

Bright Minds Biosciences Inc.
Condensed Interim Consolidated Financial Statements
For the three and six months ended March 31, 2022 and 2021
(Expressed in Canadian Dollars)

Bright Minds Biosciences Inc.

Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian dollars - Unaudited)

| As at | Notes | March 31, 2022 | September 30, 2021 |
|---|-------|-------------------|-----------------------|
| | | \$ | \$ |
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | | 11,467,897 | 19,760,015 |
| Sales tax receivable | | 176,403 | 110,146 |
| Loan receivable | | 32,000 | - |
| Prepays | | 85,157 | 168,207 |
| | | 11,761,457 | 20,038,368 |
| Non-Current Assets | | | |
| Intangible assets | 4 | 2,000 | 2,000 |
| TOTAL ASSETS | | 11,763,457 | 20,040,368 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | 5 | 1,003,515 | 638,573 |
| TOTAL LIABILITIES | | 1,003,515 | 638,573 |
| Shareholders' equity | | | |
| Share capital | 6 | 27,167,370 | 27,080,281 |
| Subscriptions receivable | | - | (33,684) |
| Reserves | 6 | 2,147,977 | 1,565,055 |
| Deficit | | (18,555,405) | (9,209,857) |
| TOTAL SHAREHOLDERS' EQUITY | | 10,759,942 | 19,401,795 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 11,763,457 | 20,040,368 |

Nature and continuance of operations (Note 1)

Subsequent events (Note 13)

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

Director

"Alan Kozikowski"

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 - Unaudited)

| | | For the three months ended March 31, 2022 | For the three months ended March 31, 2021 | For the six months ended March 31, 2022 | For the six months ended March 31, 2021 |
|---|--------------|--|--|--|--|
| | Notes | \$ | \$ | \$ | \$ |
| EXPENSES | | | | | |
| Consulting fees | 6 | 168,327 | 40,286 | 352,664 | 46,068 |
| Directors' compensation | 6,7 | 60,180 | 22,280 | 126,841 | 33,172 |
| Foreign exchange | | 10,206 | 26,965 | 44,293 | 59,594 |
| Funds processing fees – private placements | | - | 1,455 | - | 18,665 |
| Marketing, advertising, and investor relations | 6 | 176,868 | 218,877 | 397,151 | 232,163 |
| Office and administrative | 11 | 73,941 | 24,639 | 285,596 | 52,034 |
| Professional fees | 6,7 | 161,260 | 141,804 | 354,678 | 294,997 |
| Regulatory and filing | | 93,509 | 62,039 | 195,949 | 115,919 |
| Research and development | 6,7,10 | 3,743,212 | 1,044,932 | 7,588,376 | 1,397,723 |
| Net loss and comprehensive loss | | (4,487,503) | (1,583,277) | (9,345,548) | (2,250,335) |
| Basic and diluted loss per share | | (0.38) | (0.23) | (0.79) | (0.35) |
| Weighted average number of common shares outstanding | | | | | |
| -basic and diluted | | 11,846,861 | 6,928,429 | 11,843,908 | 6,352,107 |

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 - Unaudited)

