NeonMind Biosciences Inc. (“the Company”) have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”). Management acknowledges responsibility for the preparation and presentation of the condensed interim financial statements, including responsibility for significant accounting estimates and the choice of accounting principles and methods that are appropriate to the Company’s circumstances. These condensed interim financial statements have not been reviewed by the Company’s independent auditor.

NEONMIND BIOSCIENCES INC.
Condensed Interim Statements of Financial Position
(Expressed in Canadian Dollars)

	May 31, 2022 (unaudited)	November 30, 2021
ASSETS		
Current assets		
Cash	\$ 2,456	\$ 773,525
Restricted cash (Note 3)	57,500	57,500
Marketable securities (Note 4)	68,750	193,750
Taxes recoverable (Note 5)	131,846	104,915
Prepaid expenses and deposits (Notes 6 and 8)	127,272	206,741
Total current assets	<u>387,824</u>	<u>1,336,431</u>
Non-current assets		
Equipment	2,131	2,693
Total assets	<u>\$ 389,955</u>	<u>\$ 1,339,124</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	\$ 659,348	\$ 598,820
Non-current liabilities		
Convertible debentures (Note 7)	889,506	450,009
Total liabilities	<u>1,548,854</u>	<u>1,048,829</u>
SHAREHOLDERS' EQUITY (DEFICIT)		
Share capital (Note 9)	7,943,082	7,800,880
Reserve for convertible debentures	51,299	21,063
Equity reserves (Notes 10, 11 and 12)	5,717,283	5,557,243
Deficit	<u>(14,870,563)</u>	<u>(13,088,891)</u>
Total shareholders' equity (deficit)	<u>(1,158,899)</u>	<u>290,295</u>
Total liabilities and shareholders' equity (deficit)	<u>\$ 389,955</u>	<u>\$ 1,339,124</u>

Nature of operations and continuance of business (Note 1)
Subsequent events (Note 18)

Approved and authorized for issuance on behalf of the Board of Directors on August 2, 2022:

/s/ "Rob Tessarolo"
Director

/s/ "Cole Drezdoff"
Director

(The accompanying notes are an integral part of these condensed interim financial statements)

NEONMIND BIOSCIENCES INC.

Condensed Interim Statement of Operations and Comprehensive Loss

(Expressed in Canadian Dollars)

(Unaudited)

	Three months ended May 31,		Six months ended May 31,	
	2022	2021	2022	2021
EXPENSES				
Consulting fees	132,224	59,124	194,723	98,540
Depreciation	284	108	562	123
Investor relations	44,236	127,268	87,129	223,101
Listing expenses	3,000	5,685	6,000	12,285
Marketing, publicity, and digital media	118,684	730,113	283,427	1,460,567
Office and administrative	86,059	109,604	156,906	208,261
Pharmaceutical research and development	67,401	171,758	146,518	439,037
Professional fees	60,639	118,675	127,749	331,833
Share-based compensation (Notes 11 and 12)	136,513	1,056,227	256,494	1,816,151
Wages	105,282	182,374	281,650	261,972
Total expenses	754,322	2,560,936	1,541,158	4,851,870
LOSS BEFORE OTHER ITEMS	(754,322)	(2,560,936)	(1,541,158)	(4,851,870)
OTHER ITEMS				
Unrealized loss on marketable securities (Notes 4 and 13)	(81,250)	-	(125,000)	-
Gain on reclassification of investment (Note 13)	-	93,027	-	93,027
Share of net loss of equity accounted investee (Note 13)	-	(11,569)	-	(54,212)
Accretion expense (Note 7)	(41,315)	-	(77,588)	-
Foreign Exchange	1,210	3,063	5,265	3,146
Interest expense (Note 7)	(24,441)	(11,193)	(43,191)	(20,227)
Total other items	(145,796)	73,328	(240,514)	21,734
NET LOSS FROM CONTINUING OPERATIONS	(900,118)	(2,487,608)	(1,781,672)	(4,830,136)
Net loss from discontinued operations (Note 17)	-	(156,305)	-	(293,832)
NET AND COMPREHENSIVE LOSS	(900,118)	(2,643,913)	(1,781,672)	(5,123,968)
LOSS PER SHARE, BASIC AND FULLY DILUTED				
- Continuing operations	(0.03)	(0.08)	(0.06)	(0.22)
- Discontinued operations	-	(0.01)	-	(0.01)
Weighted average shares outstanding	32,149,302	30,135,163	32,066,969	22,120,687

(The accompanying notes are an integral part of these condensed interim financial statements)

NEONMIND BIOSCIENCES INC.

