Optimi Health Corp.

Consolidated Financial Statements

Year Ended September 30, 2023

(Expressed in Canadian Dollars)

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF OPTIMI HEALTH CORP.

Opinion

We have audited the consolidated financial statements of Optimi Health Corp. and its subsidiaries (the "Company"), which comprise:

- the consolidated statements of financial position as at September 30, 2023 and 2022;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended; and
- the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at September 30, 2023 and 2022, and its consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $5,194,548 during the year ended September 30, 2023, and, as of that date, the Company had an accumulated deficit of $17,645,018. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended September 30, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Measurement of fair value of biological assets at the point of harvest

Description of the matter
We draw attention to Notes 3 and 6 of the consolidated financial statements. During the year ended September 30, 2023, the Company harvested certain biological assets, which are required to be measured at fair value less costs to sell at the point of harvest in accordance with IAS 41 *Agriculture.*

The assessment of biological asset inventories fair value requires significant assumptions which include:
- the estimated selling price in the ordinary course of business; and
- the estimated costs necessary to make the sale.

Why the matter is a key audit matter
We identified the determination of fair value less costs to sell of biological assets at the point of harvest as a key audit matter. This matter represented an area of significant risk of material misstatement given the high degree of auditor judgment required and the degree of subjectivity of the significant assumptions used to measure biological assets were average selling price per gram weighted average effective yield and cost per gram to complete production.

How the matter was addressed in the audit
The primary procedures we performed to address this key audit matter included the following:
- compared the Company's estimated selling price per gram to actual sales transactions and contracted supply and sales agreements of the Company;
- tested the weighted average effective yield and psilocybin potency by tracing a selection of harvested biological assets to Company processing records and external laboratory test reports;
- tested the completeness and accuracy of underlying data used in the costing calculation, including selecting a sample of direct costs and tracing to source documents and assessing the allocation methods of overhead applied;
- tested the estimated costs to complete production by comparing a selection of production costs incurred and grams produced to source documents; and
- performed sensitivity analyses over significant assumptions.

Other Information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our 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 auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Hervé Leong-Chung.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
January 29, 2024

Optimi Health Corp.

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Note	September 30, 2023 $	September 30, 2022 $
ASSETS	11, 19		
Current			
Cash and cash equivalents	4	1,344,778	1,888,578
Accounts receivable		165,738	98,702
Inventory	5	779,274	264,724
Prepaids and advances	7	138,665	175,522
Total current assets		2,428,455	2,427,526
Deposits		15,910	10,665
Property, plant and equipment	8	13,995,990	14,247,219
Right-of-use assets	9	51,374	132,361
Total assets		16,491,729	16,817,771
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	10, 13	1,461,101	640,088
Deferred revenue	10	112,500	-
Lease liabilities	9	36,704	88,092
Total current liabilities		1,610,305	728,180
Long-term lease liabilities	9	32,781	69,485
Loans payable	11	1,637,750	-
Total liabilities		3,280,836	797,665
Shareholders' equity			
Share capital	12	28,698,155	26,614,345
Reserves	12	2,157,756	2,832,839
Accumulated deficit		(17,645,018)	(13,427,078)
Total shareholders' equity		13,210,893	16,020,106
Total liabilities and shareholders' equity		16,491,729	16,817,771

Approved and authorized by the Board on January 29, 2024

"Jon Schintler" Director *"John James Wilson"* Director

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

Optimi Health Corp.

Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	Note	Year Ended September 30, 2023 $	Year Ended September 30, 2022 $
Revenue		181,087	80,717
Cost of sales	5	(148,927)	(26,799)
Gross margin before fair value adjustments		32,160	53,918
Unrealized gain in fair value of biological assets	6	168,071	-
Fair value change on sale of inventory		-	-
Gross margin		200,231	53,918
Expenses			
Advertising, promotion and public relations		237,699	532,665
Amortization	6, 8, 9	729,560	293,597
Bank charges and interest	9, 11	43,707	27,993
Consulting	13	1,003,023	794,950
Insurance		350,023	486,143
Investor relations		-	321,949
Marketing		21,213	1,581,571
Office, rent and administration		240,023	265,008
Production costs		357,268	189,158
Professional fees		298,638	103,905
Research and development		152,146	133,235
Share-based compensation	12, 13	163,463	1,005,114
Shipping		115,258	81,132
Transfer agent and filing fees		162,116	139,663
Travel and accommodation		137,945	145,015
Wages and benefits	13	1,504,151	1,370,591
		(5,516,233)	(7,471,689)
Interest and other income	4, 9	136,410	66,943
Loss on sale of equipment	8	(14,956)	-
Loss and comprehensive loss for the year		5,194,548	7,350,828
Loss per share			
Basic and diluted		$(0.06)	$(0.09)
Weighted average number of common shares outstanding			
Basic and diluted		86,983,020	77,939,707

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

Optimi Health Corp.

