Optimi Health Corp.

Condensed interim consolidated financial statements

Period Ended December 31, 2023

(Expressed in Canadian Dollars)

Unaudited

Optimi Health Corp.

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

	Note	December 31, 2023 $	September 30, 2023 $
ASSETS	11		
Current			
Cash and cash equivalents	4	493,176	1,344,778
Accounts receivable		235,314	165,738
Inventory	5	985,535	779,274
Prepaids and advances	7	93,114	138,665
Total current assets		1,807,139	2,428,455
Deposits		18,160	15,910
Property, plant and equipment	8	13,794,914	13,995,990
Right-of-use assets	9	44,035	51,374
Total assets		15,664,248	16,491,729
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	13	828,489	1,461,101
Deferred revenue	10	112,500	112,500
Lease liabilities	9	37,629	36,704
Total current liabilities		978,618	1,610,305
Long-term lease liabilities	9	23,020	32,781
Loans payable	11	2,571,250	1,637,750
Total liabilities		3,572,888	3,280,836
Shareholders' equity			
Share capital	12	28,802,499	28,698,155
Reserves	12	2,176,253	2,157,756
Accumulated deficit		(18,887,392)	(17,645,018)
Total shareholders' equity		12,091,360	13,210,893
Total liabilities and shareholders' equity		15,664,248	16,491,729

Approved and authorized by the Board on February 29, 2024

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

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

Optimi Health Corp.

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

	Note	Period Ended December 31, 2023 $	Period Ended December 31, 2022 $
Revenue		105,074	47,543
Cost of sales	5	(70,113)	(16,183)
Gross margin before fair value adjustments		34,961	31,360
Unrealized gain in fair value of biological assets	6	141,162	-
Fair value change on sale of inventory		-	-
Gross margin		176,123	31,360
Expenses			
Advertising, promotion and public relations		17,214	80,734
Amortization	6, 8, 9	168,171	217,125
Bank charges and interest	9, 11	96,103	4,756
Consulting	13	246,145	181,007
Insurance		104,832	26,403
Investor relations		-	95,058
Office, rent and administration		78,694	21,213
Production costs		29,535	45,553
Professional fees		84,821	50,278
Research and development		8,613	31,857
Share-based compensation	12, 13	18,841	8,023
Shipping		37,587	80,747
Transfer agent and filing fees		35,223	53,915
Travel and accommodation		13,501	20,398
Wages and benefits	13	452,296	350,109
		(1,427,332)	(7,471,689)
Interest and other income	4, 9	8,835	40,757
Loss and comprehensive loss for the year		(1,242,374)	(1,195,059)
Loss per share			
Basic and diluted		$(0.01)	$(0.01)
Weighted average number of common shares outstanding			
Basic and diluted		86,067,107	81,386,998

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

Optimi Health Corp.

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

	Period Ended December 31, 2023 $	Period Ended December 31, 2022 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	(1,242,374)	(1,195,059)
Add back non-cash items		
Amortization	168,171	217,125
Unrealized gain in fair value of biological assets	(141,162)	-
Share-based compensation	18,841	80,747
Loan accretion	37,500	-
Lease interest	1,664	3,725
Changes in non-cash working capital items		
Accounts receivable	(69,576)	(64,508)
Inventory	199,517	15,215
Biological assets	(211,005)	-
Prepaids and advances	45,551	33,535
Accounts payable and accrued liabilities	(632,612)	(146,462)
Cash used in operating activities	(1,825,485)	(1,055,682)
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits	(2,250)	-
Plant and equipment expenditures	(13,367)	(88,060)
Cash used in investing activities	(15,617)	(88,060)
CASH FLOWS FROM FINANCING ACTIVITIES		
Private placements, net of share issue costs	-	1,843,872
Proceeds from loans	1,000,000	-
Exercise of warrants	-	-
Payment of lease obligations	(10,500)	(29,560)
Cash provided by financing activities	989,500	1,814,312
Change in cash and cash equivalents during the year	(851,602)	670,570
Cash and cash equivalents, beginning of year	1,344,778	1,888,578
Cash and cash equivalents, end of year	493,176	2,559,148
SUPPLEMENTAL INFORMATION		
Property, plant and equipment costs included in accounts payable	$74,532	$84,895
Transfer from reserves to share capital on exercise of RSRs	$104,344	$104,344
Equity component of loans payable	$104,000	-

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

Optimi Health Corp.