| | Share Capital | | | | | | Total |
|--|-------------------|-------------------|-----------------|----------------|------------------|---------------------|-------------------|
| | Number of | Share | Subscriptions | Subscriptions | Reserves | Deficit | |
| | shares | capital | receivable | received | | | |
| | | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance as at September 30, 2020 | 4,743,541 | 980,661 | (1,000) | 147,426 | 161,300 | (559,094) | 729,293 |
| Private placements | 5,049,021 | 27,924,936 | (32,684) | (147,426) | - | - | 27,744,826 |
| Finder's fees – cash | - | (916,317) | - | - | - | - | (916,317) |
| Finder's fees – broker warrants | - | (521,000) | - | - | 521,000 | - | - |
| Share issue costs | - | (266,908) | - | - | - | - | (266,908) |
| Special warrant conversion | 16,000 | 20,000 | - | - | - | - | 20,000 |
| Debt settlement with shares | 14,799 | 18,500 | - | - | - | - | 18,500 |
| Warrant exercise funds received in advance | - | - | - | 10,000 | - | - | 10,000 |
| Share-based compensation (Note 6) | - | - | - | - | 243,254 | - | 243,254 |
| Net loss | - | - | - | - | - | (2,250,335) | (2,250,335) |
| Balance as at March 31, 2021 | 9,823,361 | 27,239,872 | (33,684) | 10,000 | 925,554 | (2,809,429) | 25,332,313 |
| Balance as at September 30, 2021 | 11,834,361 | 27,080,281 | (33,684) | - | 1,565,055 | (9,209,857) | 19,401,795 |
| Finder's fees – share options | - | (31,161) | - | - | 31,161 | - | - |
| Warrants exercised | 12,500 | 118,250 | - | - | - | - | 118,250 |
| Share subscriptions received | - | - | 33,684 | - | - | - | 33,684 |
| Share-based compensation (Note 6) | - | - | - | - | 551,761 | - | 551,761 |
| Net loss | - | - | - | - | - | (9,345,548) | (9,345,548) |
| Balance as at March 31, 2022 | 11,846,861 | 27,167,370 | - | - | 2,147,977 | (18,555,405) | 10,759,942 |

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 - Unaudited)

| | For the six months ended March 31, 2022 | For the six months ended March 31, 2021 |
|---|--|--|
| | \$ | \$ |
| Operating activities | | |
| Net loss for the period | (9,345,548) | (2,250,335) |
| Non-cash items: | | |
| Foreign exchange | (184,394) | 3,798 |
| Share-based compensation | 551,761 | 243,254 |
| Changes in non-cash operating working capital items: | | |
| Sales tax receivable | (66,257) | (36,256) |
| Prepays | 83,050 | (174,517) |
| Due from Bright Minds Biosciences LLC | - | (490) |
| Accounts payable and accrued liabilities | 364,942 | 257,563 |
| Net cash used in operating activities | (8,596,446) | (1,956,983) |
| Financing activities | | |
| Private placement proceeds, net of costs | - | 27,784,078 |
| Finder's fees | - | (916,317) |
| Share issuance costs | - | (266,908) |
| Share subscriptions received | 33,684 | - |
| Warrant exercise funds received in advance | - | 10,000 |
| Warrant exercise proceeds | 118,250 | - |
| Loan advanced | (32,000) | - |
| Net cash from financing activities | 119,934 | 26,610,853 |
| Change in cash and cash equivalents | (8,476,512) | 24,653,870 |
| Effect of foreign exchange on cash | 184,394 | (3,798) |
| Cash and cash equivalents, beginning of period | 19,760,015 | 799,929 |
| Cash and cash equivalents, end of period | 11,467,897 | 25,450,001 |
| SUPPLEMENTARY INFORMATION | | |
| Debt settled by issuing shares | - | 18,500 |
| Fair value ascribed by brokers' warrants issued | - | 521,000 |
| Fair value of options issued as finders' fees | 31,161 | - |
| Share issuance costs included in accounts payable and accrued liabilities | - | 752 |

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

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended March 31, 2022 and 2021

(Expressed in Canadian Dollars - Unaudited)

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 ("CSE") under the symbol DRUG. On May 17, 2021, the Company started trading on the OTCQB under the symbol BMBIF. On November 8, 2021, the Company started trading on the NASDAQ under the symbol DRUG. The registered address of the Company is located at 1500 – 1055 West Georgia Street, Vancouver, British Columbia, V6E 4N7, Canada. The head office address of the Company is located at 19 Vestry Street, New York, NY 10013, USA.

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 March 31, 2022, the Company is not able to finance day to day activities through operations and has incurred a loss of \$9,345,548 for the six-month period ended March 31, 2022. The Company has a deficit of \$18,555,405 since inception and negative operating cash flows. As at March 31, 2022, the Company has working capital of \$10,757,942 (September 30, 2021 - \$19,399,795). 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.