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended September 30, 2023 $	Year Ended September 30, 2022 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	(5,194,548)	(7,350,828)
Add back non-cash items		
Amortization	729,560	293,597
Unrealized gain in fair value of biological assets	(168,071)	-
Share-based compensation	163,463	1,005,114
Loan accretion	15,750	-
Lease interest	10,773	20,597
Loss on sale of equipment	14,956	-
Changes in non-cash working capital items		
Accounts receivable	(67,036)	89,481
Inventory	107,045	(264,724)
Biological assets	(320,191)	-
Prepaids and advances	36,857	1,505,656
Deferred revenue	112,500	-
Accounts payable and accrued liabilities	957,405	121,566
Cash used in operating activities	(3,601,537)	(4,579,541)
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits	(5,245)	-
Redemption of short-term investments	-	4,000,000
Proceeds from sale of equipment	15,000	-
Plant and equipment expenditures	(804,231)	(7,151,286)
Grants received	88,460	-
Cash used in investing activities	(706,016)	(3,151,286)
CASH FLOWS FROM FINANCING ACTIVITIES		
Private placements, net of share issue costs	1,843,872	-
Proceeds from loans	2,000,000	-
Exercise of warrants	-	1,297,800
Payment of lease obligations	(80,119)	(111,238)
Cash provided by financing activities	3,763,753	1,186,562
Change in cash and cash equivalents during the year	(543,800)	(6,544,265)
Cash and cash equivalents, beginning of year	1,888,578	8,432,843
Cash and cash equivalents, end of year	1,344,778	1,888,578
SUPPLEMENTAL INFORMATION		
Property, plant and equipment costs included in accounts payable	$93,534	$231,462
Transfer from reserves to share capital on exercise of RSRs	$227,438	$246,188
Deposits converted to equipment and plant under construction	-	$246,887
Amortization capitalized to biological assets	$133,333	-
Transfer from biological assets to inventory on harvest	$453,524	-
Transfer from share capital to deficit on cancellation of shares	-	$112,500
Transfer from reserves to deficit on expiry of agents options	$976,608	-
Modification of lease liability	-	$2,627
Derecognition of right-of-use asset and lease liability	$18,746	-
Equity component of loans payable	$378,000	-

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

Optimi Health Corp.

Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Common Shares #	Share Capital $	Reserves $	Deficit $	Total Equity $
Balance, October 1, 2021	69,870,133	25,157,857	2,098,913	(6,188,750)	21,068,020
Shares issued on exercise of warrants	10,744,500	1,297,800	-	-	1,297,800
Shares issued on conversion of restricted share rights ("RSRs")	428,250	246,188	(246,188)	-	-
Share-based compensation	50,000	25,000	980,114	-	1,005,114
Shares returned to treasury	(150,000)	(112,500)	-	112,500	-
Loss and comprehensive loss for the year	-	-	-	(7,350,828)	(7,350,828)
Balance, September 30, 2022	**80,942,883**	**26,614,345**	**2,832,839**	**(13,427,078)**	**16,020,106**
Shares issued pursuant to private placement	5,692,308	1,850,000	-	-	1,850,000
Share issuance costs	-	(6,128)	-	-	(6,128)
Shares issued on conversion of RSRs	353,250	227,438	(227,438)	-	-
Share-based compensation	50,000	12,500	150,963	-	163,463
Transfer from reserves to deficit on expiry of options	-	-	(976,608)	976,608	-
Equity component of loans payable	-		378,000	-	378,000
Loss and comprehensive loss for the year	-	-	-	(5,194,548)	(5,194,548)
Balance, September 30, 2023	**87,038,441**	**28,698,155**	**2,157,756**	**(17,645,018)**	**13,210,893**

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

1. Nature of Operations and Going Concern

Optimi Health Corp. (the "Company") was incorporated under the *Business Corporations Act* (British Columbia) on May 27, 2020, under the name 1251417 B.C. Ltd. The Company changed its name from 1251417 B.C. Ltd. to Optimi Health Corp. on August 17, 2020.

The Company is licensed by Health Canada to produce and supply natural GMP-grade psilocybin, psilocin, and other psychedelic substances, some being synthetically formulated, as well as functional mushrooms that focus on domestic and international health and wellness markets. Built with the purpose of producing scalable psychedelic and functional mushroom products for transformational human experiences, the Company's products are grown at its two facilities comprising a total of 20,000 square feet in Princeton, British Columbia. Focused on being a compassionate supplier of safe drug and nutraceutical products, the Company works with consumers, health food distributors, and drug developers and patients regulated by Health Canada.

The registered and records office is located at 40440 Thunderbird Ridge, Garibaldi Highlands, British Columbia, Canada, V0N 1T0.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. During the year ended September 30, 2023, the Company incurred a net loss of $5,194,548 (2022 - $7,471,689) and has not yet achieved profitable operations. The Company has an accumulated deficit of $17,645,018 since its inception (2022 - $17,645,018). Without additional financing, the Company may not be able to fund its ongoing operations. The Company intends to finance its future requirements through a combination of debt and/or equity issuances. There is no assurance that the Company will be able to obtain such financings or obtain them on favorable terms. These uncertainties may cast significant doubt on the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments related to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material. Subsequent to the year ended September 30, 2023, the Company raised $1,000,000 in the form of a loan financing; however, the Company will need to raise sufficient working capital to maintain operations for the upcoming 12 months (Note 19).