Condensed Interim Statement of Changes in Shareholders' Equity (Deficit)
(Expressed in Canadian Dollars)
(Unaudited)

	Share capital		Reserve for convertible debentures	Equity reserves	Deficit	Total shareholders' equity (deficit)
	Number of shares	Amount				
BALANCE, NOVEMBER 30, 2020	16,607,625	\$ 1,779,158	\$ -	\$ 3,324,813	\$ (5,881,384)	\$ (777,413)
Units issued for cash	11,500,000	4,600,000	-	-	-	4,600,000
Share issuance costs	-	(939,830)	-	365,260	-	(574,570)
Shares issued on exercise of stock options	152,500	98,635	-	(37,635)	-	61,000
Shares issued on exercise of warrants	1,621,075	1,202,645	-	-	-	1,202,645
Units issued on exercise of Agent's Options	384,700	268,241	-	(117,787)	-	150,454
Restricted share units vested	516,095	177,338	-	(177,338)	-	-
Fair value of stock options granted	-	-	-	1,599,520	-	1,599,520
Fair value of restricted share units granted	-	-	-	216,631	-	216,631
Net loss for the period	-	-	-	-	(5,123,968)	(5,123,968)
BALANCE, MAY 31, 2021	30,781,995	\$ 7,186,187	\$ -	\$ 5,173,464	\$ (11,005,352)	\$ 1,354,299
BALANCE, NOVEMBER 30, 2021	31,741,634	7,800,880	\$ 21,063	\$ 5,557,243	\$ (13,088,891)	\$ 290,295
Restricted share units issued for services	-	-	-	14,702	-	14,702
Restricted share units vested	427,506	142,202	-	(142,202)	-	-
Fair value of stock options granted	-	-	-	141,586	-	141,586
Fair value of restricted share units granted	-	-	-	114,908	-	114,908
Issuance of convertible debentures	-	-	30,236	31,046	-	61,282
Net loss for the period	-	-	-	-	(1,781,672)	(1,781,672)
BALANCE, MAY 31, 2022	32,169,140	\$ 7,943,082	\$ 51,299	\$ 5,717,283	\$ (14,870,563)	\$ (1,158,899)

(The accompanying notes are an integral part of these condensed interim financial statements)

NEONMIND BIOSCIENCES INC.

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

	Six months ended May 31,	
	2022	2021
OPERATING ACTIVITIES		
Net loss from continuing operations	\$ (1,781,672)	\$ (4,830,136)
Items not involving cash:		
Accretion	77,588	–
Depreciation	562	123
Interest accrued on convertible debentures	43,191	–
Gain on reclassification of investment	–	(93,027)
Share of net loss of equity accounted investee	–	54,212
Share-based compensation	256,494	1,816,151
Unrealized loss on marketable securities	125,000	–
Changes in non-cash operating working capital:		
Amounts receivable	(26,931)	(74,519)
Prepaid expenses and deposits	79,469	(159,462)
Accounts payable and accrued liabilities	184,230	69,478
Net cash used in operating activities – continuing operations	<u>(1,042,069)</u>	<u>(3,217,180)</u>
Net cash used in operating activities – discontinued operations (Note 17)	<u>–</u>	<u>(380,418)</u>
INVESTING ACTIVITIES		
Purchase of equipment	–	(3,382)
Purchase of GIC	–	(57,500)
Net cash used in investing activities – continuing operations	<u>–</u>	<u>(60,882)</u>
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	–	61,000
Proceeds from issuance of units	–	4,600,000
Share issuance costs	–	(574,570)
Proceeds from exercise of warrants	–	1,202,645
Proceeds from exercise of Agent's Options	–	150,454
Proceeds from issuance of convertible debentures	271,000	–
Net cash provided by financing activities – continuing operations	<u>271,000</u>	<u>5,439,529</u>
CHANGE IN CASH	(771,069)	1,781,049
Cash, beginning of period	773,525	1,170
CASH, END OF PERIOD	<u>\$ 2,456</u>	<u>\$ 1,782,219</u>

Supplemental disclosures (Note 14)

(The accompanying notes are an integral part of these condensed interim financial statements)

NEONMIND BIOSCIENCES INC.

Notes to the Condensed Interim Financial Statements

May 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

1. Nature of Operations and Continuance of Business

NeonMind Biosciences Inc. (“NeonMind” or the “Company”) was incorporated under the laws of the province of British Columbia on September 18, 2019. On April 9, 2020, the Company changed its name to NeonMind Biosciences Inc. The Company is engaged in drug development research into potential therapeutic uses of psychedelic compounds. On December 29, 2020, the Company’s common shares were listed on the Canadian Securities Exchange (the “Exchange”) and were immediately halted pending the closing of its initial public offering (“IPO”). On December 30, 2020, the Company completed its IPO and on January 4, 2021 the Company’s common shares resumed trading on the Exchange under the ticker symbol “NEON.”

These condensed interim financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to realize its assets and satisfy its liabilities in the normal course of business for the foreseeable future. Management is aware, in making its going concern assessment, of material uncertainties related to events and conditions that may cast significant doubt upon the Company’s ability to continue as a going concern.

