
# MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended November 30, 2020 and Period from September 18, 2019 (Date of Incorporation) to November 30, 2019

This Management's Discussion and Analysis ("MD&A") relates to the financial position and financial performance of NeonMind Biosciences Inc. (formerly "Flourish Mushroom Labs Inc.") ("NeonMind", or the "Company") for the year ended November 30, 2020 and the period from September 18, 2019 (date of incorporation) to November 30, 2019. All references to "us" "we" and "our" refer to the Company.

Except where otherwise indicated, the financial information contained in this MD&A was prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should be read in conjunction with the Company's financial statements for the year ended November 30, 2020 and the period from September 18, 2019 to November 30, 2019 (referred to as the "Financial Statements").

Financial information contained in this MD&A has been prepared on the basis that we will continue as a going concern, which assumes that we will be able to realize our assets and satisfy our liabilities in the normal course of business for the foreseeable future. Management is aware, in making its going concern assessment, of material uncertainties related to events and conditions that may cast significant doubt upon our ability to continue as a going concern.

We have recorded revenues of $415,803, incurred a net loss of $2,677,195, and used $853,447 of cash for operating activities during the year ended November 30, 2020. As at November 30, 2020, we had a working capital deficit of $200,703 and an accumulated deficit of $5,881,384. Our continued operations are dependent on future profitable operations, management's ability to manage costs, and the future availability of equity or debt financing. Whether and when we can generate sufficient operating cash flows to pay for our expenditures and settle our obligations as they fall due is uncertain. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption be inappropriate. The impact of these adjustments could be material.

The outbreak of the coronavirus COVID-19, which was declared a pandemic by the World Health Organization on March 11, 2020, has led to adverse impacts on the Canadian and global economies, disruptions of financial markets, and created uncertainty regarding potential impacts to the Company's supply chain and operations. The COVID-19 pandemic has impacted and could further impact our operations and the operations of our suppliers and vendors as a result of quarantines, facility closures, and travel and logistics restrictions. As a result of the pandemic, we experienced delays in our planned product launches. The extent to which the COVID-19 pandemic impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to the duration, spread, severity, and impact of the COVID-19 pandemic, the effects of the COVID-19 pandemic on our suppliers and vendors and the remedial actions and stimulus measures adopted by local and federal governments, and to what extent normal economic and operating conditions can resume. The management team is closely following the progression of COVID-19 and its potential impact on us, and is working on alternative measures and resources to minimize such impact. Even after the COVID-19 pandemic has subsided, we may experience adverse impacts to our business as a result of any economic recession or depression that has occurred or may occur in the future. Therefore, we can not reasonably estimate the impact at this time on our business, liquidity, capital resources and financial results.

Except where otherwise indicated, all financial information is expressed in Canadian dollars.

## CORPORATE OVERVIEW

We were incorporated under the laws of the province of British Columbia, Canada, on September 18, 2019. We are engaged in drug development to evaluate the safety and efficacy of psychedelic substances for therapeutic uses as approved medicines. NeonMind has two distinct psilocybin drug development programs targeting obesity. We raised gross proceeds of $5.9 million subsequent to the year end pursuant to an initial public offering and option and warrant exercises.

NeonMind operates two divisions, a pharmaceutical division engaged in drug development of psychedelic compounds and a consumer products division with a focus on mushroom infused products including functional foods, natural health products, and dietary supplements.

In its pharmaceutical division, NeonMind's first drug candidate aims to use synthetic psilocybin to enhance a patient's ability to adopt behaviours that cause weight loss and maintain that loss through psychedelic-assisted cognitive therapy. The second drug candidate proposes low dose synthetic psilocybin as a treatment to suppress appetite.

NeonMind's first drug candidate employs psilocybin as an agonist to the serotonin receptor 5- HT2A, which is involved in the hallucinogenic effect of psychedelics, and the second drug candidate employs low-dose psilocybin as an agonist to the 5-HT2C receptor, which controls appetite.

NeonMind's consumer division markets four (4) branded coffee products in Canada through NeonMind's direct to consumer e-commerce platform and plans to introduce natural health products and dietary supplements in Canada and the United States this year.

## DEVELOPMENT OF OUR BUSINESS

### Psychedelic Drug Development

In September 2019, we established our business. Our management began researching potentially therapeutic uses of psilocybin and other psychedelic substances.

In February 2020, we entered into a share exchange arrangement with Translational Life Sciences Inc. ("TLS") and the founder and major shareholder, Dr. William Panenka. The TLS team is composed of physicians and scientists in the fields of neurology, pharmacology, diabetes, addiction, and biochemistry who have significant experience in the clinical application of cannabinoid compounds.