2. Basis of Presentation

a) Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on January 29, 2024.

b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments and biological assets, which are measured at fair value. These consolidated financial statements are presented in Canadian dollars, which is the Company and its subsidiaries' functional currency.

c) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries with intercompany balances and transactions eliminated on consolidation. Subsidiaries are those entities over which the Company has the power over the investee, is exposed, or has rights to variable returns from its involvement with the investee and has the ability to use its power. As at September 30, 2023 and 2022, the Company owns 100% of the issued and outstanding shares of Optimi Nutraceuticals Corp. and Optimi Labs Inc.

d) Significant accounting judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported revenues and expenses during the year. Actual results may differ from these estimates.

Significant estimates and judgments are evaluations and assumptions about the future and other sources of estimation uncertainty that management has made, which could result in a material adjustment to the carrying amounts of assets and liabilities. Significant estimates and judgments used in the preparation of these consolidated financial statements include, but are not limited to, the following:

Going concern

The assessment of whether the concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period.

Provisions and contingencies

The amount recognized as a provision, including legal, contractual, constructive, and other exposures or obligations, is the best estimate of the consideration required to settle the related liability, including any related interest charges, taking into account the risks and uncertainties surrounding the obligation. In addition, contingencies will only be resolved when one or more future events occur or fail to occur. Therefore, assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. The Company assesses its liabilities and contingencies based upon the best information available.

Impairment of property, plant and equipment

Management considers both external and internal sources of information in determining if there are any indications that the Company's property, plant and equipment is impaired. Management considers the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of its plant. Management considers the manner in which the property, plant and equipment is being used or is expected to be used an indication of economic performance of the assets.

Valuation of inventory

Inventories are valued at the lower cost and net realizable value except for biological inventory which includes a fair value component. Purchased inventory is accounted for using the weighted average purchase cost of the components that comprise finished goods inventory. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to sell.

Valuation of share-based payments

The Company uses the Black-Scholes option pricing model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves. The Company estimates volatility based on the Company's historical share prices, excluding specific time frames in which volatility was affected by specific transactions that are not considered to be indicative of the entities' expected share price volatility.

Biological assets and inventory

In calculating the value of the biological assets, management is required to make a number of estimates, including estimating the stage of growth of the mushrooms up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the mushrooms. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compare the inventory cost versus net realizable value. The cost and fair value of biological assets are capitalized to the extent that their cost and fair value will be recoverable.

Loans payable

The identification of loan components is based on interpretation of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the loans payable at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability component is also based on a number of assumptions, including contractual future cash flows and discount rate.

Estimated useful lives of property, plant and equipment

Depreciation of property, plant and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment.

3. Significant Accounting Policies

a) Property Plant and equipment

Expenditures for plant are capitalized to the consolidated statements of financial position and will be amortized over the life of the asset commencing at the time the asset is ready for its intended use.

Property and equipment are stated at cost less accumulated amortization. The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Amortization commences when an item of property and equipment is available for use and is provided at rates calculated to write-off the cost of property and equipment over their estimated useful lives as follows:

Equipment	20% straight-line
Plant	4% straight-line

Property and equipment are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

b) Revenue

Revenue is recognized when performance obligations under the terms of a contract with a customer are satisfied, which is upon the transfer of control of the contracted goods. Control is transferred when title and physical possession of the product has transferred to the customer, which is determined by respective shipping terms and certain additional considerations. The Company does not have performance obligations subsequent to delivery on the sale of goods to customers and revenues from sale of goods are recognized at a “point in time”, which is upon passing of control to the customer.

c) Inventory

Inventory is valued at the lower of cost and net realizable value. Purchased inventory is carried at cost and is determined using the weighted average method. The capitalized cost for produced inventory includes the direct and indirect costs initially capitalized to biological assets before the transfer to inventory. The capitalized cost also includes subsequent costs, such as materials, labour, and amortization expense on equipment involved in packaging, labelling, and inspection. The total cost of inventory also includes a fair value adjustment, which represents the fair value of the biological asset at the time of harvest. All direct and indirect costs related to inventory are capitalized as they are incurred, and they are subsequently recorded within production costs on the consolidated statements of loss and comprehensive loss. At the time the mushrooms are sold, the realized fair value amounts included in inventory sold are recorded as a separate line on the consolidated statements of loss and comprehensive loss.

d) Biological assets

The Company's biological assets consist of mushrooms that are not yet harvested. These biological assets are measured at fair value less costs to sell. The Company capitalizes all related direct costs of growing materials, as well as other indirect costs of production, such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is also included, as well as amortization on production equipment and overhead costs to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred, and subsequently transferred to inventory at the point of harvest. Unrealized fair value gains on growth of biological assets are recorded in a separate line on the face of the consolidated statements of loss and comprehensive loss, and subsequently transferred to inventory at the point of harvest.

e) Share-based compensation

Stock options

Share-based compensation to employees is measured at the fair value of the instruments issued using the Black-Scholes option pricing model and amortized over the vesting periods. Share-based compensation to non-employees is measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to reserves. Consideration received on the exercise of stock options is recorded as share capital and the related amount originally recorded in reserves is transferred to share capital. For those unexercised options that expire, are cancelled or forfeited, the recorded value is transferred from reserves to deficit.