The Company has incurred a net loss from continuing operations of \$1,781,672 and used \$1,042,069 of cash for operating activities from continuing operations during the period ended May 31, 2022. As of May 31, 2022, the Company had an accumulated deficit of \$14,870,563. The continued operations of the Company are dependent on future profitable operations, management’s ability to manage costs, and the future availability of equity or debt financing. Whether and when the Company can generate sufficient operating cash flows to pay for its expenditures and settle its obligations as they fall due is uncertain. These condensed interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption be inappropriate. The impact of these adjustments could be material.

The recent outbreak of the novel coronavirus COVID-19, which was declared a pandemic by the World Health Organization on March 11, 2020, has led to adverse impacts on the Canadian and global economies, disruptions of financial markets. The COVID-19 pandemic has impacted and could further impact the Company’s operations and the operations of the Company’s suppliers and vendors as a result of quarantines, facility closures, and travel and logistics restrictions. The extent to which the COVID-19 pandemic impacts the Company’s business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to the duration, spread, severity, and impact of the COVID-19 pandemic, the effects of the COVID-19 pandemic on the Company’s suppliers and vendors and the remedial actions and stimulus measures adopted by local and federal governments, and to what extent normal economic and operating conditions can resume. The management team is closely following the progression of COVID-19 and its potential impact on the Company and is working on alternative measures and resources to minimize such impact. Even after the COVID-19 pandemic has subsided, the Company may experience adverse impacts to its business as a result of any economic recession or depression that has occurred or may occur in the future. Therefore, the Company cannot reasonably estimate the impact at this time our business, liquidity, capital resources and financial results.

NEONMIND BIOSCIENCES INC.

Notes to the Condensed Interim Financial Statements

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2. Significant Accounting Policies

Statement of Compliance

These condensed interim financial statements of the Company have been prepared in accordance with International Accounting Standards 34, *Interim Financial Reporting*, and based on the principles of International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the interpretations of the International Financial Reporting Interpretations Committee. These condensed interim financial statements should be read in conjunction with the Company’s annual financial statements for the year ended November 30, 2021, which include the Company’s significant accounting policies, and have been prepared in accordance with the same methods of application.

Basis of Presentation

These condensed interim financial statements have been prepared on a historical cost basis. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting, except for the cash flow information. The presentation and functional currency of the Company is the Canadian dollar.

In the opinion of the Company’s management, all adjustments considered necessary for a fair presentation have been included.

Significant Accounting Estimates and Judgments

The preparation of condensed interim financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Significant areas requiring the use of estimates include the useful life and carrying value of property and equipment, fair value of share-based compensation, and measurement of unrecognized deferred income tax assets.

Judgments made by management in the application of IFRS that have a significant effect on the condensed interim financial statements include the factors that are used in determining whether the Company has significant influence over another entity, and the application of the going concern assumption which requires management to consider all available information about the future, which is at least but not limited to 12 months from the end of the reporting period.

The Company had previously determined that it had significant influence in Komo Plant Based Comfort Foods Inc. (“Komo Foods”) despite holding less than 20% of the voting rights in Komo Foods due to the company sharing a common CFO, and the fact that the Company and Komo Foods entered into a license agreement that was a key component of Komo Food’s business in prior periods. As a result, Komo Foods was considered an associate of the Company, and the investment in Komo Foods was accounted for using the equity method. The equity method involves recording the initial investment at cost and subsequently adjusting the carrying value of the investment for the Company’s proportionate share of the profit or loss, other comprehensive income or loss and any other changes in the associate’s net assets, such as further investments or dividends. During the year ended November 30, 2021, Komo Foods entered into a merger agreement and management determined that significant influence in Komo Foods no longer existed (Note 13) and the Company reclassified its investment to fair value through profit and loss under IFRS 9, *Financial Instruments*.

NEONMIND BIOSCIENCES INC.

Notes to the Condensed Interim Financial Statements

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2. Significant Accounting Policies (continued)

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no material effect on the condensed interim statement of financial position or the reported results of operations. An adjustment has been made on the condensed interim statement of operations to separate out foreign exchange gain and interest expense from office and administrative into separate line items under other expenses.

Future Accounting Pronouncements

Certain pronouncements have been issued by the IASB, or the IFRS Interpretations Committee that are not mandatory for the current period and have not been early adopted. Management has assessed that there are no future accounting pronouncements that are expected to have a material impact on the Company in the current or future reporting periods.

3. Restricted Cash

During the year ended November 30, 2021, the Company invested in a variable rate GIC in the principal amount of \$57,500 as security for the credit card with the Company's banking institution. All renewals and replacements and all interest shall be held by the bank as continuing security.

4. Marketable Securities

Below is a summary of the Company's marketable securities as of May 31, 2022:

	November 30, 2021 fair value	Additions	Proceeds from sale	Realized gain (loss)	Unrealized loss	May 31, 2022 fair value
Komo YUM Shares	\$ 193,750	\$ -	\$ -	\$ -	\$ (125,000)	\$ 68,750

As at May 31, 2022, the Company held 1,250,000 shares (November 30, 2021 – 1,250,000) of Komo Plant Based Foods Inc. ("Komo YUM").

