

Bright Minds Biosciences Inc.
Condensed Interim Consolidated Financial Statements
For the period ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying unaudited condensed interim consolidated financial statements have been prepared by, and are the responsibility of, the Company's management. The Company's independent auditor has not performed a review of these financial statements.

Bright Minds Biosciences Inc.

Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at	Notes	December 31, 2020	September 30, 2020
		\$	\$
ASSETS			
Current Assets			
Cash		2,064,875	799,929
Prepays	11	117,121	78,287
		2,181,996	878,216
Non- Current Assets			
Intangible assets	4	2,000	2,000
TOTAL ASSETS		2,183,996	880,216
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	5	95,391	150,923
TOTAL LIABILITIES		95,391	150,923
Shareholders' equity			
Share capital	6	3,003,400	980,661
Subscriptions receivable	6	-	(1,000)
Subscriptions received	6	-	147,426
Reserves	6	397,715	161,300
Deficit		(1,312,510)	(559,094)
TOTAL SHAREHOLDERS' EQUITY		2,088,605	729,293
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,183,996	880,216

Nature of operations and going concern (Note 1)

Subsequent events (Note 11)

Approved on behalf of the Board of Directors:*"Ian McDonald"*

Director

"Alan Kozikowski"

Director

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

Bright Minds Biosciences Inc.Condensed Interim Consolidated Statements of Comprehensive Loss
(Expressed in Canadian dollars)

		For the three months ended December 31, 2020	For the three months ended December 31, 2019
	Notes	\$	\$
EXPENSES			
Consulting fees		3,399	-
Foreign exchange		83,197	-
Marketing, advertising, and investor relations		11,998	-
Office and administrative		24,959	70
Professional fees	7	124,646	-
Regulatory and filing		53,880	-
Research and development	7	214,922	31,342
Share-based compensation	7	236,415	-
Net loss and comprehensive loss		(753,416)	(31,412)
Basic and diluted loss per share		(0.13)	(0.00)
Weighted average number of common shares outstanding			
-basic and diluted		5,788,313	4,119,600

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

Bright Minds Biosciences Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

	Share Capital		Subscriptions receivable	Subscriptions received	Reserves	Deficit	Total
	Number of shares	Share capital					
		\$	\$	\$	\$	\$	\$
Balance as at September 30, 2019	4,119,600	205,980	(81,980)	-	-	(78,717)	45,283
Share subscriptions received	-	-	81,980	-	-	-	81,980
Net loss	-	-	-	-	-	(31,412)	(31,412)
Balance as at December 31, 2019	4,119,600	205,980	-	-	-	(110,129)	95,851
Balance as at September 30, 2020	4,743,539	980,661	(1,000)	147,246	161,300	(559,094)	729,293
Private placement	1,629,140	1,889,996	-	-	-	-	1,889,996
Share subscriptions received	-	146,426	1,000	(147,246)	-	-	-
Share issue costs	-	(13,683)	-	-	-	-	(13,683)
Share-based compensation	-	-	-	-	236,415	-	236,415
Net loss	-	-	-	-	-	(753,416)	(753,416)
Balance as at December 31, 2020	6,372,679	3,003,400	-	-	397,715	(1,312,510)	2,088,605

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

Bright Minds Biosciences Inc.

Condensed Interim Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

	For the three months ended December 31, 2020	For the three months ended December 31, 2019
	\$	\$
Operating activities		
Net loss for the period	(753,416)	(31,412)
Non-cash items:		
Share-based compensation	236,415	-
Changes in non-cash operating working capital items:		
Prepays	(38,834)	-
Accounts payable and accrued liabilities	(55,533)	(28,321)
Net cash used in operating activities	(611,368)	(59,733)
Financing activities		
Private placement proceeds, net of costs	1,876,314	-
Net cash from financing activities	1,876,314	-
Change in cash	1,264,946	(59,733)
Cash, beginning of period	799,929	79,991
Cash, end of period	2,064,875	20,258

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

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Bright Minds Biosciences Inc. ("the Company") was incorporated under the Business Corporations Act of British Columbia on May 31, 2019. The Company's objective is to generate income and achieve long term profitable growth through the development of therapeutics to improve the lives of patients with certain severe and life-altering diseases. On February 8, 2020, the Company started trading on the Canadian Stock Exchange under the symbol DRUG. The head office, and principal address of the Company are located at 1500 – 1055 West Georgia Street, Vancouver, British Columbia, V6E 4N7, Canada.

