



Psyched Wellness Ltd.

Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Nine Months Ended August 31, 2024 and 2023

(Expressed in Canadian Dollars)

Notice to Reader

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

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of the management of Psyched Wellness Ltd.

The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Psyched Wellness Ltd.

Unaudited Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

		As at August 31, 2024	As at November 30, 2023
	Notes	\$	\$
<u>Assets</u>			
Current Assets			
Cash and cash equivalents	4	6,888,580	6,128,333
Accounts receivable	5	54,525	25,004
Inventories	6	902,281	962,981
Prepaid expenses and deposits	7	218,284	147,892
Total Current Assets		8,063,670	7,264,210
Property and equipment	8	26,217	30,267
Intangible assets	9	44,764	43,848
Total Assets		8,134,651	7,338,325
<u>Liabilities</u>			
Current Liabilities			
Accounts payable and accrued liabilities	10,15	247,876	301,581
Deferred revenue		-	1,983
Total Liabilities		247,876	303,564
<u>Shareholders' Equity</u>			
Share capital	11	26,980,471	24,632,003
Reserve for restricted share units	12	102,456	543,469
Contributed surplus	13	1,783,300	1,465,853
Reserve for warrants	14	5,212,016	6,355,769
Accumulated other comprehensive loss		7,626	(2,776)
Accumulated deficit		(26,199,094)	(25,959,557)
Total Shareholders' Equity		7,886,775	7,034,761
Total Liabilities and Shareholders' Equity		8,134,651	7,338,325
Nature of operations and going concern	I		
Contingencies and commitments	19		

Approved on behalf of the Board of Directors:

"Jeffrey Stevens"

Jeffrey Stevens, Director

"Janeen Stodulski"

Janeen Stodulski, Director

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

Psyched Wellness Ltd.

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the Three and Nine Months Ended August 31, 2024 and 2023

(Expressed in Canadian Dollars)

		Three months ended August 31, 2024	Three months ended August 31, 2023	Nine months ended August 31, 2024	Nine months ended August 31, 2023
	Notes	\$	\$	\$	\$
<u>Revenue</u>					
Sales revenue	18	236,553	93,270	548,960	257,538
Cost of goods sold		(141,795)	(28,040)	(315,533)	(268,544)
Gross Profit (Loss)		94,758	65,230	233,427	(11,006)
<u>Expenses</u>					
Management salaries and consulting fees	15	643,469	249,051	1,625,126	670,561
Stock-based compensation	12,13,14	662,958	10,705	1,064,320	428,756
Advertising and promotion		150,097	63,626	436,255	258,274
Professional fees	15	87,634	93,130	346,883	350,824
Office and general		142,677	109,959	359,757	258,941
Regulatory compliance		13,507	28,556	47,297	56,880
Research costs		31,246	5,363	56,186	81,886
Depreciation	8	1,350	1,350	4,050	3,686
Total Expenses		(1,732,938)	561,740	(3,939,874)	(2,109,808)
Loss before Other Expenses		(1,638,180)	(496,510)	(3,706,447)	(2,120,814)
<u>Other Expenses</u>					
Investment income	4	112,640	-	213,139	-
Property taxes		(461)	(428)	(1,610)	(1,986)
Foreign exchange gain (loss)		(89,585)	(44,758)	(113,883)	(106,972)
Gain on sale of property		-	29,484	-	29,484
Write-off of intangible assets	9	-	-	-	(114,914)
Total Other Income (Expenses)		22,594	(15,702)	97,646	(194,388)
Net Loss		(1,615,586)	(512,212)	(3,608,801)	(2,315,202)
<u>Other Comprehensive Loss</u>					
Exchange loss on translation of foreign operations		16,554	(562)	10,402	(874)
Comprehensive Loss		(1,599,032)	(512,774)	(3,598,399)	(2,316,076)
Weighted Average Number of Outstanding Shares					
- Basic and diluted	11	288,066,834	144,124,478	258,533,121	138,588,235
Net Loss per Share					
- Basic and diluted	11	(0.006)	(0.004)	(0.014)	(0.017)

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

Psyched Wellness Ltd.