In May 2020, we entered into a Clinical Trials Start-Up Study Agreement with TLS. TLS completed the design and budget for a study to use preclinical models to investigate psilocybin as a treatment to promote and cause weight loss and to reduce food cravings.

In July 2020, TLS entered into a non-binding letter of intent to secure the supply of Psilocybin for our pre-clinical and clinical trials. An application for an exemption pursuant to subsection 56(1) of the Controlled Drugs and Substances Act, S.C. 1996, c. 19 was submitted to Health Canada to allow us to commence our preclinical trial using Psilocybin.

In September 2020, we entered into a restricted drug supply agreement with Psygen Labs Inc. In October 2020, Health Canada provided authorization to UBC to commence our preclinical trial.

In November 2020, we commenced a preclinical trial at the University of British Columbia testing psilocybin to aid in weight loss or cause weight loss and reduce food cravings.

### Consumer Products Division

We also entered into an asset purchase agreement to acquire mushroom formulas under our consumer products division.

In January 2020, we finalized the formulations for an initial planned product line of four (4) mushroom infused coffees and by April 2020 we finalized the brand identity and packaging design for four mushroom infused coffee products.

Our consumer products division produced testing samples of all 4 mushroom coffees and completed third-party nutritional analysis for the purposes of producing Canada and USA-compliant nutritional fact tables for the product packaging.

In October 2020, we manufactured the first batch of the four coffees. In mid-November 2020, we launched four mushroom infused coffee products in Canada through our ecommerce website. We generated revenue of $803 by November 30, 2020 which was our year end.

Subsequent to the year ended November 30, 2020:

In December 2020, we completed our initiating public offer raising a gross of $4.6 million of funding and completed an IPO on the Canadian Securities Exchange (the "Exchange"). Subsequent to the IPO, we raised additional capital of almost $1.3 million through warrant and option exercises.

In January 2021, we appointed Rob Tessarolo as our new President and Chief Executive Officer and Trevor Millar as our Chief Psychedelic Officer.

In February 2021, we purchased an initial order of GMP grade psilocybin from Psygen for our planned phase 2 human clinical trial expected to begin in Canada later this year. Our consumer products division submitted four applications to Health Canada's natural and Non-prescription Health Products Directorate (NNHPD) to obtain product licenses for its products with 100% plant-based extracts and make their related health claims.

From January to March 2021, we added significantly to our drug development team with six experienced consultants:

Ernie Ho, Ph.D.

Ernie has successfully developed and commercialized products in the biopharma and diagnostics industry. He has experience throughout the value chain shaping products to maximize commercial success including pre-clinical, clinical, manufacturing, and product management. He has played a key role in corporate development in multiple licensing, M&A deals and capital raises. Ernie received his PhD in Physiology and Pharmacology at Western University.

Clive Ward-Able, MD

Dr. Clive Ward-Able is a physician and a pharmacist who has worked in the pharmaceutical industry for over 28 years with 21 of those at the executive level. He has worked in large and small pharmaceutical and biotechnology companies in Canada, the U.S., UK, Switzerland, and South Africa in the departments of R&D, medical, marketing, and sales. He is currently a member of the Board of Directors for Clinical Trials Ontario and has been a member of the Medical & Scientific Advisory Committee of Innovative Medicines Canada.

Albert Garcia-Romeu, Ph.D.

Albert Garcia-Romeu is an Assistant Professor of Psychiatry and Behavioral Sciences at the Johns Hopkins University School of Medicine. His research examines the effects of psychedelics in humans, with a focus on psilocybin as an aid in the treatment of addiction. He has conducted more than 90 high-dose psilocybin sessions in the laboratory since 2012 and is a founding member of the Johns Hopkins Center for Psychedelic and Consciousness Research.

Philippe Martin

Mr. Martin has 20 years of biotechnology and pharmaceutical industry experience and is currently the Chief of Clinical Development & Operations at BioAtla, Inc., a San Diego-based biotech company that develops novel therapies with improved therapeutic index that have the potential to revolutionize cancer treatment. Mr. Martin previously led the development and commercialization of the blockbuster drug OTEZLA, , and oversaw the development of the inflammation and immunology franchise at Celgene. Prior to Celgene, Mr. Martin held multiple positions at Schering-Plough (acquired by Merck) where he managed the anti-TNF alpha collaboration with Johnson & Johnson.