The coronavirus, also known as "COVID-19", has spread across the globe and is impacting worldwide economic activity. 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

Statement of compliance

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed interim consolidated 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 May 14, 2022, 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, 2021 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, 2022 could result in restatement of these unaudited condensed interim consolidated financial statements.

Basis of preparation

Depending on the applicable IFRS requirements, the measurement basis used in the preparation of these consolidated financial statements is cost, net realizable value, fair value or recoverable amount. These consolidated 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 three and six months ended March 31, 2022 and 2021

(Expressed in Canadian Dollars - Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Psilocybinlabs Ltd. (see Note 4), Bright Minds Biosciences LLC, a Delaware limited liability company, and Bright Minds Bioscience Pty Ltd., a proprietary company registered under the Corporations Act of Australia on June 24, 2021. On June 10, 2021, the CEO of the Company transferred, assigned and conveyed all of his membership interests in Bright Minds Biosciences LLC to the Company.

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 subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of the Company's subsidiaries 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 consolidated financial statements.

Foreign currency translation

The functional currency of the Company, Psilocybinlabs Ltd., Bright Minds Biosciences LLC and Bright Minds Bioscience Pty Ltd. is the Canadian dollar and the presentation currency of the Company 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.

Please refer to Note 3 of the audited consolidated financial statements of the Company for the year ended September 30, 2021 for full disclosure of the significant accounting policies.

4. INTANGIBLE ASSETS

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, with the reacquisition being recorded as an asset acquisition.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | March 31, 2022 | September 30, 2021 |
|--|-------------------|-----------------------|
| | \$ | \$ |
| Accounts payable | 994,815 | 596,573 |
| Accrued liabilities | 8,700 | 42,000 |
| Total accounts payable and accrued liabilities | 1,003,515 | 638,573 |

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended March 31, 2022 and 2021

(Expressed in Canadian Dollars - Unaudited)

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 consolidated financial statements reflect the effect of the share consolidation.

Issued share capital for the six months ended March 31, 2022.

On November 9, 2021, 12,500 warrants were exercised for gross proceeds of \$118,250.

Issued share capital for the year ended September 30, 2021

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.

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.

On February 3, 2021, the 16,000 SWs were deemed to be exercised for SW shares and 16,000 common shares of the Company were issued to the SW holders (see below).

On March 17, 2021, the Company issued 3,419,883 Units at a price per Unit of \$7.57 for aggregate gross proceeds of \$25,888,514. Each Unit comprised one common share and one-half of one common share purchase warrant of the Company. Each warrant is exercisable to acquire one common share of the Company at an exercise price of \$9.46 per share until March 17, 2024, subject to adjustment and acceleration in certain events. If the daily volume weighted average trading price of the common shares on the CSE is equal to or greater than \$13.25 per common share for any 10 consecutive trading days, the Company shall have the right to accelerate the expiry date of the warrants to a date that is at least 30 trading days following the date of the Company issuing a press release disclosing such acceleration. The underwriters were paid fees for their services in the amount of \$916,317 and received compensation warrants entitling them to purchase an aggregate of 132,666 common shares at a price of \$7.57 per common share for a period of thirty-six months following closing. These warrants have an ascribed value of \$521,000. On February 17, 2022, the Company received \$33,684 in share subscriptions receivable related to this financing.

On April 6, 2021, the Company paid a New York-based company a contingent cash fee in the amount of \$600,000, being 4.5% of \$13,333,333 in net equity proceeds received from three investors introduced to the Company by the company. The company was also entitled to receive compensation warrants allowing it to purchase an aggregate of 8,807 common shares at a price of \$7.57 per common share for a period of five years. These warrants, having an ascribed value of \$33,100, were never issued. Instead, on September 21, 2021, the Company granted compensation options (see below).

On April 23, 2021, 1,948,000 escrowed share purchase warrants were exercised for \$0.05 per share for gross proceeds of \$97,400.