5. Taxes recoverable

	May 31, 2022	November 30, 2021
GST input tax credits	131,486	104,915

6. Prepaid Expenses and Deposits

	May 31, 2022	November 30, 2021
Deposits	\$ 18,011	\$ 74,786
Prepaid services	109,261	131,955
Total prepaid expenses and deposits	\$ 127,272	\$ 206,741

Prepaid services consisted of advance payments for future capital conferences that were put on hold due to the impact of the COVID-19 pandemic, media consulting services, and insurance policies.

NEONMIND BIOSCIENCES INC.

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7. Convertible Debentures

	November 29, 2021 issuance	April 8, 2022 issuance	Total
Proceeds from issue of convertible debentures	\$ 750,000	\$ –	\$ 750,000
Transaction costs – cash	(157,570)	–	(157,570)
Net proceeds	592,430	–	592,430
Transaction costs – non-cash	(61,993)	–	(61,993)
Amount classified as equity	(21,063)	–	(21,063)
Fair value of warrants attached to units	(59,976)	–	(59,976)
Accrued interest	208	–	208
Accretion	403	–	403
Carrying amount of liability at November 30, 2021	\$ 450,009	\$ –	\$ 450,009
Proceeds from issue of convertible debentures	–	285,000	285,000
Convertible debentures issued to settle payables	–	109,000	109,000
Transaction costs - cash	–	(14,000)	(14,000)
Net proceeds	–	380,000	380,000
Transaction costs – non-cash	–	(3,809)	(3,809)
Amount classified as equity	–	(30,236)	(30,236)
Fair value of warrants attached to units	–	(27,238)	(27,237)
Accrued interest	37,500	5,691	43,191
Accretion	72,546	5,042	77,588
Carrying amount of liability at May 31, 2022	\$ 560,055	\$ 329,450	\$ 889,506

November 29, 2021 issuance

On November 29, 2021, the Company issued 750 convertible debenture units at a price of \$1,000 per unit for gross proceeds of \$750,000. Each unit consisted of a repayable note with a face value of \$1,000 (the “Debentures”) and 2,000 warrants to purchase common shares of the Company. The Debentures bear interest at a rate of 10% per annum on an accrual basis from issuance, calculated and payable semi-annually in arrears on May 31 and November 30 of each year.

The Debentures have a redemption date that is 24 months from the date of issuance and are convertible in full or in part, at the holders’ option, into common shares of the Company at a price of \$0.48 per common share, at any time prior to their redemption. Each warrant entitles the holder thereof to acquire one common share of the Company at a price of \$0.56 per share for a period of 36 months from the date of issue.

In connection with the issuance of the Debentures, the Company paid broker fees of \$82,570, commission fees of \$75,000, and granted 156,250 agent’s options (the “Agent’s Options”) with a fair value of \$61,993 entitling the holder to purchase a unit of the Company (the “Agent’s Option Unit”) at \$0.48 per Agent’s Option until November 29, 2023. Each Agent’s Option Unit consists of one common share of the Company (each, an “Agent’s Option Share”) and one share purchase warrant (each, an “Agent’s Option Warrant”). Each Agent’s Option Warrant further entitles the holder to purchase one additional common share of the Company at a price of \$0.56 for a period of 36 months from the Agent’s Options issue date of November 29, 2021. The estimated fair value associated with the Agent’s Options granted was determined using the Black-Scholes Pricing model with the following assumptions: stock price at grant date of \$0.564; annualized volatility of 132%; expected life of 2 years; dividend yield of 0%; expected forfeiture rate of 0%; and risk-free rate of 1.08%.

During the period ended May 31, 2022, the Company accrued interest of \$37,500 (2021 - \$nil) relating to the Debentures.

NEONMIND BIOSCIENCES INC.

Notes to the Condensed Interim Financial Statements

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(Expressed in Canadian Dollars)

(Unaudited)

7. Convertible Debentures (continued)

April 8, 2022 issuance

On April 8, 2022, the Company issued 285 convertible debenture units at a price of \$1,000 per unit for gross proceeds of \$285,000, and 109 convertible debentures units at a price of \$1,000 per unit to settle accounts payable of \$109,000. Each unit consisted of a repayable note with a face value of \$1,000 (the “Debentures”) and 2,375 warrants to purchase common shares of the Company. The Debentures bear interest at a rate of 10% per annum on an accrual basis from issuance, calculated and payable semi-annually in arrears on May 31 and November 30 of each year.

The Debentures have a redemption date that is 24 months from the date of issuance and are convertible in full or in part, at the holders’ option, into common shares of the Company at a price of \$0.30 per common share, at any time prior to their redemption. Each warrant entitles the holder thereof to acquire one common share of the Company at a price of \$0.32 per share for a period of 36 months from the date of issue.