Laird Birmingham, MD

Dr. Birmingham is a Specialist in Internal Medicine, an Epidemiologist and Biostatistician, and a Professor of Psychiatry at the University of British Columbia where he was previously Professor of Internal Medicine and is an expert in the treatment and study of eating and weight disorders. He has pioneered several new internationally recognized treatments. He has more than 30 years of experience in eating disorders and obesity research and treatment and has 280 publications including 131 referenced articles, 23 invited chapters, and 9 books.

Frank Russo, Ph.D

Dr. Russo is a Professor of Psychology at Ryerson University and is the Hear the World Research Chair in Music and Emotional Speech. He is an affiliate scientist at the Toronto Rehabilitation Institute, core member of the McMaster Institute for Music and the Mind (MIMM), and adjunct professor at the University of Toronto's Music and Health Collaboratory (MaHRC). He is Fellow of the Canadian Psychological Association and Massey College, and is a past president of the Canadian Acoustical Association

In March 2021, we engaged Certara®, the global leader in model-informed drug development to provide strategic integrated drug development support for the investigation of NeonMind's psilocybin-based drug candidates for the treatment of obesity.

Over the next six (6) weeks we will work with Certara and finalize a fully integrated drug development program (IDP) which will allow us to confidently execute the steps necessary to developing an important novel psychedelic therapeutic for obesity and weight management.

The typical roadmap to regulatory submission for a product involves a sponsor like NeonMind to complete a complex interconnected sequence of evaluations on the product's quality (CMC – chemistry, manufacture, and controls), preclinical efficacy, safety pharmacology and toxicology, and preclinical and clinical pharmacological characterization. The evaluations and their sequence are established in an integrated drug development plan by a cross-functional team of experts.

## STRATEGIES AND ANTICIPATED MILESTONES

In the long term, we are focused on value creation through psychedelic drug development within unique indications for the treatment of obesity, compulsive eating disorder and as an aid to weight loss and its maintenance . Our exciting pre-clinical signal supports the development of complimentary psychedelic drug development plans with low and high dose psilocybin.

In the near term, we are assembling world-class research and development capabilities dedicated to creating a dossier of scientific evidence to support regulatory approval for these novel treatments that can positively impact millions of people. We are also evaluating opportunities to develop or acquire assets or complementary businesses related to psychedelic based products and services.

We have four core objectives for 2021:

1. Plan – establish comprehensive IDP in support of our two psilocybin programs predicated upon our target product profiles (TPP) and gap analysis to FDA/Health Canada requirements for new drug applications.
2. Resource - assemble world class talent and raise adequate capital to advance and accelerate our IDP.
3. Execute - the "next steps" in developing psilocybin for the treatment of obesity.
4. Assemble - evaluate opportunities to bolster our development pipeline and /or add complementary businesses in the psychedelic sector.

We anticipate achieving the following milestones in 2021:

- Finalize comprehensive IDP to define the research plans necessary to develop each of our two (2) novel psychedelic therapeutics for obesity, weight loss and/or its maintenance in the second quarter of 2021
- Finalize Target Product Profile (TPP) establishing optimal and minimally acceptable profile for a successful program considering medical need, differentiation strategy, target use and access to medicine strategy in the second quarter of 2021
- Establish deal flow targets to bolster product development pipeline and identify opportunities for strategic alliances in the second quarter of 2021
- Health Canada decision on four (4) NHP submissions in the second quarter of 2021
- Dietary Supplement launch in US in the second quarter of 2021
- Based on IDP we expect to begin executing initial steps to satisfy CMC, non-clinical, pre-clinical and clinical research plans requirements in the third quarter of 2021
- Completion of psilocybin preclinical study 201 in the third quarter of 2021
- Pre-IND (Investigational New Drug) meeting with FDA in the fourth quarter of 2021

## SELECTED ANNUAL INFORMATION

Management considers that the main indicators of our performance are the following: revenues, net income and loss, total assets, earnings/loss per share. The following information was derived from the Company's audited financial statements for the year ended November 30, 2020, and the period from its incorporation date to the year ended November 30, 2019.

For the years ended November 30,

| | 2020<br>$ | 2019*<br>$ |
|---|---|---|
| Revenues | 415,803 | - |
| Net loss | 2,677,195 | 1,365,240 |
| Basic and diluted loss per share | 0.02 | 0.02 |
| Total assets | 209,899 | 140,089 |
| Dividends declared and paid out | - | - |

** from the incorporation date of September 18, 2019 to November 30, 2019.*

The net loss for the year ended November 30, 2020 primarily consisted of write down of investment of $750,000, loss on impairment of investment in associate of $279,868, stock-based compensation of $689,738, licensing fees of $500,000, and other operating expenses of $824,573, which included cost of preparation for our initial public offering and listing on the Canadian Securities Exchange.