On April 28, 2021, the Company issued 63,000 common shares to the University at a deemed price of \$5.85 per share. The \$368,550 value attributed to these shares has been recognized as a research and development expense in the consolidated statements of comprehensive loss during the year ended September 30, 2021. See Note 8.

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.

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended March 31, 2022 and 2021

(Expressed in Canadian Dollars - Unaudited)

6. SHARE CAPITAL (continued)

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 SW holders.

Escrowed securities

On January 28, 2021, the Company entered into an escrow agreement under National Policy 46-201 *Escrow for Initial Public Offerings* (the "Policy") in connection with the listing of common shares of the Company on the CSE, whereby 2,852,800 common shares of the Company and 1,948,000 share purchase warrants (exercised on April 23, 2021), being an aggregate of 4,800,800 securities, were deposited to be held in escrow. As the Company is defined as an emerging issuer under the Policy, the escrowed securities will be released as follows:

- 480,080 on the date that the Company's shares are listed on the CSE (February 8, 2021); and
- 720,120 six, 12, 18, 24, 30 and 36 months after the listing date.

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 six months ended March 31, 2022

No options were granted during this period.

Options granted during the year ended September 30, 2021

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 on the CSE (the "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: 0.43%; and dividends: nil.

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended March 31, 2022 and 2021

(Expressed in Canadian Dollars - Unaudited)

6. SHARE CAPITAL (continued)

On April 28, 2021, the Company granted 240,000 options to three consultants of the Company. These options have an exercise price of \$7.60 per share, expire on April 28, 2026 and vest as follows:

- 160,000 options – 25% on the first anniversary of the grant date, 25% on the second anniversary of the grant date, 25% on the third anniversary of the grant date and 25% on the fourth anniversary of the grant date; and
- 80,000 options – 25% on the six-month anniversary of the grant date, 25% on the first anniversary of the grant date, 25% on the eighteen-month anniversary of the grant date and 25% on the second 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: \$7.60; ii) share price: \$5.98; iii) term: 5 years; iv) volatility: 100%; v) discount rate: 0.92%; and dividends: nil.

On June 15, 2021, the Company granted 180,000 options to a director and a consultant of the Company. These options have an exercise price of \$7.60 per share, expire on June 15, 2026 and vest as follows: 25% on the first anniversary of the grant date, 25% on the second anniversary of the grant date, 25% on the third anniversary of the grant date and 25% on the fourth 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: \$7.60; ii) share price: \$5.55; iii) term: 5 years; iv) volatility: 100%; v) discount rate: 0.84%; and dividends: nil.

On September 21, 2021, the Company granted 8,807 options to a consultant of the Company (see above). These options have an exercise price of \$7.64 per share, expire on September 21, 2024 and vest as follows: 25% on December 21, 2021, 25% on March 21, 2022, 25% on June 21, 2022 and 25% on September 21, 2022. The fair value of these stock options was measured using the Black Scholes option pricing model using the following inputs: i) exercise price: \$7.64; ii) share price: \$7.64; iii) term: 3 years; iv) volatility: 100%; v) discount rate: 0.55%; and dividends: nil.

The following table summarizes the movements in the Company's outstanding stock options for the six-month period ended March 31, 2022 and the year ended September 30, 2021:

| | Number of options | Weighted average exercise price |
|--------------------------------------|-------------------|---------------------------------|
| Balance at September 30, 2020 | 150,000 | \$ 1.25 |
| Granted | 895,807 | \$ 4.29 |
| Cancelled* | (20,000) | \$ 1.25 |
| Balance at September 30, 2021 | 1,025,807 | \$ 3.90 |
| Forfeited* | (90,000) | \$ 1.25 |
| Balance at March 31, 2022 | 935,807 | \$ 4.16 |

* On January 21, 2021, the Company cancelled 20,000 options granted to a consultant in error on November 17, 2020. Also, a consultant forfeited their right to exercise 90,000 options.

As at March 31, 2022, the options have a weighted average remaining life of 3.80 years (September 30, 2021 – 4.28).