Warrants issued in connection with debt financing are considered financing costs and are valued based on the fair value of the goods or services received, unless such an amount cannot be determined, in which case the fair value is determined using the Black-Scholes option pricing model. Financing costs associated with debt are expensed over time as interest expense using the effective interest rate method.

Restricted share rights

The Company grants restricted share rights (the "RSRs") to certain directors, officers, employees, and consultants to receive shares of the Company. The Company classifies RSRs as equity instruments since the Company has the ability and intent to settle the awards in common shares. The fair value of RSRs granted is recognized as an expense over the vesting period with a corresponding increase in equity. The fair value is measured at grant date and recognized over the period during which the RSRs vest. The vesting of RSRs and issuance of common shares in the Company is recorded as share capital and the related value in reserves is transferred to issued capital.

f) Unit issuance

Proceeds from the issuance of units are allocated between common shares and common share purchase warrants based on the residual value method. Under this method, the proceeds are allocated to common shares based on the fair value of a common share at the announcement date of the unit offering and any residual remaining is allocated to common share purchase warrants.

g) Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. The calculation of diluted earnings per share assumes that outstanding options and warrants are exercised and the proceeds are used to repurchase shares of the Company at the average market price of the shares for the year. Diluted loss per share is not presented if the effects are anti-dilutive.

h) 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 is calculated using the financial position method on all temporary differences at the consolidated statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

i) Impairment of non-financial assets

The carrying amount of the Company’s assets is reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the Company makes an estimate of the asset’s recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. The recoverable amount of an asset group is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

j) Financial instruments

Financial assets

(a) Recognition and measurement of financial assets

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

(b) Classification of financial assets

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

Financial assets measured at amortized cost

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

- The Company's business model for 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, receivable (excluding goods and services taxes), and deferred revenue are classified as 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 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.

(c) 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 interest 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 income.

Financial liabilities

(a) Recognition and measurement of financial liabilities

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

(b) Classification of financial liabilities

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

Financial liabilities measured at amortized cost

A financial liability at amortized cost is initially measured at fair value less transaction costs 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. Accounts payable and accrued liabilities, loans payable and lease liability are measured at amortized cost.

Financial liabilities measured at fair value through profit or loss

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

(c) 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 loss and comprehensive loss.

Offsetting financial assets and liabilities

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 at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in profit or loss an impairment gain or loss equal to the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Fair value hierarchy

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

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

k) IFRS 16 Leases

At inception, the Company assesses whether a contract contains an embedded lease. A contract contains a lease when the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company, as lessee, is required to recognize a right-of-use asset ("ROU asset"), representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments.

The Company may elect to not apply IFRS 16 to leases with a term of less than 12 months or to low value assets, which is made on an asset-by-asset basis.

The Company recognizes an ROU asset and a lease liability at the commencement of the lease. The ROU asset is initially measured based on the present value of lease payments, plus initial direct cost, less any incentives received. It is subsequently measured at cost less accumulated amortization, impairment losses and adjusted for certain remeasurements of the lease liability. The ROU asset is amortized from the commencement date over the shorter of the lease term or the useful life of the underlying as set. The ROU asset is subject to testing for impairment if there is an indicator of impairment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. The incremental borrowing rate is the rate which the operation would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the ROU asset in a similar economic environment.

Lease payments included in the measurement of the lease liability are comprised of:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee;
- The exercise price under a purchase option that the Company is reasonably certain to exercise;
- Lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option; and
- Penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Variable lease payments that do not depend on an index or a rate not included in the initial measurement of the ROU asset and lease liability are recognized as an expense in profit or loss in the period in which they are incurred.

l) Grants and Rebates

Grants and rebates are recognized when there is reasonable assurance that the grant will be received and all attached conditions have been complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the period the expense cost, for which it is intended to compensate, are expensed. When the grant relates to an asset, the cost of the asset is reduced by the amount of the grant.

m) Loans Payable

The loans payable are separated into their liability and equity components on the consolidated statements of financial position. The liability component is initially recognized at fair value, calculated as the net present value of the liability based on market rates for comparable debt and accounted for at amortized cost using the effective interest rate method. The residual value is then allocated to the equity component.

(Expressed in Canadian Dollars)

4. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	Maturity	Classification	September 30, 2023 $	September 30, 2022 $
Cash	N/A	Cash	1,249,778	395,626
Term deposit – 3.35%	Demand	Cash equivalent	-	1,407,952
Term deposit – 1.20%	Demand	Cash equivalent	-	60,000
Term deposit – 3.0%	Demand	Cash equivalent	70,000	-
Term deposit – 4.25%	Demand	Cash equivalent	25,000	25,000
			1,344,778	**1,888,578**

During the year ended September 30, 2023, the Company earned $57,936 (2022 - $66,943) in interest income.

5. Inventory

Inventory consists of the Company’s finished goods functional mushroom nutraceutical products, harvested mushrooms and raw materials.

	September 30, 2023 $	September 30, 2022 $
Finished goods nutraceutical products	97,366	196,371
Harvested mushrooms	621,595	-
Raw materials	60,313	68,353
	779,274	**264,724**

During the year ended September 30, 2023, the Company recognized $138,760 (2022 - $26,799) in inventory as cost of sales. As at September 30, 2023, the Company holds 170kg (2022 - nil) in harvested mushroom biomass.