In connection with the issuance of the Debentures, the Company paid broker fees of \$14,000 and granted 33,250 agent’s options (the “Agent’s Options”) with a fair value of \$3,809 entitling the holder to purchase a unit of the Company (the “Agent’s Option Unit”) at \$0.30 per Agent’s Option until April 8, 2024. Each Agent’s Option Unit consists of one common share of the Company (each, an “Agent’s Option Share”) and one share purchase warrant (each, an “Agent’s Option Warrant”). Each Agent’s Option Warrant further entitles the holder to purchase one additional common share of the Company at a price of \$0.32 for a period of 36 months from the Agent’s Options issue date of April 8, 2022. The estimated fair value associated with the Agent’s Options granted was determined using the Black-Scholes Pricing model with the following assumptions: stock price at grant date of \$0.20; annualized volatility of 129%; expected life of 2 years; dividend yield of 0%; expected forfeiture rate of 0%; and risk-free rate of 2.42%.

During the period ended May 31, 2022, the Company accrued interest of \$5,691 (2021 - \$nil) relating to the Debentures.

8. Related Party Transactions

During the three and six months ended May 31, 2022 and 2021, compensation of key management personnel and related parties were as follows:

	Three months ended		Six months ended	
	May 31,		May 31,	
	2022	2021	2022	2021
Consulting fees	\$ 113,124	\$ 59,124	\$ 172,248	\$ 98,540
Share-based compensation	137,542	980,264	308,239	1,596,755
Wages	100,833	174,359	268,333	248,376
	<u>\$ 351,499</u>	<u>\$ 1,213,747</u>	<u>\$ 748,820</u>	<u>\$ 1,943,671</u>

As at May 31, 2022, a related company, Better Plant Sciences Inc. (“Better Plant”), held a \$10,000 deposit from the Company (November 30, 2021 - \$10,000) which is included in prepaid expenses and deposits. As at May 31, 2022, the Company owed \$37,119 (November 30, 2021 - \$16,948) to Better Plant, which is included in accounts payable and accrued liabilities. The balance is unsecured, non-interest bearing, and due on demand.

During the period ended May 31, 2022, the Company incurred marketing expenses of \$2,026 (May 31, 2021 - \$41,985), investor relations expenses of \$24,844 (May 31, 2021 - \$36,295), professional fees of \$34,611 (May 31, 2021 - \$32,169), office and administrative expenses of \$16,439 (May 31, 2021 - \$33,363), and consumer product research and development expenses of \$nil (May 31, 2021 - \$42,067) from Better Plant. Better Plant provided such services to the Company pursuant to an operating agreement dated August 30, 2020.

NEONMIND BIOSCIENCES INC.

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(Expressed in Canadian Dollars)

(Unaudited)

8. Related Party Transactions (continued)

As at May 31, 2022, the Company owed \$49,246 (November 30, 2021 - \$nil) to directors and officers of the Company, all of which is included in accounts payable and accrued liabilities. These amounts are unsecured, non-interest bearing, and due on demand.

9. Share Capital

Authorized: unlimited number of common shares without par value.

On April 18, 2022, the Company effected a 1-for-4 share consolidation. All share and per share amounts in these condensed interim financial statements have been retroactively adjusted for the share consolidation.

- (a) During the six months ended May 31, 2022, the Company issued 427,506 common shares pursuant to the conversion of fully vested restricted share units. The fair value of the restricted share units of \$142,202 was transferred from equity reserves to share capital upon conversion.

During the six months ended May 31, 2021, the Company completed the following transactions:

- (b) On December 30, 2020, the Company completed its IPO of 11,500,000 units at \$0.40 per unit for proceeds of \$4,600,000. Each unit consisted of one common share and one share purchase warrant exercisable at \$0.80 per share until December 30, 2021. In connection with the IPO, the Company paid broker fees of \$45,000, commission fees of \$460,000, due diligence fees of \$69,570, and issued 1,150,000 agents' options (the "Agents' Options") with a fair value of \$365,260, entitling the holder to purchase a unit of the Company (the "Agent's Option Unit") at \$0.40 per Agent's Option Unit until December 30, 2022. Each Agent's Option Unit consists of one common share of the Company (each, an "Agent's Option Share") and one share purchase warrant (each, an "Agent's Option Warrant"). Each Agent's Option Warrant further entitles the holder to purchase one additional common share of the Company for a period of 24 months from the IPO closing date on December 30, 2020. The estimated fair value associated with the Agent's Options granted was determined using the Black-Scholes Pricing model with the following assumptions: stock price at grant date of \$0.40; an annualized volatility of 179%; an expected life of 2 years; a dividend yield of 0%; a forfeiture rate of 0% and a risk free rate of 0.20%.
- (c) The Company issued 152,500 common shares for proceeds of \$61,000 pursuant to the exercise of stock options. The fair value of the stock options of \$37,635 was transferred from equity reserves to share capital upon exercise.
- (d) The Company issued 1,621,075 common shares for proceeds of \$1,202,645 pursuant to the exercise of warrants.
- (e) The Company issued 516,095 common shares pursuant to the conversion of fully vested restricted share units. The fair value of the restricted share units of \$177,338 was transferred from equity reserves to share capital upon conversion.
- (f) The Company issued 341,875 Agent's Option Shares and 341,875 Agent's Option Warrants pursuant to the exercise of Agent's Options for proceeds of \$136,750. Each Agent's Option Warrant entitles the holder to purchase one additional common share of the Company at \$0.80 per common share for a period of 24 months from the IPO closing date on December 30, 2020. The fair value of the Agent's Option Warrants of \$108,586 was transferred from equity reserves to share capital upon exercise.
- (g) The Company issued 42,825 Agent's Option Shares and 42,825 Agent's Option Warrants pursuant to the exercise of Agent's Options for proceeds of \$13,704. Each Agent's Option Warrant entitles the holder to purchase one additional common share of the Company at \$0.60 per common share until May 14, 2021. The fair value of the Agent's Option Warrants of \$9,201 was transferred from equity reserves to share capital upon exercise.