The net loss for the period ended November 30, 2019 primarily consisted of licensing fees of $1,297,200 for 128 product formulas to manufacture products infused with functional mushrooms for a term of 50 years, and product development, research and registration expenses of $52,500. Total assets included cash of $107,689 and intangible assets in product formulas of $32,400 as recipes, trade secrets, research and data ("Know-How") purchased from a third party related to 10 formulations designed to include wild edible mushrooms as key ingredients.

## OVERALL PERFORMANCE

We successfully completed our IPO, which was oversubscribed and the broker exercised their full over-allotment issuance. We raised funds from the IPO in the gross amount of $4,600,000. Subsequent to the IPO we received an additional $1.3 million in warrant and option exercises.

Since our stock began trading on the CSE on January 4, 2021, with average daily volume in Canada of 1,500,000 shares. On January 18, 2021, the company's stock was listed on the Frankfort exchange and since then 4 more regional stock exchanges in Germany were added. We have a symbol assigned in the U.S. for broker-to-broker trading, and we have taken steps to get quoted on the OTCQB.

In the medical research division and in November 2020, we initiated a preclinical trial for the University of British Columbia (the "University") to develop a product which can be used as a treatment to promote and cause weight loss which contains Psilocybin, which is a psychedelic compound found in Magic Mushrooms.

In the consumer products division and in mid-November 2020, we launched four mushroom infused coffee products in Canada through our ecommerce website. We generated revenue from product sales of $803 by November 30, 2020 which was our year end. We did not generate any revenues from product sales for the period ended November 30, 2019. We also realized licensing revenue of $415,000 from a license agreement for access to our mushroom extraction technology for use in the US.

Expenses before other items amounted to $1,988,365 for the year ended November 30, 2020 as compared to $1,365,240 for the prior period. Expenses primarily consisted of share-based compensation of $689,738, licensing expenses of $500,000, research and development of $269,520, professional fees of $192,882, advertising, marketing and media of $184,850, consulting fees of $123,026, and all other expenses.

## ADJUSTED EBITDA

Adjusted EBITDA, a measure used by management to indicate operating performance, is defined as earnings before interest, taxes, depreciation and amortization, excluding certain non-operating amounts as shown below. Adjusted EBITDA is not a recognized term under IFRS and is not intended to be an alternative either to gross profit or income before taxes as a measure of operating performance or to cash flows from operating activities as a measure of liquidity.

Additionally, Adjusted EBITDA is not intended to be a measure of free cash flow available for discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. We use Adjusted EBITDA to supplement IFRS results to provide a more complete understanding of the factors and trends affecting the business than IFRS results alone. Because not all companies use identical calculations, the presentation of Adjusted EBITDA may not be comparable to other similarly titled measurements used by other companies. Readers should not consider Adjusted EBITDA in isolation or as a substitute for profit (loss) for the period as determined by IFRS, or as a substitute for an analysis of our Financial Statements.

Reconciliation of Adjusted EBITDA for the year ended November 30, 2020 and period ended November 30, 2019 is as follows:

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Net loss for the period | (2,677,195) | (1,365,240) |
| Add: | | |
| Amortization & Depreciation | 4,050 | - |
| Interest | 25,945 | - |
| Adjustments: | | |
| Share-based compensation | 689,738 | - |
| Accretion expense | 106,873 | - |
| Gain on extinguishment of debt | (106,873) | - |
| Loss on impairment of investment in associate | 279,868 | - |
| Loss on investment in associate | 48,947 | - |
| Unrealized loss on investment | 750,000 | - |
| Adjusted EBITDA | (878,647) | (1,365,240) |

## DISCUSSION ON OPERATIONS

We were incorporated on September 18, 2019, and comparative information consisted of a partial year from the incorporation date to November 30, 2019.

### Revenue

For the year ended November 30, 2020, we realized total revenue of $415,803 as compared to $nil in the prior year. Revenue included license revenue of $415,000 from a license agreement for access to our mushroom extraction technology for use in the US, and product sales of $803 from sales of four functional mushroom coffees, which were launched through ecommerce shortly before the year end.

### Cost of sales

We recorded cost of sales of $250 from the sales of functional mushroom coffees.