6. Biological Assets

During the year ended September 30, 2023, the Company commenced production of mushrooms at its plant located in Princeton, British Columbia. Biological assets consist of psilocybin mushrooms.

	Total $
Balance, October 1, 2021 and September 30, 2022	**-**
Production costs capitalized	453,524
Unrealized gain in fair value of biological assets, less cost to sell	168,071
Transfer to inventory upon harvest	(621,595)
Balance, September 30, 2023	**-**

(Expressed in Canadian Dollars)

During the year ended September 30, 2023, the Company commenced production and harvest of psilocybin mushrooms to be used for commercial purposes. As at September 30, 2023 (2022 - nil), the Company had no mushrooms in the growth stage due to the timing of harvests. Although the Company can sell its raw mushroom biomass, it will further process the raw mushroom biomass into psilocybin extract. The cost to process and extract psilocybin are considered costs to sell and are deducted from the fair value of mushroom biomass.

Determination of fair value of the biological assets requires the Company to make various estimates and assumptions. The fair value of biological assets is considered a Level 3 category in the IFRS fair value hierarchy. When applying IFRS 13 Fair Value Measurement to non-financial assets, in this case the biological asset and produce, the fair value considers a market participant's ability to use that asset in its highest and best use. The highest and best use considers the use of the asset that is physically possible, legally permissible, and financially feasible, either in combination with other assets or on a standalone basis. The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions as at September 30, 2023:

- Selling price – calculated based on the expected selling price of psilocybin extract derived from processing the raw mushroom biomass, based on the Company's purchase orders received to date.
- Post-harvest costs – calculated as the cost per gram required to convert the raw mushroom biomass into psilocybin extract, consisting of labour, raw materials, and laboratory testing.
- Psilocybin potency of raw mushroom inputs – calculated based on the percent psilocybin as a function of raw mushroom input biomass.
- Recovery efficiency of psilocybin extract – calculated based on the weight of psilocybin extracted from raw mushroom biomass as a function of the input psilocybin weight.

	September 30, 2023 $
Selling Price	$1,000 / gram of psilocybin extract
Post harvest costs	$451 / gram of psilocybin extract
Psilocybin potency	12mg / g
Recovery efficiency of psilocybin	55.24%

During the year ended September 30, 2023, $133,333 (2022 - $nil) in amortization was capitalized to biological assets (Note 8).

(Expressed in Canadian Dollars)

7. Prepaids and Advances

Prepaids and advances consist of the following:

	September 30, 2023 $	September 30, 2022 $
Deposits for inventory raw materials	17,752	-
Prepaid insurance	112,401	134,390
Prepaid marketing	-	21,213
Prepaid transfer agent and filing fees	8,512	8,516
Security deposit	-	11,403
	138,665	**175,522**

8. Property, Plant and Equipment

During the year ended September 30, 2020, construction began on the Company's two cultivation and processing facilities located in Princeton, British Columbia (the "Princeton Facilities"). The Princeton Facilities were considered substantially complete on June 27, 2022 and amortization commenced on the plant. During the year ended September 30, 2023, the Company moved out of its Vancouver office and sold office furniture for gross proceeds of $15,000 resulting in a loss on sale of equipment of $14,956. During the year ended September 30, 2023, the Company received $88,460 in grants from FortisBC for energy efficient fixtures installed in the facilities.

	Equipment $	Plant $	Total $
Cost			
September 30, 2021	84,555	8,586,465	8,671,020
Additions	1,055,129	4,717,024	5,772,153
September 30, 2022	1,139,684	13,303,489	14,443,173
Additions	511,783	154,520	666,303
Grants received	-	(88,460)	(88,460)
Disposals	(42,505)	-	(42,505)
September 30, 2023	1,608,962	13,369,549	14,978,511
Accumulated amortization			
September 30, 2021	-	-	-
Additions	60,504	135,450	195,954
September 30, 2022	60,504	135,450	195,954
Additions	267,088	532,028	799,116
Disposals	(12,549)	-	(12,549)
September 30, 2023	315,043	667,478	982,521
Net book value			
September 30, 2022	1,079,180	13,168,039	14,247,219
September 30, 2023	1,293,919	12,702,071	13,995,990

During the year ended September 30, 2023, $133,333 (2022 - $nil) in amortization was capitalized to biological assets (Note 6).

9. Right-of-Use Assets and Lease Liabilities

The Company has a lease agreement with BC Green Pharmaceuticals Inc. ("BC Green"), a company related by a common director and common officers, whereby the Company has leased industrial land from BC Green on which to build its Princeton Facilities. Upon signing of the lease agreement, the Company recognized $158,683 for a right-of-use ("ROU") asset and $158,683 for a lease liability representing the present value of the future lease payments discounted using an effective interest rate of 10%. The lease payments are $3,500 per month.

(Expressed in Canadian Dollars)

During the year ended September 30, 2021, the Company entered into a lease agreement for office space in Vancouver, British Columbia, with monthly payments of $6,353 for a period of two years. During the year ended September 30, 2023, the Company moved out of its Vancouver office and derecognized the right-of-use asset and lease liability resulting in a gain on derecognition of $1,536, included in interest and other income in the consolidated statements of comprehensive loss.