NEONMIND BIOSCIENCES INC.

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(Expressed in Canadian Dollars)
(Unaudited)

10. Share Purchase Warrants

On April 18, 2022, the Company effected a 1-for-4 share consolidation. Figures in the tables below have been retroactively adjusted for the share consolidation.

The following table summarizes the continuity of the Company's share purchase warrants:

	Number of warrants	Weighted average exercise price
Balance, November 30, 2020	22,038,237	\$ 1.20
Issued	14,865,950	0.74
Exercised	(2,441,937)	0.60
Expired	(537,500)	2.00
Balance, November 30, 2021	33,924,750	\$ 1.00
Issued	969,000	0.32
Expired	(20,768,500)	1.20
Balance, May 31, 2022	14,125,250	\$ 0.55
Exercisable, May 31, 2022	14,125,250	\$ 0.55

As at May 31, 2022, the following share purchase warrants were outstanding:

Number of warrants outstanding	Exercise price	Expiry date
10,350,000	\$ 0.56	June 30, 2022 ¹
633,125	\$ 0.40	December 30, 2022
516,875	\$ 0.80	December 30, 2022
156,250	\$ 0.56	November 29, 2023
1,500,000	\$ 0.56	November 29, 2024
33,250	\$ 0.32	April 8, 2024
935,750	\$ 0.32	April 8, 2025
<u>14,125,250</u>		

¹ On December 15, 2021, the Company amended the terms of 10,350,000 warrants which were previously issued in connection with the initial public offering of the Company that closed on December 30, 2020. The warrants originally entitled the holders to purchase one common share in the capital of the Company at a price of \$0.80 for a period of 12 months. The expiry date of the warrants has been extended to June 30, 2022, and the exercise price has been reduced to \$0.56.

11. Stock Options

On January 13, 2020, the Company adopted an incentive stock option plan, which was replaced by an amended and restated incentive stock option plan on September 9, 2020. Pursuant to the Company's stock option plan, directors may, from time to time, authorize the issuance of options to directors, officers, employees, and consultants of the Company. The terms of the granted stock options as well as the vesting conditions are at the sole discretion of the directors.

On April 18, 2022, the Company effected a 1-for-4 share consolidation. Figures in the tables below have been retroactively adjusted for the share consolidation.

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11. Stock Options (continued)

The following table summarizes the continuity of the Company's stock options:

	Number of options	Weighted average exercise price
Outstanding, November 30, 2020	1,572,500	\$ 0.40
Granted	3,738,750	0.92
Exercised	(277,500)	0.40
Expired/Cancelled	(170,625)	0.40
Outstanding, November 30, 2021	4,863,125	\$ 0.80
Granted	175,000	0.40
Expired/Cancelled	(636,875)	0.82
Outstanding, May 31, 2022	4,401,250	\$ 0.79
Exercisable, May 31, 2022	2,924,687	\$ 0.79

Additional information regarding stock options outstanding and exercisable as at May 31, 2022:

Range of exercise prices	Stock options outstanding	Stock options exercisable	Weighted average remaining contracted life (years)
\$0.40 - \$0.60	1,827,500	1,210,625	1.41
\$0.84 - \$1.16	2,567,500	1,707,812	2.14
\$1.17 - \$1.28	6,250	6,250	0.01
	4,401,250	2,924,687	3.56

Share-based compensation expense related to stock options was determined using the Black-Scholes option pricing model. During the six months ended May 31, 2022, the Company recognized share-based compensation expense relating to stock options of \$141,586 (2021 - \$1,599,520) in equity reserves, of which \$234,439 (2021 - \$1,380,124) pertains to directors and officers of the Company. The expense pertaining to directors and officers of the Company is larger than the overall expense as a result of accounting for stock options cancelled during the period. The weighted average fair value of options granted during the six months ended May 31, 2022, was \$0.12 (2021 - \$0.88) per share. There were no stock options exercised during the six months ended May 31, 2022. Weighted average assumptions used in calculating the fair value of share-based compensation expense, including no expected dividends or forfeitures, are as follows:

	2022	2021
Risk-free interest rate	2.10%	0.47%
Dividend yield	0%	0%
Expected volatility	124%	147%
Expected life (years)	4.37	4.97

As at May 31, 2022 there was \$220,027 (November 30, 2021 - \$589,721) of unrecognized share-based compensation related to unvested stock options.