These 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. As at December 31, 2020, the Company is not able to finance day to day activities through operations and has incurred a loss of \$753,416 for the period ended December 31, 2020. The Company has a deficit of \$1,312,510 since inception and negative operating cash flows. The continuing operations of the Company are dependent upon its ability to attain profitable operations and generate funds therefrom. This indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management intends to finance operating costs with equity financings, loans from directors and companies controlled by directors and/or private placement of common shares. If the Company is unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its statement of financial position.

The recent outbreak of the coronavirus, also known as "COVID-19", has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures may have an adverse impact on global economic conditions as well as on the Company's business activities. The extent to which the coronavirus may impact the Company's business activities will depend on future developments, such as the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. These events are highly uncertain and as such, the Company cannot determine their financial impact at this time.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

Statement of compliance

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the IASB. The policies applied in these unaudited condensed interim financial statements are based on IFRSs issued and outstanding as of March 1, 2021, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed interim financial statements as compared with the most recent annual financial statements as at and for the year ended September 30, 2020 except as noted below. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending September 30, 2021 could result in restatement of these unaudited condensed consolidated interim financial statements..

Basis of preparation

Depending on the applicable IFRS requirements, the measurement basis used in the preparation of these financial statements is cost, net realizable value, fair value or recoverable amount. These financial statements, except for the statement of cash flows, are based on the accrual basis.

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These financial statements include the accounts of the Company and its inactive, wholly-owned subsidiary Psilocybinlabs Ltd (see Note 4). A subsidiary is an entity that the Company controls, either directly or indirectly, where control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial results of the Company's subsidiary are included in the financial statements from the date that control commences until the date that control ceases. The accounting policies of the Company's subsidiary have been aligned with the policies adopted by the Company. When the Company ceases to control a subsidiary, the financial statements of that subsidiary are de-consolidated.

Inter-company balances and transactions, and any income and expenses arising from inter-company transactions, have been eliminated in these financial statements.

Critical accounting estimates

The preparation of the financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Certain of the Company's accounting policies and disclosures require key assumptions concerning the future and other estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities or disclosures within the next fiscal year. Where applicable, further information about the assumptions made is disclosed in the notes specific to that asset or liability. The critical accounting estimates and judgments set out below have been applied consistently to all periods presented in these financial statements.

Ability to continue as a going concern

Evaluation of the ability of the Company to realize its strategy for funding its future needs for working capital involves making judgments.

Business acquisitions

IFRS 3, Business Combinations requires that acquisition transactions be assessed to determine whether the acquisition is a business combination (by satisfying the three elements - input, process and output - of a business) or an asset acquisition. This assessment process requires management to exercise judgement. If management determines that the acquisition is a business combination, judgement is required in measuring the fair value of the assets acquired, equity instruments issued and liabilities and contingent liabilities incurred or assumed. See Note 4.

Share-based compensation

The fair value of stock options is measured using a Black Scholes option pricing model. Measurement inputs include the common share price on the grant date, the exercise price of the instrument, the expected common share price volatility, the weighted average expected life of the instruments, the expected dividends and the risk-free interest rate. Service and non-market performance conditions are not taken into account in determining fair value. The fair value of equity settled RSUs is measured based on management's best estimate of the Company's share price on the grant date.