The continuity of the ROU assets and lease liability are as follows:

ROU asset	**Princeton $**	**Office $**	**Total $**
ROU asset as at September 30, 2021	112,162	120,469	232,631
Modification of ROU asset	(2,627)	-	(2,627)
Amortization	(28,804)	(68,839)	(97,643)
ROU asset as at September 30, 2022	80,731	51,630	132,361
Amortization	(29,357)	(34,420)	(63,777)
Derecognition	-	(17,210)	(17,210)
ROU asset as at September 30, 2023	**51,374**	**-**	**51,374**

Lease liability	**Princeton $**	**Office $**	**Total $**
Lease liability as at September 30, 2021	128,914	121,931	250,845
Modification of lease liability	(2,627)	-	(2,627)
Lease payments	(35,000)	(76,238)	(111,238)
Lease interest	11,422	9,175	20,597
Lease liability as at September 30, 2022	102,709	54,868	157,577
Lease payments	(42,000)	(38,119)	(80,119)
Lease interest	8,776	1,997	10,773
Derecognition	-	(18,746)	(18,746)
Lease liability as at September 30, 2023	**69,485**	**-**	**69,485**

	September 30, 2023 $	**September 30, 2022 $**
Current portion	36,704	88,092
Long-term portion	32,781	69,485
	69,485	**157,577**

10. Deferred Revenue

During the year ended September 30, 2023, the Company received a non-refundable deposit of $112,500 (2022 - $nil) pursuant to a supply agreement for gross proceeds of $450,000 (2022 - $nil). The purchaser has the option to purchase additional products for proceeds of up to $450,000 (2022 - $nil). As the Company does not plan to deliver these products until subsequent to year end but within the next 12 months, the deposit is classified as deferred revenue.

During the year ended September 30, 2023, the Company received a deposit of $365,966 (USD$270,000) pursuant to a supply agreement for gross proceeds of $1,200,000 (USD$900,000). During the year ended September 30, 2023, the customer terminated the supply agreement, and the deferred revenue was reclassified to accounts payable and accrued liabilities. Subsequent to the year ended September 30, 2023, the Company repaid $343,225 (USD$250,000) in relation to this agreement.

11. Loans payable

During the year ended September 30, 2023, the Company received gross proceeds of $2,000,000 (2022 - $nil) from loans with an interest rate of 7.5% (2022 - N/A) and a term of three years secured against the assets of the Company. In connection with this financing, the Company issued 200,000 common share purchase warrants with an exercise price of $0.50 and a term of three years (note 12). The loans are secured against the assets of the Company.

(Expressed in Canadian Dollars)

An interest rate of 7.5% was determined to be a below market rate of interest. The loans were recorded at fair value on initial recognition, which was determined to be $1,639,000 (2022 - $nil) using a discount rate of 15% (2022 - N/A), resulting in a total discount of $361,000 (2022 - $nil). As the loans were provided by shareholders of the Company, the discount was considered to a component of equity. The warrants were valued at $17,000 (2022 - $nil) using the Black-Scholes option pricing model and were accounted for as debt issuance costs. The inputs to the Black-Scholes pricing model were as follows: stock price – $0.20, exercise price – $0.50, expected life – 3 years, volatility – 100%, and discount rate – 0.41%.

During the year ended September 30, 2023, the Company accrued $12,500 (2022 - $nil) of interest and recorded loan accretion of $15,750 (2022 - $nil) in relation to these loans.

Loans	**$**
Loans as at September 30, 2022 and 2021	-
Loan proceeds received	2,000,000
Equity component of loans	(378,000)
Loan accretion	15,750
Loans as at September 30, 2023	1,637,750

12. Share Capital

a) Authorized

Unlimited number of common shares without par value.

b) Issued and outstanding

The total issued and outstanding share capital as at September 30, 2023 consisted of 87,038,441 common shares without par value.

During the year ended September 30, 2023, the Company:

- Issued 5,692,308 units pursuant to a private placement for gross proceeds of $1,850,000. Each unit is composed of one common share and one-half common share purchase warrant. Each warrant is exercisable at a price of $0.50 for a period of two years. The common shares issued on exercise are subject to a statutory hold period of four months. The Company incurred share issuance costs of $6,128 in connection with this private placement.
- Issued 353,250 common shares valued at $227,438 on exercise of RSRs.
- Issued 50,000 common shares valued at $12,500 as share-based compensation for advisory services.

During the year ended September 30, 2022, the Company:

- Issued 10,744,500 common shares valued at $1,297,800 on exercise of warrants.
- Issued 428,250 common shares valued at $246,188 on exercise of RSRs.
- Issued 50,000 common shares valued at $25,000 for services recorded as share-based compensation.
- Cancelled 150,000 common shares for no consideration which were valued at $112,500, which were returned to treasury. The value of these shares was credited to deficit.