12. Restricted Share Units

On April 16, 2020, the Company adopted a restricted share unit plan, which was replaced by an amended and restated restricted share unit plan on April 27, 2020, September 9, 2020 and November 3, 2020. Pursuant to the Company's restricted share unit plan, directors may, from time to time, authorize the issuance of restricted share units to directors, officers, employees, and consultants of the Company. The terms of the granted restricted share units as well as the vesting conditions are at the sole discretion of the directors.

On April 18, 2022, the Company effected a 1-for-4 share consolidation. Figures in the tables below have been retroactively adjusted for the share consolidation.

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12. Restricted Share Units (continued)

	Number of Restricted share units
Balance, November 30, 2020	2,299,220
Granted	404,725
Cancelled	(164,375)
Vested	(914,570)
Balance, November 30, 2021	1,625,000
Granted	102,506
Cancelled	(900,000)
Vested	(427,506)
Balance, May 31, 2022	400,000

Share-based compensation expense relating to restricted share units was determined using the fair value of common shares of the Company on the date of grant. For restricted share units issued prior to the IPO on December 30, 2020, the fair value was determined based on previous private placements with third parties. For restricted share units issued subsequent to the IPO, the fair value was determined using the market price of the Company's common shares. During the six months ended May 31, 2022, the Company recognized share-based compensation expense relating to restricted share units of \$114,908 (2021 - \$98,489) in equity reserves, \$73,800 (2021 - \$98,489) of which pertains to directors and officers of the Company. During the six months ended May 31, 2022, the Company granted restricted share units with a total fair value of \$14,702 (2021 - \$nil) in exchange for consulting services. The weighted average fair value of restricted share units granted during the six months ended May 31, 2022, was \$0.29 (2021 - \$0.96) per share.

As at May 31, 2022 there was \$115,386 (November 30, 2021 - \$183,567) of unrecognized share-based compensation related to unvested restricted share units.

13. Investment Loss

	Three months ended May 31,		Six months ended May 31,	
	2022	2021	2022	2021
Share of net loss of equity accounted investee	\$ -	\$ (11,569)	\$ -	\$ (54,212)
Unrealized loss on marketable securities (Note 4)	(81,250)	-	(125,000)	-

On February 21, 2020, the Company entered into a license agreement with Komo Foods, a plant based food company, whereby the Company granted Komo Foods a non-exclusive license to the Company's mushroom extraction technology for use in the United States. Pursuant to the license agreement, the Company received 1,250,000 common shares of Komo Foods, with a fair value of \$415,000, representing a 4.05% ownership interest in Komo Foods at the time of the transaction.

The Company had determined that it had significant influence in Komo Foods as it shared a common CFO, and there had been significant transactions including the licensing agreement entered into with Komo Foods. As a result of having significant influence in Komo Foods, the Company's investment in Komo Foods was accounted for as an investment in an associate using the equity method. The equity method involves recording the initial investment at cost and subsequently adjusting the carrying value of the investment for the Company's proportionate share of the profit or loss, other comprehensive income or loss and any other changes in the associate's net assets, such as further investments or dividends.

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13. Investment Loss (continued)

During the period ended May 31, 2021, the Company recorded its proportionate loss from Komo Foods of \$54,212. The following table outlines the changes in investment in associate that was accounted for using the equity method for the six months ended May 31, 2021. As the Company does not have the same reporting date as its associate, the Company was provided with unaudited financial statements for the six months ended May 31, 2021 to calculate the portion of net loss attributable to the Company.

	Three months ended May 31, 2021	Six months ended May 31, 2021
Komo Foods net income (loss)	\$ (434,796)	\$ (1,955,755)
% ownership	2.67%	2.67%
Portion of net income (loss) from investment in associate	\$ (11,569)	\$ (54,212)

On May 31, 2021, Komo Foods entered into a merger agreement with Komo YUM. Subsequent to the merger, the Company's shares of Komo Foods were exchanged 1-to-1 for Komo YUM shares and it was determined that the Company no longer had significant influence over Komo YUM. As a result, the Company began accounting for the investment in Komo Foods as marketable securities at fair value through profit or loss. The difference between the carrying value of \$31,973 and the fair value of \$125,000 was recorded as a gain on reclassification of investment of \$93,027 on the condensed interim statement of operations and comprehensive loss. For the six months ended May 31, 2022, the Company recorded an unrealized loss on marketable securities of \$125,000.