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended March 31, 2022 and 2021

(Expressed in Canadian Dollars - Unaudited)

6. SHARE CAPITAL (continued)

The following table summarizes the stock options issued and outstanding:

| Expiry Date | Options Outstanding and Exercisable | | | Remaining life (Years) |
|--------------------|-------------------------------------|-------------|----------------|---------------------------|
| | Number of options | Exercisable | Exercise price | |
| September 21, 2024 | 8,807 | 4,404 | \$7.64 | 2.48 |
| July 23, 2025 | 150,000 | 150,000 | \$1.25 | 3.32 |
| November 17, 2025 | 357,000 | 122,333 | \$1.25 | 3.64 |
| April 28, 2026 | 240,000 | 20,000 | \$7.60 | 4.08 |
| June 15, 2026 | 180,000 | - | \$7.60 | 4.21 |

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 February 4, 2022 and February 11, 2022, the Company issued 25,000 RSUs and 35,000 RSUs, respectively. These RSUs vest on an annual basis over a period of four years commencing on February 1, 2023. The estimated fair value of these RSUs is \$181,250 and will be recognized as an expense over the vesting period of the RSUs.

The following table summarizes the movements in the Company's outstanding RSUs for the six-month period ended March 31, 2022 and the year ended September 30, 2021:

| | Equity settled | Cash settled | Total |
|--------------------------------------|----------------|--------------|----------------|
| Balance at September 30, 2020 | 380,000 | - | 380,000 |
| Vested | (95,000) | - | (95,000) |
| Balance at September 30, 2021 | 285,000 | - | 285,000 |
| Granted | 60,000 | - | 60,000 |
| Balance at March 31, 2022 | 345,000 | - | 345,000 |

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.

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

| | Six months ended March 31, 2022 | Six months ended March 31, 2021 |
|---|---------------------------------------|---------------------------------------|
| | \$ | \$ |
| Stock options | 473,591 | 119,085 |
| Restricted share units – equity settled grants | 78,170 | 124,169 |
| Total equity settled share-based compensation expense | 551,761 | 243,254 |
| Restricted share units – cash settled grants | - | - |
| Total share-based compensation expense | 551,761 | 243,254 |

Bright Minds Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended March 31, 2022 and 2021

(Expressed in Canadian Dollars - Unaudited)

6. SHARE CAPITAL (continued)

Share-based compensation expense is included in the consolidated statements of comprehensive loss as follows:

| | Six months ended March 31, 2022 | Six months ended March 31, 2021 |
|---|---------------------------------------|---------------------------------------|
| | \$ | \$ |
| Consulting fees | 2,410 | 5,268 |
| Directors' compensation | 126,841 | 33,172 |
| Marketing, advertising and investor relations | - | 2,786 |
| Professional fees | - | 23,126 |
| Research and development | 422,510 | 178,902 |
| Total share-based compensation expense | 551,761 | 243,254 |

Warrants

The following table summarizes the movements in the Company's outstanding warrants for the six-month period ended March 31, 2022 and the year ended September 30, 2021:

| | Number of warrants | Weighted average exercise price |
|--------------------------------------|--------------------|------------------------------------|
| Balance at September 30, 2020 | 4,079,600 | \$ 0.05 |
| Issued* | 1,709,938 | 9.46 |
| Issued - broker | 132,666 | 7.57 |
| Exercised | (1,948,000) | 0.05 |
| Balance at September 30, 2021 | 3,974,204 | 4.35 |
| Exercised | (12,500) | 9.46 |
| Balance at March 31, 2022 | 3,961,704 | \$ 4.33 |

*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.

On March 17, 2021, the Company issued 132,666 compensation warrants to underwriters. The fair value of these share purchase warrants of \$521,000 was measured using the Black Scholes option pricing model using the following inputs: i) exercise price: \$7.57; ii) share price: \$6.65; iii) term: 3 years; iv) volatility: 100%; v) discount rate: 0.35%; and dividends: nil. The fair value of these broker warrants was recorded as a reduction against share capital.

As at March 31, 2022, the warrants have a weighted average remaining life of 2.16 (September 30, 2021 – 2.66) years.