Warrants

Warrant transactions are summarized as follows:

	Number of warrants	Weighted average exercise price
Balance, September 30, 2021	40,997,005	$0.61
Exercised	(10,744,500)	$0.12
Expired	(16,452,505)	$0.40
Balance, September 30, 2022	13,800,000	$1.25
Issued	3,046,154	$0.50
Expired	(13,800,000)	$1.25
Balance, September 30, 2023	3,046,154	$0.50

(Expressed in Canadian Dollars)

The following is a summary of warrants as at September 30, 2023:

Expiry date	Exercise price	Number of warrants	Weighted average remaining contractual life (years)
October 7, 2024	$0.50	2,846,154	1.02
August 4, 2026	$0.50	100,000	2.85
August 29, 2026	$0.50	100,000	2.92

c) Equity incentive plan

The Company has an equity incentive plan ("EIP") under which the Board may, from time to time in its discretion, grant stock options, RSRs or deferred share units of the Company to its directors, officers, employees, consultants, and advisors. The aggregate number of common shares that may be subject to issuance under the EIP, together with any other securities-based compensation arrangements of the Company, shall not exceed 15% of the Company's issued and outstanding share capital.

Stock options

The EIP authorizes the Board to grant options to eligible directors and employees (including officers). The number of options, the exercise price per option, the vesting period, and any other terms and conditions of options granted from time to time pursuant to the EIP, are determined by the Board at the time of the grant, subject to the defined parameters of the EIP. Unless otherwise determined by the Board, stock options will have a term of five years and 25% of the options granted will vest immediately, and 25% will vest each six-month period thereafter.

During the year ended September 30, 2023, the Company granted stock options as follows:

- 10,000 stock options with an exercise price of $0.65 per option with a term of five years. The options vest 25% six months after grant date and 25% every six months thereafter.
- 100,000 stock options with an exercise price of $0.65 per option with a term of five years. The options vest 25% six months after grant date and 25% every six months thereafter.
- The weighted average inputs to the Black-Scholes pricing model for the options issued above were as follows: stock price – $0.23, exercise price – $0.65, expected life – 5 years, volatility – 100%, and discount rate – 2.99%.

During the year ended September 30, 2022, the Company granted:

- 30,000 stock options to an employee. These options vest 25% every six months from the date of issuance with an exercise price of $1.50 per option and expire on October 18, 2026. During the year ended September 30, 2022, this employee was terminated and 22,500 of these options were cancelled. The expiry date of the remaining 7,500 options was modified to June 23, 2022. In relation to the termination of these options, $5,320 was recorded as a reduction of share-based compensation expense.
- The inputs to the Black-Scholes pricing model for the options issued above were as follows: stock price – $0.62, exercise price – $1.50, expected life – 5 years, volatility – 100%, and discount rate – 1.27%.

During the year ended September 30, 2023, the Company recorded $54,460 (2022 - $657,302) in share-based compensation expense due to the vesting of options.

Options transactions are summarized as follows:

	Number of options	Weighted average exercise price
Balance, September 30, 2021	5,772,000	$1.16
Granted	30,000	$1.50
Cancelled	(22,500)	$1.50
Balance, September 30, 2022	5,779,500	$1.16
Expired	(1,939,500)	$0.75
Granted	110,000	$0.65
Balance, September 30, 2023	3,950,000	$1.32

(Expressed in Canadian Dollars)

The following is a summary of stock options as at September 30, 2023:

Expiry date	Exercise price	Number of options	Options exercisable	Weighted average remaining contractual life (years)
October 9, 2025	$0.50	500,000	500,000	2.03
January 26, 2026	$0.60	40,000	40,000	2.33
May 6, 2026	$1.50	2,025,000	2,025,000	2.60
May 20, 2026	$1.50	150,000	150,000	2.64
May 25, 2026	$1.50	75,000	75,000	2.65
June 14, 2026	$1.50	50,000	50,000	2.71
August 31, 2026	$1.50	1,000,000	1,000,000	2.92
March 29, 2028	$0.65	10,000	2,500	4.50
April 26, 2028	$0.65	100,000	-	4.58

During the year ended September 30, 2023, 1,939,500 options expired unexercised resulting in a transfer of $976,608 from reserves to deficit.

Restricted share rights

The EIP authorizes the Board to grant RSRs, in its sole and absolute discretion, to any eligible employee or director. Each RSR provides the recipient with the right to receive common shares of the Company for no additional consideration as compensation for past services or as an incentive for future services. The terms, including the vesting period of the RSRs, are determined at the sole discretion of the Board.

During the year ended September 30, 2021, the Company granted 500,000 RSRs to a director and officer valued at $125,000. These RSRs will vest 10% on the date the Company's shares are listed on a Canadian stock exchange (February 24, 2021) and 15% every six months thereafter. During the year ended September 30, 2023, the Company recorded $9,105 (2022 - $41,547) in share-based compensation related to the vesting of these RSRs. During the year ended September 30, 2023, 75,000 (2022 - 75,000) RSRs vested and were converted into common shares. During the year ended September 30, 2023, 150,000 RSRs were cancelled resulting in a $27,214 recovery of share-based compensation.

During the year ended September 30, 2021, the Company granted 927,500 RSRs to directors, officers, consultants, and advisors valued at $695,625. These RSRs vest as follows: 10% on the grant date and 15% every six months thereafter. During the year ended September 30, 2023, the Company recorded $114,612 (2022 - $281,265) in share-based compensation related to the vesting of these RSRs. During the year ended September 30, 2023, 278,250 (2022 - 278,250) RSRs vested and were converted into common shares.