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

	Common Shares	Share Capital $	Reserves $	Deficit $	Total Equity $
Balance, October 1, 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 issue costs	-	(6,128)	-	-	(6,128)
Shares issued on conversion of RSRs	139,125	104,344	(104,344)	-	-
Share-based compensation	-	-	80,747	-	80,747
Loss and comprehensive loss for the period	-	-	-	(1,195,059)	(1,195,059)
Balance, December 31, 2022	86,774,316	28,562,561	2,809,242	(14,622,137)	16,749,666
Balance, October 1, 2022	80,942,883	26,614,345	2,832,839	(13,427,078)	16,020,106
Shares issued on conversion of RSRs	139,125	104,344	(104,344)	-	-
Share-based compensation	-	-	18,841	-	18,841
Equity component of mortgages payable	-	-	104,000	-	104,000
Loss and comprehensive loss for the period	-	-	-	(1,242,374)	(1,242,374)
Balance, December 31, 2023	86,913,441	28,802,499	2,176,253	(18,887,392)	16,749,666

The accompanying notes are an integral part of these condensed interim 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 condensed interim 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 period ended December 31, 2023, the Company incurred a net loss of $1,242,374 and has not yet achieved profitable operations. The Company has an accumulated deficit of $18,887,392 since its inception. 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 condensed interim 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 December 31, 2023, the Company raised $555,010 in the form of a private placement financing; however, the Company will need to raise sufficient working capital to maintain operations for the upcoming 12 months (Note 18).

2. Basis of Presentation

a) Statement of compliance

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") and the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"s). They do not include all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements, and, therefore, should be read in conjunction with the Company's audited consolidated financial statements for the year ended September 30, 2023, prepared in accordance with IFRS as issued by the IASB. Significant accounting policies not included in the audited consolidated financial statements for the year ended September 30, 2023 are described below.

These condensed interim consolidated financial statements were authorized by the Audit Committee and Board of Directors of the Company (the "Board") on February 29, 2024.

b) Basis of presentation

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

c) Basis of consolidation

These condensed interim 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 to affect its returns. As of December 31, 2023, the Company has 100% ownership interest in Optimi Labs Inc. and Optimi Nutraceuticals Corp.

d) Significant accounting judgments and estimates

The preparation of condensed interim 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 condensed interim 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 condensed interim 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.

(Expressed in Canadian Dollars)

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. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	Maturity	Classification	December 31, 2023 $	September 30, 2023 $
Cash	N/A	Cash	398,176	1,249,778
Term deposit – 3.0%	Demand	Cash equivalent	70,000	70,000
Term deposit – 4.25%	Demand	Cash equivalent	25,000	25,000
			473,176	**1,344,778**

During the period ended December 31, 2023, the Company earned $8,835 (2022 - $40,757) in interest income.

4. Inventory

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

	December 31, 2023 $	September 30, 2023 $
Finished goods nutraceutical products	40,676	97,366
Harvested mushrooms	886,211	621,595
Raw materials	58,648	60,313
	985,535	**779,274**

During the period ended December 31, 2023, the Company recognized $65,804 (2022 - $16,183) in inventory as cost of sales. As at December 31, 2023, the Company holds 242kg (2022 - nil) in harvested mushroom biomass.

5. Biological Assets

During the year ended December 31, 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, 2023	**-**
Production costs capitalized	123,454
Unrealized gain in fair value of biological assets, less cost to sell	141,162
Transfer to inventory upon harvest	(264,616)
Balance, December 31, 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. 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 December 31, 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.

	December 31, 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 period ended December 31, 2023, $53,611 (2022 - $nil) in amortization was capitalized to biological assets (Note 8).

(Expressed in Canadian Dollars)

6. Prepaids and Advances

Prepaids and advances consist of the following:

	December 31, 2023 $	September 30, 2023 $
Deposits for inventory raw materials	45,866	17,752
Prepaid insurance	12,489	112,401
Prepaid transfer agent and filing fees	34,759	8,512
	93,114	**138,665**

7. Property, Plant and Equipment

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.

	Equipment $	Plant $	Total $
Cost			
September 30, 2023	1,608,962	13,369,549	14,978,511
Additions	13,367	-	13,367
December 31, 2023	1,622,329	13,369,489	14,991,878
Accumulated amortization			
September 30, 2023	315,043	667,478	982,521
Additions	79,649	134,794	214,443
December 31, 2023	394,692	802,272	1,196,964
Net book value			
September 30, 2023	1,293,919	12,702,071	13,995,990
December 31, 2023	1,227,637	12,567,277	13,794,914

During the period ended December 31, 2023, $53,611 (2022 - $nil) in amortization was capitalized to biological assets (Note 6).

8. 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, 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
Amortization	(7,339)	-	(7,339)
ROU asset as at December 31, 2023	**44,035**	**-**	**44,035**

Lease liability	**Princeton $**	**Office $**	**Total $**
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**
Lease payments	(10,500)	-	(10,500)
Lease interest	1,664	-	1,664
Derecognition	-	-	-
Lease liability as at December 31, 2023	**60,649**	**-**	**60,649**

	December 31, 2023 $	**September 30, 2023 $**
Current portion	37,629	36,704
Long-term portion	23,020	32,781
	60,649	**69,485**

9. 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.The deposit is classified as deferred revenue.