The share-based compensation recognized is also determined based on management's grant date estimate of the forfeitures that are expected to occur over the life of the stock options and equity settled RSUs. Cash settled RSUs outstanding are fair valued using a mark-to-market calculation based on the Company's closing common share price at the end of the period. The number of stock options and RSUs that actually vest could differ from the estimated number of awards expected to vest and any differences between the actual and estimated forfeitures are recognized prospectively as they occur.

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

The functional and reporting currency of the Company and its subsidiary is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the transaction date. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at each reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign currency translation differences are recognized in profit or loss.

Business combinations

The Company uses the acquisition method to account for business combinations. The Company measures goodwill as the fair value of the consideration transferred, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a gain on acquisition is recognized immediately in net income or loss.

Goodwill is not amortized and is tested for impairment annually. Additionally, goodwill is reviewed at each reporting date to determine if events or changes in circumstances indicate that the asset might be impaired, in which case an impairment test is performed. Goodwill is measured at cost less accumulated impairment losses.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

Internally generated intangible assets - Research and development expenditure

Intangible assets acquired separately are initially recognized at cost. Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

At December 31, 2020 and September 30, 2019, the Company has not recognized any internally-generated intangible assets.

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based compensation awards

Share-based compensation expense relates to stock options as well as cash and equity settled restricted share units (“RSUs”). The grant date fair values of stock options and equity settled RSUs granted are recognized as an expense, with a corresponding increase in reserves in equity, over the vesting period. The amount recognized as an expense is based on the estimate of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. Upon exercise of stock options, the consideration paid by the holder is included in share capital and the related reserves associated with the stock options exercised is reclassified into share capital. Upon vesting of equity settled RSUs, the related reserves associated with the RSU is reclassified into share capital.

For cash settled RSUs, the fair value of the RSUs is recognized as share-based compensation expense, with a corresponding increase in accrued liabilities over the vesting period. The amount recognized as an expense is based on the estimate of the number of RSUs expected to vest. Cash settled RSUs are measured at their fair value at each reporting period on a mark-to-market basis. Upon vesting of the cash settled RSUs, the liability is reduced by the cash payout.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost within net income or loss.

Income taxes

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Deferred tax:

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred 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 tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. The loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. Because the Company incurred net losses, the effect of dilutive instruments would be anti-dilutive and therefore diluted loss per share equals loss per share.

Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new common shares are recognized as a deduction from equity, net of tax.

Financial instruments

Financial instruments are accounted for in accordance with IFRS 9, "Financial Instruments: Classification and Measurement". A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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 ("FVTOCI") or measured at fair value through profit or loss ("FVTPL").

(i) 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.

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(ii) Financial assets measured at FVTOCI

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction costs directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as “financial asset at fair value through other comprehensive income” in other comprehensive income or loss.

(iii) Financial assets measured at FVTPL

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

The Company’s cash is classified as subsequently measured at FVTPL.

(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 interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in the statement of comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income or loss.

Financial liabilities

(a) Recognition and measurement of financial liabilities

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

(b) Classification of financial liabilities

(i) Financial liabilities measured at amortized cost

A financial liability measured 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 using the effective interest method.

The Company’s accounts payable and accrued liabilities are classified as subsequently measured at amortized cost.

(ii) 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 statement of comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

Financial instruments (continued)

Offsetting financial assets and liabilities

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

Impairment of financial assets

The Company 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 recognizes in the statement of comprehensive income or loss, as an impairment loss (or gain), 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.

Leases

Leases are accounted for in accordance with IFRS 16, "Leases". At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset over a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether it has the right to obtain substantially all of the economic benefits from the use of the asset during the term of the contract and if it has the right to direct the use of the asset.

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease.

Right-of-use asset

The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made and any initial direct costs incurred at or before the commencement date, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Lease liability

A 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 lease liability is subsequently measured at amortized cost using the effective interest method.