13. Key Management Compensation and Related Party Transactions

During the years ended September 30, 2023 and 2022, the Company incurred the following amounts charged by officers and directors (being key management personnel) and companies controlled and/or owned by officers and directors of the Company in addition to the related party transactions disclosed elsewhere in these consolidated financial statements:

	September 30, 2023 $	**September 30, 2022 $**
Consulting fees	371,000	263,000
Share-based compensation	117,547	750,270
Wages and benefits	475,000	500,000
	963,547	**1,513,270**

The Company has entered into a lease agreement with BC Green, as described in Note 9.

As at September 30, 2023, there was $398,890 (2022 - $84,051) owing to key management, which is included in accounts payable and accrued liabilities. The amounts are unsecured, without interest and due on demand.

During the year ended September 30, 2023, the Company received $1,000,000 in loan proceeds from a company controlled by a director (Note 11). As at September 30, 2023, the Company owed $1,000,000 (2022 - $nil) in principal and $12,500 (2022 - $nil) in interest in relation to this loan.

14. Financial Instruments

a) Categories of financial instruments

The classification of the financial instruments, as well as their carrying values, is shown below:

Fair value

The fair value recorded on initial recognition of financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The Company's financial instruments consist of cash and cash equivalents, trade receivables, accounts payable and accrued liabilities, deferred revenue, lease liabilities, and loans payable. The fair values of these financial instruments approximate their carrying values due to the short-term nature of these instruments, with the exception of lease liabilities and loans payable which are measured using Level 2 inputs.

b) Management of financial risks

The Company examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of these risks. These risks arise from the normal course of operations and all transactions undertaken are to support the Company's ability to continue as a going concern. Management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest rate risk is limited to potential decreases in the interest rate offered on cash held with chartered Canadian financial institutions. The Company considers this risk to be limited, as it holds no assets or liabilities subject to variable rates of interest.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and trade receivables. The Company limits exposure by maintaining its cash with major Canadian commercial banks and credit unions.

(Expressed in Canadian Dollars)

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they become due. The Company is reliant upon equity issuances and loans as its main sources of cash. The Company manages liquidity risk by maintaining an adequate level of cash to meet its ongoing obligations. The Company continuously reviews its actual expenditures, forecasts cash flows and matches the maturity dates of its cash to capital and operating needs. All of the Company's existing commitments are budgeted and funded as at the date of the consolidated financial statements. All financial liabilities have contractual maturities of less than one year and are subject to normal trade terms with the exception of the Company's lease liabilities, which matures based on the lease agreement, and loans payable, which have a term of three years.

Currency risk

The Company is not exposed to financial risk related to the fluctuation of foreign exchange rates.

15. Capital Disclosure

The capital structure of the Company consists of equity attributable to common shareholders comprising share capital, reserves, and deficit. The Company's objectives when managing capital are to: (i) preserve capital; (ii) obtain the best available net return; and (iii) maintain liquidity. 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, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital restrictions. There have been no changes in the Company's capital management during the year ended September 30, 2023.

16. Segment Reporting

For the year ended September 30, 2023, the Company has one reportable operating segment, being that of farming, processing and distribution of raw mushroom biomass, mushroom extracts and mushroom supplements. The Company's non-current assets at September 30, 2023 are all in Canada.

17. Commitments

The Company has lease commitments for the Princeton Facilities (Note 9). Cash commitments for minimum lease payments in relation to the facility leases as at September 30, 2023, are payable as follows:

	$
Within 1 year	42,000
Between 1 year and 5 years	35,000
	77,000

18. Income taxes

The following table reconciles the amount of income tax expense on application of the combined statutory Canadian federal and provincial income tax rates for the years ended September 30, 2023 and 2022:

	September 30, 2023	**September 30, 2022**
Net loss for the period	$ (5,194,548)	$ (7,350,828)
Statutory rate	27.00%	27.00%
Income tax recovery at statutory rate	(1,403,000)	(1,985,000)
Items not deductible for tax purpose	(99,000)	281,000
Adjustment to prior year versus statutory tax return	(23,000)	208,000
Benefit of tax losses not recognized	1,525,000	1,496,000
Income tax expense	$ -	$ -

The Company recognizes tax benefits on losses or other deductible amounts generated where it is probable the Company will generate future taxable income to be able to utilize those tax assets. The Company has unused tax losses for which no deferred tax asset is recognized that amounted to $3,543,000.

The Company has non-capital losses for Canadian tax purposes of approximately $11,650,000 available for carry-forward to reduce future years' taxable income and will start to expire in 2040.

19. Events after the Reporting Period

Subsequent to September 30, 2023, the Company:

- Received an additional $1,000,000 in loan proceeds from a third party for a loan secured against the assets of the Company with an interest rate of 7.5% and a term of eighteen months. In connection to this financing, the Company granted 100,000 common share purchase warrants with an exercise price of $0.50 and a term of three years.
- Granted 100,000 stock options to an employee with an exercise price of $0.65, vesting 25% every six months from the date of the grant.
- Issued 139,125 common shares on conversion of RSRs.
- Issued 50,000 common shares valued at $15,000 as share-based compensation for advisory services.