The following table summarizes the warrants issued and outstanding:

| Expiry Date | Warrants Outstanding | | Remaining life (Years) |
|-------------------|-----------------------|----------------|---------------------------|
| | Number of warrants | Exercise price | |
| July 30, 2024 (1) | 2,131,600 | \$0.05 | 2.33 |
| March 17, 2024 | 1,697,438 | \$9.46 | 1.96 |
| March 17, 2024 | 132,666 | \$7.57 | 1.96 |

(1) On June 15, 2021, the Company entered into warrant exercise agreements with the two warrant holders, whereby the warrant holders authorized the Company to issue only such number of common shares (or other class of voting securities of the Company, if applicable) as will result in the warrant holders and any other person (as defined) holding less than the threshold number of 4.99% (as defined) of any class of voting securities of the Company as of the date of exercise or conversion of the warrants.

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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.

Included in accounts payable and accrued liabilities as at March 31, 2022 was \$40,087 (September 30, 2021 - \$Nil) owing to companies controlled by key management personnel.

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:

| | Six months ended March 31, 2022 | Six months ended March 31, 2021 |
|---|--|--|
| | \$ | \$ |
| Professional fees | 84,000 | 39,800 |
| Research and development | 376,950 | 88,978 |
| Share-based compensation included in directors' compensation | 126,841 | 33,172 |
| Share-based compensation included in professional fees | - | 23,126 |
| Share-based compensation included in research and development | 64,563 | 124,169 |
| | 652,354 | 309,245 |

See Note 8 for related party contractual obligations.

8. CONTRACTUAL OBLIGATIONS

License agreement

On April 23, 2021, the Company entered into an exclusive license agreement with equity (the "LA") with the Board of Trustees of the UIC (the "University") whereby the University granted to the Company, in all fields of use and worldwide, an exclusive, non-transferable license with the right to sublicense under the University's rights in and to the Patent Rights (as defined) and a non-exclusive, non-transferable license with the right to sublicense under the University's rights in and to the Technical Information (as defined) to make, have made, construct, have constructed, use, import, sell, and offer for sale royalty-bearing Product (as defined). As consideration for the grant of license, the Company will pay the following amounts (in US\$) to the University:

- *Signing Fee* – a signing fee of \$100,000 less \$15,000 in option fees was paid (CDN\$105,502) and 63,000 common shares of the Company were issued to the University (see Note 6);
- *Net Sales* – royalties on Net Sales (as defined) ranging from 3% (under \$1 billion) to 4.5% (over \$2 billion), with such royalty payments being credited toward the annual minimum for the license year in which the royalty payment accrues;
- *Sublicensee Revenues* – royalties (as for net sales above) on Sublicensee Revenue (as defined), with such royalty payments being credited toward the annual minimum for the license year in which the royalty payment accrues and 12% on all non-royalty revenue until the Company has raised \$7.5 million and then 10% thereafter;

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8. CONTRACTUAL OBLIGATIONS (continued)

- *Annual Minimums* – if the total royalties paid to the University for any license year are less than the following annual minimums, the Company must pay the University the amount equal to the shortfall:
 - Years 1 and 2 – \$nil;
 - Year 3 – \$5,000;
 - Year 4 – \$15,000;
 - Year 5 – \$35,000;
 - Year 6 and thereafter – \$50,000; and
 - After first commercial sale – \$250,000 or net sales royalty, whichever is higher.

- *Milestone Payments* – milestone payments after the occurrence of the following milestone events:

Prior to any sublicensing agreements, joint ventures or change of control:

- \$10,000 upon dosing the first patient in a Phase I trial;
- \$50,000 upon dosing the first patient in the first Phase II trial;
- \$250,000 upon dosing the first patient in a Phase III trial in the first clinical indication; and
- \$2 million upon the first commercial sale of each clinical indication.

After any sublicensing agreements, joint ventures or change of control:

- As above;
- \$250,000 upon dosing the first patient in each Phase II trial;
- \$500,000 upon dosing the first patient in each Phase III trial; and
- \$2 million upon the first commercial sale of each clinical indication.