10. 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.

During the period ended December 31, 2023, the Company received gross proceeds of $1,000,000 (2022 - $nil) from a loan with an interest rate of 7.5% (2022 - N/A) and a term of 18-months secured against the assets of the Company. In connection with this financing, the Company issued 100,000 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.
The warrants were valued at $3,500 (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 period ended December 31, 2023, the Company recorded loan accretion of $37,500 (2022 - $nil) in relation to these loans.

(Expressed in Canadian Dollars)

Loans	$
Loans as at September 30, 2023	1,637,750
Loan proceeds received	1,000,000
Equity component of loans	(104,000)
Loan accretion	37,500
Loans as at December 31, 2023	2,571,250

11. 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 December 31, 2023 consisted of 87,177,566 common shares without par value.

During the period ended December 31, 2023, the Company:

- Issued 139,125 common shares valued at $104,344 on exercise of restricted share rights ("RSRs").

During the period ended December 31, 2022, 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.
- Issued 139,125 common shares valued at $104,344 on exercise of restricted share rights ("RSRs").

Warrants

Warrant transactions are summarized as follows:

	Number of warrants	Weighted average exercise price
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
Issued	100,000	$0.50
Balance, December 31, 2023	3,146,154	$0.50

(Expressed in Canadian Dollars)

The following is a summary of warrants as at December 31, 2023:

Expiry date	Exercise price	Number of warrants	Weighted average remaining contractual life (years)
October 7, 2024	$0.50	2,846,154	0.77
August 4, 2026	$0.50	100,000	2.59
August 29, 2026	$0.50	100,000	2.66
November 1, 223	$0.50	100,000	1.33

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 period ended December 31, 2023, the Company granted 100,000 stock options with an exercise price of $0.65 and a term of five years.

During the period ended December 31, 2022, the Company granted no stock options.

During the period ended December 31, 2023, the Company recorded $5,858 (2022 - $36,214) 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, 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
Expired	100,000	$0.65
Balance, December 31, 2023	4,050,000	$1.32

The following is a summary of stock options as at December 31, 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	1.78
January 26, 2026	$0.60	40,000	40,000	2.07
May 6, 2026	$1.50	2,025,000	2,025,000	2.35
May 20, 2026	$1.50	150,000	150,000	2.39
May 25, 2026	$1.50	75,000	75,000	2.40
June 14, 2026	$1.50	50,000	50,000	2.45
August 31, 2026	$1.50	1,000,000	1,000,000	2.67
March 29, 2028	$0.65	10,000	2,500	4.25

(Expressed in Canadian Dollars)

April 26, 2028	$0.65	100,000	-	4.32
November 1, 2028	$0.65	100,000	-	4.84

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 period ended December 31, 2023, the Company recorded $nil (2022 - $5,088) 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 period ended December 31, 2023, the Company recorded $12,983 (2022 - $39,445) in share-based compensation related to the vesting of these RSRs. During the period ended December 31, 2023, 139,125 (2022 – 139,125) RSRs vested and were converted into common shares.

12. Key Management Compensation and Related Party Transactions

During the period ended December 31, 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 condensed interim consolidated financial statements:

	December 31, 2023 $	**December 31, 2022 $**
Consulting fees	125,250	60,000
Share-based compensation	7,349	58,213
Wages and benefits	106,250	125,000
	238,849	**243,213**

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

As at December 31, 2023, there was $462,674 (2022 - $149,606) 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 period ended December 31, 2023, the Company received $1,000,000 in loan proceeds from a company controlled by a director (Note 11). As at December 31, 2023, the Company owed $1,000,000 (2022 - $nil) in principal in relation to this loan.

13. 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.

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 condensed interim 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.

14. 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 period ended December 31, 2023.

(Expressed in Canadian Dollars)

15. Segment Reporting

For the period ended December 31, 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 December 31, 2023 are all in Canada.

16. 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 December 31, 2023, are payable as follows:

	$
Within 1 year	42,000
Between 1 year and 5 years	24,500
	66,500

17. Events after the Reporting Period

Subsequent to December 31, 2023, the Company:

- Received $555,010 in proceeds from a non-brokered private placement on issuance of 1,850,033 units at $0.30 per unit. Each Unit is comprised of one common share in the capital of the Company and one-half of one transferable Common Share purchase warrant ("Warrant"). Each Warrant entitles the holder to acquire one Common Share at $0.40 for two years from the date of issuance, subject to an accelerated expiry provision, whereby in the event the closing price of the Company's Common Shares on the Canadian Securities Exchange exceeds $0.50 for a period of 20 consecutive trading days, at the Company's election, the period within which the Warrants are exercisable, will be reduced and the holders of the Warrants will be entitled to exercise their Warrants for a period of 30 days commencing on the day the Company provides notice, any outstanding Warrants not exercised during the 30 day period will expire.