Bright Minds Biosciences Inc.

Condensed Interim Consolidated Financial Statements

For the three ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

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		**2,108,980**	799,929
Funds held in escrow – SW proceeds	6	**22,875**	-
Prepaids	7	**59,576**	78,287
Due from Bright Minds Biosciences LLC		**500**	-
		2,191,931	878,216
Non-Current Assets			
Intangible assets	4	**2,000**	2,000
TOTAL ASSETS		**2,193,931**	880,216
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	5	**118,697**	150,923
Funds held in escrow – SW proceeds	6	**22,875**	-
TOTAL LIABILITIES		**141,572**	150,923
Shareholders' equity			
Share capital	6	**2,999,197**	980,661
Subscriptions receivable	6	**-**	(1,000)
Subscriptions received	6	**-**	147,426
Reserves	6	**279,313**	161,300
Deficit		**(1,226,151)**	(559,094)
TOTAL SHAREHOLDERS' EQUITY		**2,052,359**	729,293
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2,193,931**	880,216

Nature of operations and going concern (Note 1)
Subsequent events (Note 10)

Approved on behalf of the Board of Directors:

"Ian McDonald"	*"Alan Kozikowski"*
Director	Director

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

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

	Notes	For the three months ended December 31, 2020	For the three months ended December 31, 2019
		$	$
EXPENSES			
Consulting fees		**3,399**	-
Foreign exchange		**32,628**	-
Funds processing fees – private placements		**17,210**	-
Marketing, advertising, and investor relations		**11,998**	-
Office and administrative		**27,395**	70
Professional fees	7	**130,067**	-
Regulatory and filing		**53,880**	-
Research and development	7	**272,467**	31,342
Share-based compensation	7	**118,013**	-
Net loss and comprehensive loss		**(667,057)**	(31,412)
Basic and diluted loss per share		**(0.12)**	(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 condensed interim consolidated financial statements.

Bright Minds Biosciences Inc.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Share Capital						
	Number of shares	**Share capital**	**Subscriptions receivable**	**Subscriptions received**	**Reserves**	**Deficit**	**Total**
		$	$	$	$	$	$
Balance as at September 30, 2019	**4,119,600**	**205,980**	**(81,980)**	-	**-**	**(78,717)**	**45,283**
Share subscriptions received	-	-	60,000	-	-	-	60,000
Net loss	-	-	-	-	-	(31,412)	(31,412)
Balance as at December 31, 2019	**4,119,600**	**205,980**	**(21,980)**	-	**-**	**(110,129)**	**73,871**
Balance as at September 30, 2020	**4,743,541**	**980,661**	**(1,000)**	**147,426**	**161,300**	**(559,094)**	**729,293**
Private placement	1,629,138	2,036,422	-	-	-	-	2,036,422
Share subscriptions received		-	1,000	(147,426)	-	-	(146,426)
Share issue costs	-	(17,886)	-	-	-	-	(17,886)
Share-based compensation	-	-	-	-	118,013	-	118,013
Net loss	-	-	-	-	-	(667,057)	(667,057)
Balance as at December 31, 2020	**6,372,679**	**2,999,197**	**-**	**-**	**279,313**	**(1,226,151)**	**2,052,359**

The accompanying notes are an integral part of these condensed 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	**(667,057)**	(31,412)
Non-cash items:		
Foreign exchange	**15,100**	-
Share-based compensation	**118,013**	-
Changes in non-cash operating working capital items:		
Prepaids	**18,711**	-
Due from Bright Minds Biosciences LLC	**(500)**	-
Accounts payable and accrued liabilities	**(33,785)**	(28,321)
Net cash used in operating activities	**(549,518)**	(59,733)
Investing activities		
Funds held in escrow – special warrants	**(22,875)**	-
Net cash from investing activities	**(22,875)**	-
Financing activities		
Private placement proceeds, net of costs	**1,873,669**	-
Funds held in escrow – special warrants	**22,875**	-
Private placement proceeds received in advance	**-**	60,000
Net cash from financing activities	**1,896,544**	60,000
Change in cash	**1,324,151**	267
Effect of foreign exchange on cash	**(15,100)**	-
Cash, beginning of period	**799,929**	79,991
Cash, end of period	**2,108,980**	80,258
SUPPLEMENTARY INFORMATION		
Share issuance costs included in accounts payable and accrued liabilities	**1,559**	-

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

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, 2021, 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 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. As at December 31, 2020, the Company is not able to finance day to day activities through operations and has incurred a loss of $667,057 for the period ended December 31, 2020. The Company has a deficit of $1,226,151 since inception and negative operating cash flows. As at December 31, 2020, the Company has working capital of $2,050,359 (September 30, 2020 - $727,293). The continuing operations of the Company are dependent upon its ability to attain profitable operations and generate funds therefrom. 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 specifically related to possible disruptions in the operations of the laboratories upon whom the Company relies, including laboratories situated in various parts of the United States and Europe. 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

These financial statements were authorized for issue on March 8, 2021 by the directors of the Company.

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 consolidated 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 consolidated financial statements as compared with the most recent annual financial statements as at and for the year ended September 30, 2020 except as otherwise noted. 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.

(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).