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2020 and have not been applied in preparing these financial statements. The following new standards have not been adopted which may impact the Company in the future:

IFRS 3 – Business combinations

Narrow-scope amendments to IFRS 3 were issued in October 2018 and apply to annual reporting periods beginning on or after January 1, 2020. The amendments clarify the definition of a business, provide guidance in determining whether an acquisition is a business combination or a combination of a group of assets, emphasize that the output of a business is to provide goods and services to customers and provide a supplementary guidance.

IAS 1 – Presentation of financial statements

An amendment to IAS 1 was issued in January 2020 and applies to annual reporting periods beginning on or after January 1, 2023. The amendment clarifies the criterion for classifying a liability as non-current relating to the right to defer settlement of a liability for at least 12 months after the reporting period.

4. SHARE EXCHANGE

Psilocybinlabs Ltd. (“PL”) was incorporated under the laws of the province of British Columbia on April 25, 2019, with the incorporator share being held by a company controlled by the CEO of the Company. On May 17, 2019, this share was transferred to the Company. On April 25, 2019, PL entered into a confirmatory assignment and waiver (the “CAW”) with an individual, which was amended and restated on May 17, 2019. Pursuant to the amended and restated CAW, this individual assigned all of the right, title and interest, including all other intellectual property rights (the Rights, as described) to PL. As compensation for the assignment of the Rights, PL issued 100,000 common shares valued at \$2,000 to this individual. On August 7, 2019, the Company then purchased the 100,000 common shares of PL by issuing 100,000 common shares of the Company valued at \$2,000.

The Company has recorded the reacquisition of PL as an asset acquisition as follows:

Purchase Price Consideration:

	\$
Common shares issued	<u>2,000</u>

Assets acquired:

Intangible assets	<u>2,000</u>
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5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2020	September 30, 2020
	\$	\$
Accounts payable	95,391	138,423
Accrued liabilities	-	12,500
Total accounts payable and accrued liabilities	<u>95,391</u>	<u>150,923</u>

6. SHARE CAPITAL

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

Authorized share capital

Unlimited number of common shares without par value.

On November 10, 2020, the Directors of the Company approved the consolidation of the Company's issued and outstanding common shares on a 2.5:1 basis. All common shares, stock options and warrant references in these financial statements reflect the effect of the share consolidation.

Issued share capital for the three months ended December 31, 2020

On November 2, 2020, the Company closed the second tranche of a non-brokered private placement financing through the issuance of 1,629,140 common shares at a price \$1.25 per common share for gross proceeds of \$2,036,422, which have been received.

Issued share capital for the year ended September 30, 2020

On September 30, 2020, the Company closed the first tranche of a non-brokered private placement financing through the issuance of 623,939 common shares at a price \$1.25 per common share for gross proceeds of \$779,924.

Special Warrants and Resulting Share Issuance

In October 2020, the Company entered into subscription agreements for special warrants (the "SWs") whereby the subscribers subscribed for a total of 18,300 SWs at \$1.25 per SW. Pursuant to the subscription agreements:

- The SWs will provide that each SW is deemed to be exercised, without payment of any additional consideration and without any further action by the SW holders, for one SW share, subject to adjustment in accordance with the provisions of the SW certificate on the SW exercise date, being the earlier of (i) the third business day after a receipt for a final prospectus qualifying the distribution of the shares issuable on the conversion of the SWs and (ii) four months and one day after the issue date of the SWs (the escrow release conditions). For greater certainty, no SWs may be exercised by the SW holders prior to the SW exercise date;
- The SW certificate will provide that the gross proceeds of the offering due on the closing date (the escrowed proceeds) will be delivered to and held in escrow on behalf of the subscribers by the Company in a segregated, interest bearing account. Upon and subject to the satisfaction of one of the escrow release conditions, the escrowed proceeds and accrued interest will be released to the Company, at which time each SW will be deemed to be exercised for one SW share. The deemed exercise of the SWs is expected to occur prior to the proposed listing of the common shares of the Company on the Canadian Securities Exchange, with delivery of the subscribers' SW shares taking place after the completion of the proposed listing, such that the subscribers will receive a share certificate or DRS statement representing the subscribers' SW shares once the Company is a public company under the applicable securities laws;
- If the SW exercise date does not occur within 365 days after closing of the offering, the SWs will immediately become null, void and of no further effect and within 10 days the escrowed proceeds will be returned to the SW holders in an amount per SW equal to the subscribers' aggregate offering price and a pro rata share of interest, if any, actually earned on the escrowed proceeds. To the extent that the escrowed proceeds plus accrued interest are insufficient to return to each holder an amount equal to the aggregate offering price for each such holders' SWs, the Company will contribute such amounts as are necessary to satisfy any shortfall and such funds will be delivered to the SW holders on a pro rata basis; and
- The SWs will be governed by the terms and conditions of the SW certificate.

On November 2, 2020, the Company issued 18,300 SWs at \$1.25 per SW for gross proceeds of \$22,875. On January 19, 2021, as a result of a compliance review of the SW offering by the British Columbia Securities Commission, the Company rescinded the issuance of 2,300 SWs and refunded the \$2,875 in proceeds received. On January 28, 2021, 16,000 SW were converted to common shares of the Company.

6. SHARE CAPITAL (continued)

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

Share subscriptions received/receivable

During the fiscal year ended September 30, 2020, the Company received \$147,426 in subscriptions for 294,852 common shares relating to a private placement that closed on November 2, 2020.

Stock options

The Company's stock option plan provides for stock options to be issued to directors, officers, employees and consultants of the Company, its subsidiaries and any personal holding company of such individuals so that they may participate in the growth and development of the Company. Subject to the specific provisions of the stock option plan, eligibility, vesting period, terms of the options and the number of options granted are to be determined by the Board of Directors at the time of grant. The stock option plan allows the Board of Directors to issue up to 10% of the Company's outstanding common shares as stock options.

Options granted during the three months ended December 31, 2020

On November 17, 2020, the Company granted 467,000 options, on a post-consolidated basis, to the Chief Financial Officer of the Company, two directors of the Company and seven consultants. These options have an exercise price of \$1.25 per share, expire on November 17, 2025 and vest as follows:

- 25,000 options – 100% on the date of grant;
- 14,000 options – 25% on the Company's listing date, 25% on the first anniversary of the listing date and 50% on the second anniversary of the listing date;
- 4,000 options – 50% on the Company's listing date and 50% on the six-month anniversary of the listing date; and
- 424,000 options – 33% on the first anniversary of the grant date, 33% on the second anniversary of the grant date and 33% on the third anniversary of the grant date.

The fair value of these stock options was measured using the Black Scholes option pricing model using the following inputs: i) exercise price: \$1.25 ; ii) share price: \$1.25; iii) term: 5 years; iv) volatility: 100%; v) discount rate: 0.33%; and dividends: nil.

Options granted during the year ended September 30, 2020

On July 23, 2020, the Company granted 150,000 options to the Company's Chief Medical Officer. The fair value of these stock options was measured using the Black Scholes option pricing model using the following inputs: i) exercise price: \$1.25; ii) share price: \$1.25; iii) term: 5 years; iv) volatility: 100%; v) discount rate: 0.35%; and dividends: nil.

The following table summarizes the movements in the Company's outstanding stock options:

	Number of options	Weighted average exercise price
Balance at September 30, 2019	-	-
Granted	150,000	\$ 1.25
Balance at September 30, 2020	150,000	\$ 1.25
Granted	467,000*	\$ 1.25
Balance at December 31, 2020	617,000	\$ 1.25

* On January 21, 2021, the Company cancelled 20,000 options granted to a consultant in error on November 17, 2020.