### Advertising, marketing and media

For the year ended November 30, 2020, we incurred advertising, marketing and media costs of $184,850 as compared to $659 for the prior period. Advertising, marketing and media expenses included the launch of our mushroom infused coffee products and media spent to promote our corporate brand in the preparation of our IPO.

Amortization and depreciation

For the year ended November 30, 2020, we incurred amortization and depreciation expense of $4,050 as compared to $nil for the prior period. Amortization and depreciation expenses were related to product formulations which are being amortized over 8 years.

Consulting fees

We are an emerging business which engages consultants and contractors regularly to obtain expertise in various business areas. For the year ended November 30, 2020, we incurred consulting fees of $123,026, compared to $nil for the prior period.

Information system

For the year ended November 30, 2020, we incurred expenses in information systems of $9,575 relating to the launch of our ecommerce website. We did not incur information system costs during the prior period.

Listing application fees

Listing application and fees were related to the application and the listing of our commons shares on the Canadian Securities Exchange ("CSE"). For the year ended November 30, 2020, we incurred listing application fees of $5,000 as compared to $3,675 for the prior year.

Licensing fees

We incurred licensing fees of $500,000 for the year ended November 30, 2020 for an extraction technology license. On February 12, 2020, we entered into a license agreement with Urban Juve Provisions Inc. ("Urban Juve"), a related party, to acquire a license to use, modify and sublicense extraction technology for the purpose of developing an extraction process for mushroom extract for a term of 25 years. Pursuant to the agreement, we issued 6,250,000 common shares with a fair value of $500,000. Due to the impact of the COVID-19 pandemic, the commercialization of the Company's products has been delayed, and utilization of the licensed technology has been deferred. We still intend to use the technology, but the timing of further development of the technology is uncertain and unplanned as our focus on cash flows is on the day-to-day operations and development of its business operations. As a result, management assessed that the extraction technology no longer meets the capitalization standards of IAS 38, and recognized the entire amount as licensing fees on the statement of operations and comprehensive loss during the year ended November 30, 2020. We incurred licensing fees of $1,297,200 for the period ended November 30, 2019 to obtain product formulas.

Office and administrative expenses

For the year ended November 30, 2020, we incurred office and administration expenses of $9,724 as compared to $61 of the prior period.

Research and development

Research and development expenses included costs of our preclinical trial and those for the development of mushroom infused coffee products. For the year ended November 30, 2020, we incurred research and development costs of $269,520 as compared to $52,500 for the prior period.

Professional fees

Professional fees include legal, accounting, audit and taxation fees. For the year ended November 30, 2020, we incurred professional fees of $192,882 as compared to $11,145 for the prior period. The increase was primarily driven by the IPO process as well as the prior period being a partial year.

Share-based compensation

As at November 30, 2020, we had 6,290,000 stock options and 9,196,883 restricted share units granted and outstanding for our directors, officers, employees and consultants, and we incurred share-based compensation

expense of $689,738. We did not incur share-based compensation expenses during the prior period. We expect to continue to utilize stock options, and other forms of equity instruments, to incentivize our teams.

Loss on impairment of investment in associate

We own approximately 4% of Komo Plant Based Comfort Foods Inc. ("Komo Foods"). During 2020, Komo Foods went through a restructuring process and consolidated its common shares on a 4 to 1 basis, followed by a private placement at $0.10 per unit. To reflect the fair value of Komo Foods shares, the Company realized an impairment loss of $279,868 for its investment in Komo Foods. The Company did not incur such impairment loss in the prior year.

Loss on investment in associate

During the year ended November 30, 2020, we recorded a proportionate share of losses from Komo Foods of $48,947. The Company did not incur such losses in 2019.

Unrealized Loss on investment

On February 4, 2020, the Company entered into share purchase agreements for the purchase of 7,285,000 common shares of Translational Life Science Inc. ("TLS"), in exchange for 15,000,000 units of the Company with a fair value of $750,000. As of November 30, 2020, we recognized an unrealized loss of $750,000 (2019 - $nil) on our investment as TLS is still in the early stages of development in its business and there is material uncertainty on the marketability of the shares. All shares of TLS are still being held as at November 30, 2020.

Net loss and comprehensive loss

We incurred a net and comprehensive loss of $2,677,195 as compared to $1,365,240 for the prior period. Loss per share on basic and fully diluted basis was $0.02, same as the prior period.

Dividends

No dividends were declared or paid for the year ended November 30, 2020 and the period ended November 30, 2019.