Unless otherwise agreed to in writing by the University, the Company will reimburse the University for all documented costs and expenses in connection with the Patent Rights, including the preparation, filing, prosecution, maintenance and defense thereof. From time to time, the anticipated costs and expenses may be significant and, upon request, the Company will pay the estimated costs and expenses in advance of such costs and expenses being incurred by the University.

The term of the LA ends on the later of the last to expire of the Patent Rights, expiration of regulatory exclusivity for Product or when the Company provides notice that use of Technical Information has ceased. The University has the right to terminate the LA if the Company fails to make any required payments or is in breach of any provision of the LA. The Company may terminate the LA at any time upon providing at least 90 days written notice to the University.

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 was in the form of a grant of 150,000 vested stock options and 380,000 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. In March 2021, the Board of Directors authorized a monthly fee of US\$15,000 and increased it to US\$25,000 in August 2021.

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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 the contractor with 30 days written notice. In March 2021, the Board of Directors authorized a monthly fee of US\$15,000 and increased it to US\$25,000 in August 2021.

In November 2021, the Company entered into director indemnity agreements (the “DIAs”) with five directors of the Company. Pursuant to the DIAs and subject to all applicable laws, including the applicable limitations and restrictions set forth in the Business Corporations Act (British Columbia), the Company will:

- Indemnify and save harmless the Directors against and from:
 - any and all charges or claims by reason of them being or having been a director of the Company or another corporation, at a time when the other corporation is or was an affiliate of the Company, or at the request of the Company;
 - any and all costs, damages, expenses, fines, liabilities, losses and penalties (the “Consequences”) which they may sustain, incur or be liable for in consequence of their acting as a director of the Company, whether sustained or incurred by reason of their negligence, default, breach of duty or trust, failure to exercise due diligence or otherwise in relation to the Company or any of its affairs; and
 - in particular, and without in any way limiting the generality of the foregoing, any and all Consequences which they may sustain, incur or be liable for as a result of or in connection with the release or presence in the environment of substances, contaminants, litter, waste, effluent, refuse, pollutants or deleterious materials and that arise out of or are in any way connected with the management, operation, activities or existence of the Company or by virtue of them holding any other directorship with any other entity at the Company’s request.
- gross up any indemnity payment made pursuant to the DIAs by the amount of any income tax payable by the Directors in respect of that payment; and
- indemnify the Directors for the amount of all costs they incur in obtaining any Court approval required to enable or require the Company to make a payment to them under the DIAs, or enforce the DIAs against the Company, including without limitation legal fees and disbursements on a full indemnity basis.

Notwithstanding the above-noted, the Company will have no obligation to indemnify or save harmless the Directors in respect of any liability for which they are entitled to indemnity pursuant to any valid and collectible policy of insurance obtained and maintained by the Company, to the extent of the amounts actually collected by the Directors under the insurance policy.

Scientific advisory board agreements

The Company entered into numerous 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 pay the advisors hourly rates of \$150 and \$160 per hour. The Company also granted 130,000 stock options to the advisors as part of the Company’s November 17, 2020 and April 28, 2021 grant of options of which 20,000 options were cancelled on January 21, 2021 (see Note 6). In addition, the Company granted 60,000 RSU’s to the advisors of the Company on February 4, 2022 and February 11, 2022 (see Note 6). The 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.

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8. CONTRACTUAL OBLIGATIONS (continued)

Consulting agreements

The Company has entered into numerous 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 pay the advisors hourly rates between US\$30 to US\$600. The Company also granted 302,000 stock options to six advisors as part of the Company’s November 17, 2020 and April 28, 2021 grant of options (see Note 6). 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. The Company granted 90,000 stock options to the consultant on November 17, 2020 (see 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 conducted 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 was carried out through to its conclusion on February 15, 2021. As consideration for UTMB’s performance, the Company paid US\$66,764 which was recorded in research and development costs.