14. Supplemental Disclosures

	Six months ended May 31,	
	2022	2021
Non-cash investing and financing activities:		
Restricted share units issued to settle accounts payable	\$ 14,702	\$ -
Transfer of fair value of options to share capital upon exercise	-	37,635
Transfer of fair value of warrants to share capital upon exercise	-	117,787
Fair value of Agent's Options issued as finder's fees	3,809	365,260
Fair value of restricted share units converted	142,202	177,338
Equity portion of convertible debentures	30,236	-
Fair value of warrants attached to convertible debentures	27,237	-
Reclassification of investment in Komo	-	31,973

15. Capital Management

The Company manages its capital structure and makes adjustments, based on the funds available to the Company, to support the general operations of the Company and facilitate the liquidity needs of its operations. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its working capital position and share capital.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements.

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16. Financial Instruments and Risk Management

Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the statement of financial position as at May 31, 2022, as follows:

	Fair Value Measurements Using			Balance, May 31, 2022
	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Marketable securities	\$ 68,750	\$ –	\$ –	\$ 68,750
Restricted cash	57,500	–	–	57,500
Convertible debentures	–	889,506	–	889,506
	<u>\$ 126,250</u>	<u>\$ 889,506</u>	<u>\$ –</u>	<u>\$ 1,015,756</u>

The fair values of other financial instruments, including cash, accounts payable and accrued liabilities, and amounts due to related parties approximate their carrying values due to the relatively short-term maturity of these instruments.

Credit Risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counter-party default on its obligation. The Company's credit risk is primarily attributable to cash. The Company minimizes its credit risk associated with its cash balance by dealing with major financial institutions in Canada and has no other significant concentration of credit risk arising from operations. The carrying amount of financial assets represents the maximum credit exposure.

Foreign Exchange Rate and Interest Rate Risk

The Company is not exposed to any significant foreign exchange rate or interest rate risk.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Company manages liquidity risk by maintaining sufficient cash balances and adjusting its operating budget and expenditure. Liquidity requirements are managed based on expected cash flows to ensure that there are sufficient funds to meet short-term and specific obligations.

Price Risk

The Company is exposed to price risk with respect to its marketable securities, which consists of common shares held in publicly-traded companies and is dependent upon the market price or the fair value of the common shares for those companies. The market price or the fair value of the common shares of those companies can fluctuate significantly, and there is no assurance that the future market price or the fair value of those companies will not decrease significantly.

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17. Discontinued Operations

The Company entered into an Asset Purchase Agreement dated September 10, 2021 with Better Plant in which the Company agreed to sell certain assets in consideration for \$645,000. The following assets were transferred by the Company to Better Plant: four mushroom coffee products being sold in Canada at the time of sale and four mushroom coffee dietary products, including existing inventory, raw materials and packaging for all eight products, social media accounts related to the products, a domain neonmind.com and the neonmind.com Shopify-enabled website in Canada and the US, as well as associated marketing materials and a license to use the brand NeonMind in association with the products.

As a result of the sale of the assets pertaining to the functional mushroom coffee consumer products (the "Consumer Products Division"), as well as management's decision to no longer pursue this retail division, the Consumer Products Division meets the criteria to be classified as discontinued operations as of September 10, 2021, and therefore the results of operations of the Consumer Products Division for all periods have been classified as discontinued operations on the condensed interim statements of operations.

Net Loss from Discontinued Operations

	Three months ended May 31, 2021	Six months ended May 31, 2021
<u>Consumer Products Division</u>		
REVENUE		
Product sales	\$ 4,534	\$ 12,649
Cost of sales	<u>1,548</u>	<u>3,579</u>
Gross profit	<u>2,986</u>	<u>9,070</u>
EXPENSES		
Amortization	1,012	2,025
Information systems	–	1,480
Office and administrative	177	5,458
Marketing, publicity, and digital media	106,103	179,090
Research and development – consumer products	36,002	84,528
Professional fees	<u>15,997</u>	<u>30,321</u>
Total expenses	<u>159,291</u>	<u>302,902</u>
NET LOSS	<u>\$ (156,305)</u>	<u>\$ (293,832)</u>

Cash Flows from Discontinued Operations

	Six months ended May 31, 2021
<u>Consumer Products Division</u>	
OPERATING ACTIVITIES	
Net loss	\$ (293,832)
Items not involving cash	
Amortization	2,025
Changes in non-cash operating working capital	
Accounts receivable	(447)
Inventory	(34,751)
Accounts payable and accrued liabilities	(53,193)
Deferred revenue	<u>(220)</u>
Net cash used in operating activities	<u>\$ (380,418)</u>

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18. Subsequent Events

On June 7, 2022, the Company granted 1,700,000 stock options to a director, an officer and a consultant, which are exercisable at \$0.10 per share for a period of five years. 100% of the stock options vest four months after the date of the grant.

On June 7, 2022, the Company granted 200,000 stock options to a director, which are exercisable at \$0.10 per share for a period of five years. The stock options vest over 12 months in four equal tranches, with the first vesting period commencing four months after the grant date.

On July 12, 2022, the Company granted 1,625,000 stock options to a director, which are exercisable at \$0.10 per shares for a period of five years. 100% of the stock options vest four months after the date of the grant.

Subsequent to May 31, 2022, 2,775,000 stock options previously granted to directors of the Company were voluntarily cancelled.