Functional currency
The functional currency of the Company and its subsidiary is the Canadian Dollar.

Please refer to Note 3 of the audited consolidated financials of the Company for the year ended September 30, 2020 for full disclosure of the Significant Accounting Policies.

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	2,000
Assets acquired:	
Intangible assets	2,000

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2020	**September 30, 2020**
	$	**$**
Accounts payable	118,697	138,423
Accrued liabilities	-	12,500
Total accounts payable and accrued liabilities	118,697	150,923

6. SHARE CAPITAL

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.

6. SHARE CAPITAL (continued)

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 1,629,138 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 623,941 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, with the SWs providing 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.

On November 2, 2020, the Company issued 18,300 SWs 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 February 3, 2021, the $20,000 in escrowed proceeds was released to the Company, the SWs were deemed to be exercised for SW shares and 16,000 common shares of the Company were issued to the shareholders.

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 the 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, 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 vale 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: 0.43%; and dividends: nil.

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

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 vale 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 for the three months ended December 31, 2020 and the year ended September 30, 2020:

	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.*

As at December 31, 2020, the options have a weighted average remaining life of 4.80 years (September 30, 2020 – 4.81).

The following table summarizes the stock option issued and outstanding:

	Options Outstanding and Exercisable		
Expiry Date	**Number of options**	**Exercise price**	**Remaining life & Weighted Average remaining life (Years)**
July 23, 2025	150,000	$1.25	4.56
November 17, 2025	467,000*	$1.25	4.88

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.

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

The following table summarizes the movements in the Company's outstanding RSUs for the three months ended December 31, 2020 and the year ended September 30, 2020:

	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.

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 statements of comprehensive loss is comprised of the following:

	Period ended December 31, 2020	Period ended December 31, 2019
Stock options	$ 55,661	$ -
Restricted share units – equity settled grants	62,352	-
Total equity settled share-based compensation expense	-	-
Restricted share units – cash settled grants	-	-
Total share-based compensation expense	$ 118,013	$ -

<u>Warrants</u>

The following table summarizes the movements in the Company's outstanding warrants for the three months ended December 31, 2020 and the year ended September 30, 2020:

	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**

As at December 31, 2020, the warrants have a weighted average remaining life of outstanding warrants was 3.58 (September 30, 2020 – 3.83) years.

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

On November 2, 2020, the Directors of the Company reduced the exercise price of the outstanding warrants from $0.125 to $0.05 effective July 11, 2020.

The following table summarizes the warrants issued and outstanding:

	Warrants Outstanding	
Expiry date	**Number of warrants**	**Exercise price**
July 30, 2024	4,079,600	$ 0.05

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.

As at December 31, 2020, $10,212 (September 30, 2020 - $Nil) was payable to an officer of the Company and $38,196 (September 30, 2020 - $Nil) advanced to an officer of the Company was included in prepaids.

The following table summarizes expenses related to key management personnel:

	Period ended December 31, 2020	Period ended December 31, 2019
	$	$
Professional fees	11,000	-
Research and development	30,914	-
Share-based compensation	34,018	-
	75,932	-

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. Subsequent to December 31, 2020, the

8. CONTRACTUAL OBLIGATIONS (continued)

OA was exercised, the Company and the UIC are finalizing the terms of an exclusive license agreement and there are no further amounts payable to the UIC.

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. As at December 31, 2020, the Board of Directors have not finalized amounts pertaining to cash payments for fees.

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 granted both advisor an option package of 50,000 shares (granted November 17, 2020) at an exercise price of $1.25 of which 20,000 options were cancelled subsequent to the period ended December 31, 2020 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. The Company granted 142,000 share purchase options to four advisors as part of the Company's November 17, 2020 grant of options (Note 6).

(Expressed in Canadian Dollars)

8. CONTRACTUAL OBLIGATIONS (continued)

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. The Company granted 90,000 stock options to the consultant on November 17, 2020 (Note 6).

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 of which US$12,971 ($16,514) is included in prepaids at December 31, 2020. The balance payment of US$10,953 was paid on February 3, 2021. 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. As at December 31, 2020, the Board of Directors has not finalized the contractors compensation amounts.

9. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

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

	December 31, 2020	September 30, 2020
FVTPL	**$**	**$**
Cash	2,108,980	799,929
Funds held in escrow – special warrants	22,875	-
Amortized cost		
Accounts payable and accrued liabilities	118,697	150,923
Funds held in escrow – special warrants	22,875	-

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.

<u>The levels in the hierarchy are:</u>
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.

9. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

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 $2,108,980. Of this amount, $150,872 was held in one trust account and the remainder 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$31,235). The Company is not exposed to significant foreign exchange risk.

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 $2,108,980 to cover current liabilities of $118,697.

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 the 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 period ended December 31, 2020.

10. SUBSEQUENT EVENTS

Events not disclosed elsewhere in these Financial Statements are as follows:

On January 6, 2021, the Company issued 14,799 common shares 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 (Note 6).

On January 21, 2021, the Company cancelled 20,000 options granted to a consultant in error on November 17, 2020 (Note 6).

Subsequent to December 31, 2020, the OA was exercised with the University of Illinois at Chicago (Note 8).