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 the contractor with 30 days written notice. In March 2021, the Board of Directors authorized a monthly fee of US\$15,000.

On November 1, 2021, the Company entered into a letter agreement (the “LA”) with a New York-based company, whereby the company will provide investor relations services to the Company. As compensation for performing these services, the Company will pay a non-refundable monthly retainer of US\$5,000 and issue 11,200 shares of restricted stock in three tranches: 3,800 on January 1, 2022; 3,700 on April 1, 2022 and 3,700 on July 1, 2022. If the contract is terminated prior to the issuance date, the outstanding balance is not owed. The services will continue for an initial term of one year unless sooner terminated by either party giving the other 15 days written notice.

9. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

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

| | March 31, 2022 | September 30, 2021 |
|--|-------------------|-----------------------|
| FAIR VALUE THROUGH PROFIT OR LOSS | \$ | \$ |
| Cash | 11,381,647 | 19,673,765 |
| Guaranteed investment certificate | 86,250 | 86,250 |
| Cash and cash equivalents | 11,467,897 | 19,760,015 |
| Amortized cost | | |
| Accounts payable and accrued liabilities | 1,003,515 | 638,573 |

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9. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

Fair value measurement

Financial assets and liabilities that are recognized on the consolidated 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 and cash equivalents is classified as Level 1, whereas accounts payable and accrued liabilities are classified as Level 2. As at March 31, 2022, the Company believes that the carrying values of cash and cash equivalents 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 and cash equivalents balance. As at March 31, 2022, the Company had cash and cash equivalents of \$11,467,897 which was held with a major bank in Canada and a major bank in the United States. Because deposits are with two banks, there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions 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. As at March 31, 2022, the Company had the following foreign currency balances – cash (US\$1,302,559) and accounts payable and accrued liabilities (US\$735,883). A 10% fluctuation in the US\$ against the Canadian dollar would have an impact of approximately \$255,000 on the net comprehensive loss.

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. As at March 31, 2022, the Company had cash and cash equivalents of \$11,467,897 to cover current liabilities of \$1,003,515.

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9. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

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 March 31, 2022.

10. RESEARCH AND DEVELOPMENT

Research and development expense recognized in the consolidated statements of comprehensive loss is comprised of the following:

| | Six months ended March 31, 2022 | Six months ended March 31, 2021 |
|---------------------------------------|---------------------------------------|---------------------------------------|
| | \$ | \$ |
| Laboratory costs (see Note 11) | 98,105 | - |
| Novel drug development | 5,443,072 | 852,214 |
| Patents and related payments | 54,900 | 28,717 |
| Salary and subcontractors | 1,569,789 | 337,890 |
| Share-based compensation (see Note 6) | 422,510 | 178,902 |
| | <u>7,588,376</u> | <u>1,397,723</u> |

11. PREMISES LEASES

Commencing June 1, 2021, the Company entered into a commercial laboratory lease in Wauwatosa, Wisconsin USA for a term of one year at a monthly base rent of US\$1,709. For the period ended March 31, 2022, \$14,005 is included in laboratory costs (see Note 10).

Commencing September 1, 2021, the Company entered into an apartment lease in New York, New York USA for a term of one year at a monthly base rent of US\$5,300. For the period ended March 31, 2022, \$40,200 is included in office and administrative expense.

12. COMPARATIVE AMOUNTS

Certain of the prior period's amounts have been reclassified to conform with the current period's presentation (see Note 10).

13. SUBSEQUENT EVENTS

On April 11, 2022, The Company entered into SABA with Karl Deisseroth ("Deisseroth") pursuant to which the Company will pay Deisseroth a monthly fee of US\$4,166.66 and issued an aggregate 25,000 common shares (the "Payment Shares") in the capital of the Company at a deemed price of \$1.57 per Payment Share. The Payment Shares will be issued in escrow and released to Deisseroth over a period of four years commencing on March 8, 2023.

On April 27, 2022, the Company issued 100,000 RSUs to a director of the Company. These RSUs vest on an annual basis over a period of four years commencing on the date of the grant.