6. SHARE CAPITAL (continued)

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

The continuity of share purchase options is as follows:

Expiry Date	Options Outstanding			Options Exercisable		
	Number of shares issuable on exercise	Exercise price & Weighted average remaining life (Years)	Exercise price & Weighted average exercise price	Number of shares issuable on exercise	Remaining life & Weighted average remaining life (Years)	Exercise price & Weighted average exercise price
July 23, 2025	150,000	4.56	\$1.25	150,000	4.56	\$1.25
November 17, 2025	467,000*	4.88	\$1.25	25,000	4.88	\$1.25

Restricted share unit plan

The Company's restricted share unit ("RSU") plan provides RSUs to be issued to directors, officers, employees and consultants of the Company, its subsidiaries and any personal holding company of such individuals so that they may participate in the growth and development of the Company. Subject to the specific provisions of the RSU plan, eligibility, vesting period, terms of the RSUs and the number of RSUs granted are to be determined by the Board of Directors at the time of the grant. The RSU plan allows the Board of Directors to issue common shares of the company as equity settled RSUs, provided that, when combined, the maximum number of common shares reserved for issuance under all share-based compensation arrangements of the Company does not exceed 10% of the Company's outstanding common shares.

On July 23, 2020 and September 18, 2020, the Company issued 150,000 RSUs and 230,000 RSUs, respectively, to the Chief Medical Officer of the Company. These RSUs vest on an annual basis over a period of four years commencing on the first anniversary of the grant date.

Should the Company continue not to be a reporting issuer in a province in Canada on the date that is nine months from the date of issuance of the RSUs, all RSUs will vest on such date.

The following table summarizes the movements in the Company's outstanding RSUs:

	Equity settled	Cash settled	Total
Balance at September 30, 2019	-	-	-
Granted	380,000	-	380,000
Vested	-	-	-
Balance at September 30, 2020 and December 31, 2020	380,000	-	380,000

The estimated fair value of the equity settled RSUs granted during the year ended September 30, 2020 was \$475,000 and will be recognized as an expense over the vesting period of the RSUs.

6. SHARE CAPITAL (continued)

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

The accounting fair value of the equity settled RSUs as at the grant date was estimated by management using the following inputs:

	Year ended	
	September 30, 2020	
Share price on grant date	\$	1.25
Forfeiture rate		0%

Share-based compensation expense recognized in the consolidated statements of comprehensive loss is comprised of the following:

	Period ended	Year ended
	December 31, 2020	September 30, 2020
Stock options	\$ 236,415	\$ 138,000
Restricted share units – equity settled grants	-	23,300
Total equity settled share-based compensation expense	-	161,300
Restricted share units – cash settled grants	-	-
Total share-based compensation expense	\$ 236,415	\$ 161,300

Warrants

The following table summarizes the movements in the Company's outstanding warrants:

	Number of warrants	Weighted average exercise price
Balance at September 30, 2019	-	-
Issued	4,079,600	\$ 0.05
Balance at September 30, 2020	4,079,600	\$ 0.05
Issued	-	-
Balance at December 31, 2020	4,079,600	\$ 0.05

The weighted average remaining life of outstanding warrants was 3.58 years.

On November 2, 2020, the Directors of the Company reduced the exercise price of the outstanding warrants from \$0.05 to \$0.02 effective July 11, 2020.

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

7. RELATED PARTY TRANSACTIONS

Related party transactions were recorded at the exchange value, which is the consideration determined and agreed to by the related parties. The Company's related parties include directors, key management and companies controlled by directors and key management.

Compensation of Key Management Personnel

Key management personnel are those persons that have authority and responsibility for planning, directing and controlling the activities of the Company, directly and indirectly, and by definition include the directors of the Company.

The following table summarizes expenses related to key management personnel:

	Period ended December 31, 2020	Period ended December 31, 2019
	\$	\$
Professional fees	10,000	-
Research and development	39,507	-
Share-based compensation	100,202	-
	149,709	-

See Note 8 for related party contractual obligations.