## SUMMARY OF QUARTERLY RESULTS

We were incorporated on September 18, 2019. The summary of our quarterly results are as follows:

For the quarters ended:

| | Nov. 30 2020 $ | Aug. 31 2020 $ | May 31 2020 $ | Feb. 29 2020 $ | Nov. 30 2019 $ |
|---|---|---|---|---|---|
| Net loss | 1,019,688 | 845,237 | 494,557 | 317,713 | 1,365,240 |
| Basic loss per share | 0.02 | 0.01 | 0.00 | 0.00 | 0.02 |
| Diluted loss per share | 0.02 | 0.01 | 0.00 | 0.00 | 0.02 |

## LIQUIDITY

| | November 30, 2020 | November 30, 2019 |
|---|---|---|
| Current ratio[(1)] | 0.32 | 0.08 |
| Cash | $ 1,170 | $ 107,689 |
| Working capital deficit [(2)] | $ (200,703) | $ (1,160,535) |
| Debt[(3)] | $ - | $ - |
| Equity (Deficit) | $ (777,413) | $ (1,128,135) |

*(1) Current ratio is current assets divided by current liabilities.*
*(2) Working capital is current assets minus current liabilities*
*(3) Debt is defined as any commercial debt.*

Cash Position

As at November 30, 2020, we had $1,170 in cash. Subsequent to the year ended November 30, 2020, the Company completed its IPO fund raising of $4.6 million in gross proceeds and almost $1.3 million from the exercise of warrants and stock options.

During the year ended November 30, 2020, we spent $853,447 of cash in operating activities primarily to finance operating expenses including those related to IPO and listing on CSE. Cash provided by financing activities was $746,928 for the year ended November 30, 2020, which was primarily from proceeds received from the issuance of units through private placements. We did not have investing activities during this period.

As at November 30, 2019, we had $107,689 of cash. For the period ended November 30, 2019, we spent $66 of cash in operating activities primarily in start-up operating expenses. Cash provided by financing activities was $107,755 for the period ended November 30, 2019, which was primarily from proceeds received from the issuance of units through a private placement.

Working Capital

We had a working capital deficit of $200,703 as at November 30, 2020, which is due to an increase in accounts payable and accrued liabilities as a result of timing of expenditures and proceeds from financing relating to our operations. Subsequent to November 30, 2020, the Company raised $4.6 million in gross proceeds from our IPO and almost $1.3 million in proceeds from the exercise of warrants and stock options.

As at November 30, 2019, we had negative working capital of $1,160,535, primarily consisting of amounts due to our parent company, Better Plant Sciences Inc. ("Better Plant"), resulting from a license agreement for product formulas.

## CAPITAL RESOURCES AND MANAGEMENT

As at November 30, 2020, we had cash of $1,170. Subsequent to the year ended November 30, 2020, the Company completed its IPO fund raising of $4.6 million in gross proceeds. We relied on the financial support from our parent company, Better Plant, to fund our operations until we completed our initial public offering.

After our initial public offering, our objective is to maintain a sufficient capital base to support the development of the business including launching products of our own brands through the commercialization of over 100 formulas for beverages and wellness products that include edible mushrooms as a key ingredient.

We are authorized to issue an unlimited number of common shares. As at November 30, 2020, there were 66,430,500 common shares issued and outstanding. We had 88,152,950 share purchase warrants outstanding with weighted average exercise price of $0.30. We had 6,290,000 stock options outstanding with weighted average exercise price of $0.10 per share. We also had 9,196,883 restricted share units outstanding.

## OFF-BALANCE SHEET ARRANGEMENTS

As at November 30, 2020 and November 30, 2019, we had no off-balance sheet arrangements.

## RELATED PARTY TRANSACTIONS

During year ended November 30, 2020, compensation of key management personnel and related parties were as follows:

| | Year ended November 30, 2020 | For the period September 18, 2019 (date of incorporation) to November 30, 2019 |
|---|---|---|
| Bonus expense | $ 100,000 | $ – |
| Licensing Fees | 500,000 | 1,297,200 |
| Share-based compensation | 593,482 | – |
| | $ 1,193,482 | $ 1,297,200 |

As at November 30, 2020, the Company owed $832,675 (2019 - $1,247,224) to its parent company, Better Plant, which included a promissory note balance of $691,245 (2019 - $nil) for previously advanced payment (2019 - $nil), bearing interest at 5% compounded annually, and was due and payable in full by October 30, 2021. On February 28, 2020, the Company entered into an amending agreement on the promissory note from due on demand to due on October 31, 2021. The amendment was treated as an extinguishment of debt in accordance with IFRS 9, *Financial* Instruments, which resulted in a gain on extinguishment of debt of $106,873 with a corresponding discount to the carrying value of the promissory note. During the period ended November 30, 2020, the Company recorded accretion expense of $47,125. On November 30, 2020, the Company amended the due date on the promissory note from October 31, 2021 to February 28, 2022. As the modification resulted in a change in the carrying amount of less than 10%, the amendment was treated as a contract modification under IFRS 9 and resulted in additional accretion expense of $59,748.