8. CONTRACTUAL OBLIGATIONS

Option agreement

On May 26, 2020, the Company entered into an option agreement (the "OA") with the University of Illinois at Chicago (the "UIC") whereby the Company obtained the right to evaluate certain of the UIC's technology (as defined) for the purpose of making a decision as to whether to exclusively license the rights to the technology. Pursuant to the OA, the Company paid a US\$5,000 (\$6,999) non-refundable option fee and was granted an exclusive option to evaluate the technology and obtain an exclusive license to the patents and patent applications (as listed) and a non-exclusive right to use the technology for non-commercial research purposes. The option expires on the earlier of 90 days or the execution of a license agreement between the Company and the UIC. The company can extend the first option period three additional times for an additional 90 days each with payment of a US\$5,000 option extension fee for each 90-day option period. During the option period and any renewals thereof, the Company must pay all out of pocket expenses incurred by the UIC in connection with the preparation, filing, prosecution and maintenance of the patent applications and patents under the patent rights.

Related Party Contracts

On June 5, 2020, the Company entered into an independent consultant agreement (the "ICA") whereby the consultant, a private corporation incorporated in the State of California, USA, was engaged and the consultant's representative will serve as the Company's Chief Medical Officer, with the services being provided in California. As compensation for performing these services, the consultant or the consultant's representative will participate in the Company's equity incentive plans and will be eligible for cash payments in respect of fees at such time as the Company begins to compensate other C-level personnel in cash and in similar proportion to total compensation (the "fees"). The non-cash portion of the consultant's fees for the first year of the term was in the form of a grant of 150,000 vested stock options and 150,000 RSUs (see Note 6). The services will continue for an initial term of one year unless sooner terminated. The ICA can be terminated by either party giving the other 30 days written notice or by mutual written agreement. At the end of the initial term, the ICA will automatically be extended for additional one-year period(s) unless either party gives the other 30 days written notice.

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

8. CONTRACTUAL OBLIGATIONS (continued)

On October 29, 2020, the Company entered into an independent contractor agreement (the “ICA”) whereby the contractor was engaged to serve as the Company’s Chief Science Officer on an as-needed basis. The contractor will be compensated for these services as determined by the Board of Directors of the Company. The services will continue for an initial term of one year unless sooner terminated. The ICA can be terminated by the Company providing five working days written notice, the contractor providing three months’ written notice or by mutual written agreement. At the end of the initial term, the ICA will automatically be extended for additional one-year period(s) unless the Company provides contractor with 30 days written notice.

Scientific advisory board agreements

On June 1, 2020 and July 14, 2020, the Company entered into scientific advisory board agreements (the “SABAs”) whereby the advisors were retained to serve as members of the Company’s scientific advisory board and as consultants to the Company and senior management in the areas of scientific, technical and business advice. As compensation for performing these services, the Company will grant one advisor an option package of 30,000 shares at an exercise price of \$1.25 and both advisors will be paid an hourly rate of \$150 per hour. Both advisors have the same hour requirements and restrictions as noted below. The services will continue for initial terms of one year unless sooner terminated. At the end of the initial terms, the SABAs will automatically be extended for an additional one-year period(s) unless either party gives the other 30 days written notice.

Consulting agreements

On August 15, 2020, the Company entered into six consulting agreements (the “CAs”) whereby the consultants were retained to serve as advisors to the Company and senior management in the areas of public relations and content creation and scientific, technical and business advice. As compensation for performing these services, the Company will grant three advisors options of the Company and three advisors will be paid hourly rates of \$300, \$400 and \$600. The advisors being paid \$400 and \$600 per hour will reserve at least six full days of services to the Company and such additional days as requested by the Company each annual period, but not to exceed 36 full days of service per year unless otherwise agreed and up to a maximum of 288 hours total per year, unless otherwise agreed. The services will continue for initial terms of one year unless sooner terminated. At the end of the initial terms, the CAs will automatically be extended for an additional one-year period(s) unless either party gives the other 30 days written notice.

On October 9, 2020, the Company entered into a consulting agreement whereby the consultant was retained to serve as an advisor to the Company in the areas of scientific, technical and business advice. As compensation for performing these services, the Company will pay the advisor an hourly rate of US\$130.

On November 6, 2020, the Company entered into a sponsored research agreement (the “SRA”) with the University of Texas Medical Branch (the “UTMB”) whereby the UTMB will conduct a research program on behalf of the Company. Pursuant to the SRA, the agreement is effective as of October 15, 2020 and the research program will be carried out through to and including February 15, 2021. As consideration for UTMB’s performance, the Company will pay US\$66,764 of which US\$55,811 (\$74,968) was paid on September 21 and 22, 2020 and is included in prepaids at December 31, 2020 and September 30, 2020. The SRA may be terminated by either party providing 30 days written notice to the other and may be extended under mutually agreeable terms.

On November 17, 2020, the Company entered into an ICA whereby the contractor was engaged to serve as the Company’s Vice President (Discovery). The contractor will be compensated for these services as determined by the Board of Directors of the Company. The services will continue for an initial term of one year unless sooner terminated. The ICA can be terminated by the Company providing five working days written notice, the contractor providing three months’ written notice or by mutual written agreement. At the end of the initial term, the ICA will automatically be extended for additional one-year period(s) unless the Company provides contractor with 30 days written notice.

9. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

The following table summarizes the carrying value of financial assets and liabilities:

	December 31, 2020	September 30, 2020
FVTPL	\$	\$
Cash	2,064,875	79,991
Amortized cost		
Accounts payable and accrued liabilities	95,391	36,708

Fair value measurement

Financial assets and liabilities that are recognized on the statement of financial position at fair value can be classified in a hierarchy that is based on the significance of the inputs used in making the measurements.

The levels in the hierarchy are:

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 (that is, as prices) or indirectly (that is, derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Company's cash is classified as Level 1, whereas accounts payable and accrued liabilities are classified as Level 2. As at December 31, 2020, the Company believes that the carrying values of cash and accounts payable and accrued liabilities approximate their fair values because of their nature and relatively short maturity dates or durations.

Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash balance. At December 31, 2020, the Company had cash of \$2,064,875. Of this amount, \$150,872 was held in two trust and the remainder balance was deposited in a bank account held with a major bank in Canada. Because of the balance on deposit with one bank, there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. The maximum exposure to credit risk is the carrying amount of the Company's financial instruments. The credit risk is assessed as low.

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. At December 31, 2020, the company had the following foreign currency balances – cash (US\$281,315) and accounts payable (US\$31,020). The Company is not exposed to significant foreign exchange risk.

9. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the period ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company's main source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding. At December 31, 2020, the company had cash of \$2,064,875 to cover current liabilities of \$95,391.

Capital Management

Management's objective is to manage its capital to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern through the optimization of its capital structure. The capital structure consists of share capital and working capital. In order to achieve this objective, management makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. To maintain or adjust capital structure, management may invest its excess cash in interest bearing accounts of Canadian chartered banks and/or raise additional funds externally as needed. The Company is not subject to externally imposed capital requirements. The Company's management of capital did not change during the year ended December 31, 2020.

10. TAX LOSSES

The Company's non-capital loss carry-forwards expire as follows:

<u>Year of Origin</u>	<u>Year of Expiry</u>	<u>Non-Capital Losses</u>
		\$
2019	2039	79,000
2020	2040	324,000
		<u>403,000</u>

12. SUBSEQUENT EVENTS

On January 6, 2021, the Company issued 14,799 common shares, on a post-consolidated basis, at a deemed price of \$1.25 per share to settle an \$18,500 debt owing to a consultant pursuant to a debt settlement agreement entered into by the Company with the consultant.