Amounts owing also included interest payable balance of $25,945 (2019 - $nil) relating to the promissory note. The remaining $115,485 (2019 - $1,247,224) is unsecured, non-interest bearing, and due on demand. During the year ended November 30, 2020, the Company incurred marketing expenses of $52,115 (2019 - $nil), professional fees of $103,681 (2019 - $10,500), office & administrative expenses of $14,135 (2019 - $nil), and research and development expenses of $34,500 (2019 - $nil) from Better Plant.

During the year ended November 30, 2020, the Company entered into a license agreement with Urban Juve Provisions Inc. ("Urban Juve"), a related company under common control, to acquire a license to use, modify and sublicense extraction technology for the purpose of developing an extraction process for mushroom extract for a term of 25 years. Pursuant to the agreement, the Company issued 6,250,000 common shares with a fair value of $500,000.

During the year ended November 30, 2020, the Company entered into a license agreement with Komo Foods, an associated company, whereby the Company granted Komo Foods a 25-year non-exclusive license to the Company's mushroom extraction technology for use in the United States. Pursuant to the license agreement, the Company received 5,000,000 common shares of the related company, with a fair value of $415,000, which was recognized as revenue during the year ended November 30, 2020.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Significant areas requiring the use of estimates include the collectability of accounts receivable, net realizable value of inventory, useful life and carrying value of intangible assets, fair value of investments and share-based compensation, and measurement of unrecognized deferred income tax assets. Share-based compensation expense relating to restricted share units was determined using the fair value of common shares of the Company on the date of grant, which was determined based on previous private placements with third parties.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements include the factors that are used in determining whether the Company has significant influence over another entity, and the application of the going concern assumption which requires management to consider all available information about the future, which is at least but not limited to 12 months from the year end of the reporting period.

Another significant area requiring the use of judgments made by management includes the assessment of fair value of investments in private companies. The fair value of shares and warrants of private companies is determined by valuation techniques such as recent arm's-length transactions, option pricing models, or other valuation techniques commonly used by market participants. The investments in common shares and warrants are measured at fair value through profit or loss and unrealized gains and losses are recorded in the statement of operations.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position as at November 30, 2020, as follows:

| | Fair Value Measurements Using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets for identical instruments (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Balance, November 30, 2020 |
| Investment in associate | $ – | $ 86,185 | $ – | $ 86,185 |

The fair values of financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities, and amounts due to related parties, approximate their carrying values due to the relatively short-term maturity of these instruments.

### Credit Risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counter-party default on its obligation. Our credit risk is primarily attributable to accounts receivable. We minimize our credit risk associated with our cash balance by dealing with major financial institutions in Canada and we have no other significant concentration of credit risk arising from operations. Accounts receivable is primarily comprised of trade accounts receivable and harmonized sales tax due from the Canadian government. For accounts receivable, we limit our exposure to credit risk by dealing with what management believes to be financially sound counter parties. The carrying amount of financial assets represents the maximum credit exposure.

### Foreign Exchange Rate and Interest Rate Risk

We are not exposed to any significant foreign exchange rate or interest rate risk.

### Liquidity Risk

Liquidity risk is the risk that we will encounter difficulty in meeting financial obligations due to shortage of funds. We manage liquidity risk by maintaining sufficient cash balances and adjusting its operating budget and expenditure. Liquidity requirements are managed based on expected cash flows to ensure that there are sufficient funds to meet short-term and specific obligations.

### Price Risk

We are exposed to price risk with respect to our investments, which consists of common shares held in private companies and is dependent upon the market price or the fair value of the common shares for those companies. The market price or the fair value of the common shares of those companies can fluctuate significantly, and there is no assurance that the future market price or the fair value of those companies will not decrease significantly.

### Commitment

On October 30, 2020, we entered into a fee-for-service contract with the University of British Columbia and the Provincial Health Services Authority for preclinical psilocybin research. The term of the agreement is two years. We made an initial payment of $15,000 on the effective date of the agreement, and as of November 30, 2020, we are committed to remaining payments of $138,300, which were paid subsequent to year end.

## CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all material information related to the Company, including our consolidated subsidiaries, is made known to senior management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") on a timely basis so that appropriate decisions can be made regarding public disclosure.

Internal Control over Financial Reporting ("ICOFR")

Our management, with the participation of our CEO and CFO, are responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of the CEO and CFO, our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Our internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS and that our receipts and expenditures are made only in accordance with authorization of management and our directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the annual or interim financial statements.

Limitations on the Effectiveness of Disclosure Controls and the Design of ICOFR

Our management, including the CEO and CFO, do not expect that our disclosure controls and procedures and ICFR will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system objectives will be met. The likelihood of achievement is affected by limitations inherent in all internal control systems. These inherent limitations include the realities that judgments or decision making can be faulty, and that breakdowns occur because of simple errors or mistakes. Controls can also be circumvented in numerous ways including collusion, overrides and deception. In addition to the inherent limitations, the design of a control system must reflect that there are resource constraints, and the expected benefit of controls must be considered relative to the expected costs. Due to inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Further, no evaluation of controls can provide absolute assurance that all control issues within a company will be detected.

## SUBSEQUENT EVENTS

Effective December 30, 2020, the Company completed its initial public offering ("IPO") of 46,000,000 units at $0.10 per unit for gross proceeds of $4,600,000. Each unit consisted of one common share and one share purchase warrant exercisable at $0.20 per share until December 30, 2021. In connection with the IPO, the Company paid broker fees of $45,000 and issued 4,600,000 agents' options, which are exercisable at $0.10 per agent's option unit until December 30, 2022. Each agent's option unit consists of one common share and one warrant, exercisable at $0.20 per share for a period of two years.

Subsequent to November 30, 2020, the Company issued 610,000 common shares pursuant to the exercise of stock options for proceeds of $61,000.

Subsequent to November 30, 2020, the Company issued 6,955,500 common shares pursuant to the exercise of share purchase warrants for proceeds of $1,213,700.

Subsequent to November 30, 2020, the Company issued 1,621,883 common shares pursuant to the vesting of restricted share units.

Subsequent to November 30, 2020, the Company granted the following stock options:

(a) On January 7, 2021, the Company granted 1,640,000 stock options to a director, officers and consultants, which are exercisable at $0.25 per share for a period of five years. The stock options vest over 24 months in eight equal tranches, with the first vesting period commencing four months after the grant date.

(b) On January 7, 2021, the Company granted 4,100,000 stock options to its officers, which are exercisable at $0.25 per share for a period of five years, which vests four months after the grant date.

(c) On January 7, 2021, the Company granted 200,000 stock options to a consultant, which are exercisable at $0.25 per share for a period of five years. The stock options vest over 12 months in four equal tranches, with the first vesting period commencing four months after the grant date.

(d) On January 19, 2021, the Company granted 200,000 stock options to consultants, which are exercisable at $0.25 per share for a period of five years. The stock options vest over 12 months in four equal tranches, with the first vesting period commencing four months after the grant date.

(e) On January 19, 2021, the Company granted 20,000 stock options to consultants, which are exercisable at $0.25 per share for a period of five years. The stock options vest over 12 months in eight equal tranches, with the first vesting period commencing four months after the grant date.

(f) On January 27, 2021, the Company granted 4,000,000 stock options to an officer, which are exercisable at $0.28 per share for a period of five years. The stock options vest over 30 months in 10 equal tranches, with the first vesting period commencing four months after the grant date.

(g) On February 24, 2021, the Company granted 25,000 stock options to a consultant, which are exercisable at $0.32 per share for a period of five years, which vests four months after the grant date.

(h) On March 9, 2021, the Company granted 100,000 stock options to a consultant, which are exercisable at $0.29 per share for a period of five years, which vests four months after the grant date.

(i) On March 9, 2021, the Company granted 100,000 stock options to a consultant, which are exercisable at $0.29 per share for a period of five years. The stock options vest over 12 months in 4 equal tranches, with the first vesting period commencing four months after the grant date.

Subsequent to November 30, 2020, the Company granted the following restricted share units:

(a) On January 7, 2021, the Company granted 300,000 restricted share units to an officer of the Company at a grant price of $0.25 per share. The restricted share units vest over 24 months in eight equal tranches, with the first vesting period commencing four months after the grant date.

(b) On January 27, 2021, the Company granted 300,000 restricted share units to an officer of the Company at a grant price of $0.28 per share. The restricted share units vest over 30 months in 10 equal tranches, with the first vesting period commencing four months after the grant date.