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the Three and Nine Months Ended August 31, 2024 and 2023

(Expressed in Canadian Dollars)

		Number of	Share	Reserve for	Contributed	Reserve for	Accumulated	Accumulated	Total
		Shares	Capital	Restricted	Surplus	Warrants	Other	Deficit	
	Notes	#	\$	Share Units	\$	\$	Loss	\$	\$
Balance, November 30, 2022		135,789,695	21,001,495	487,000	2,048,878	3,254,521	-	(23,679,183)	3,112,711
Issuance of shares from private placement	11,14	96,987,855	3,619,106	-	-	3,170,044	-	-	6,789,150
Share issuance costs	11,14	-	(78,598)	-	-	(68,796)	-	-	(147,394)
Stock-based compensation	13	-	-	-	428,756	-	-	-	428,756
Cancellation of options	13	-	-	-	(1,152,963)	-	-	1,152,963	-
Exchange loss on translation of foreign operations		-	-	-	-	-	(874)	-	(874)
Net loss for the period		-	-	-	-	-	-	(2,315,202)	(2,315,202)
Balance, August 31, 2023		232,777,550	24,542,003	487,000	1,324,671	6,355,769	(874)	(24,841,422)	7,867,147
Balance, November 30, 2023		233,777,550	24,632,003	543,469	1,465,853	6,355,769	(2,776)	(25,959,557)	7,034,761
Issuance of units from private placement	11	48,889,284	1,813,124	-	-	1,609,126	-	-	3,422,250
Unit issuance cost	11	-	(19,156)	-	-	(17,001)	-	-	(36,157)
Issuance of shares on RSUs exercised	11,12	5,400,000	554,500	(554,500)	-	-	-	-	-
Stock-based compensation - RSUs	12	-	-	113,487	-	-	-	-	113,487
Stock-based compensation - Options	13	-	-	-	432,190	-	-	-	432,190
Stock-based compensation - Warrants	14	-	-	-	-	518,643	-	-	518,643
Cancellation of options	13	-	-	-	(114,743)	-	-	114,743	-
Expiry of warrants	14	-	-	-	-	(3,254,521)	-	3,254,521	-
Exchange loss on translation of foreign operations		-	-	-	-	-	10,402	-	10,402
Net loss for the period		-	-	-	-	-	-	(3,608,801)	(3,608,801)
Balance, August 31, 2024		288,066,834	26,980,471	102,456	1,783,300	5,212,016	7,626	(26,199,094)	7,886,775

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

Psyched Wellness Ltd.

Unaudited Condensed Interim Consolidated Statements of Cash Flows

For the Three and Nine Months Ended August 31, 2024 and 2023

(Expressed in Canadian Dollars)

		Three months ended August 31, 2024	Three months ended August 31, 2023	Nine months ended August 31, 2024	Nine months ended August 31, 2023
	Notes	\$	\$	\$	\$
<u>Operating Activities</u>					
Net loss for the period		(1,615,586)	(512,212)	(3,608,801)	(2,315,202)
Adjustments for non-cash items:					
Stock-based compensation – RSUs	12	24,318	-	113,487	-
Stock-based compensation – options	13	279,943	10,705	432,190	428,756
Stock-based compensation – warrants	14	358,697	-	518,643	-
Gain on disposals of properties		-	(29,484)	-	(29,484)
Depreciation expense	8	1,350	1,350	4,050	3,686
Write-off of intangible assets	9	-	-	(916)	114,914
		(951,278)	(529,641)	(2,541,347)	(1,797,330)
Net change in non-cash working capital items:					
Accounts receivable		(9,786)	(7,654)	(29,523)	35,506
Inventories		30,154	18,238	60,701	(883,071)
Prepaid expenses and deposits		18,925	9,541	(70,392)	168,740
Accounts payable and accrued liabilities		(46,413)	(92,055)	(53,704)	219,164
Deferred revenue		-	(1,880)	(1,983)	(22,830)
Cash Flows (used in) Operating Activities		(958,398)	(603,451)	(2,636,248)	(2,279,821)
<u>Investing Activities</u>					
Additions of property and equipment		-	-	-	(10,927)
Additions of intangible assets		-	-	-	(49,879)
Cash Flows provided by (used in) Investing Activities		-	-	-	(60,806)
<u>Financing Activities</u>					
Proceeds received on private placements	II	-	6,789,150	3,422,250	6,789,150
Share issuance costs	II	-	(147,394)	(36,157)	(147,394)
Cash Flows provided by (used in) Financing Activities		-	6,641,756	3,386,093	6,641,756
Increase (decrease) in cash		(958,398)	6,038,305	749,845	4,301,129
Effects of foreign exchange on cash		16,554	(562)	10,402	(874)
Cash, beginning of period		7,830,424	830,079	6,128,333	2,567,567
Cash, end of period		6,888,580	6,867,822	6,888,580	6,867,822

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

Psyched Wellness Ltd.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended August 31, 2024 and 2023
(Expressed in Canadian Dollars)

I. Nature of Operations and Going Concern

Psyched Wellness Ltd. (“Psyched Wellness” or the “Company”) is incorporated in the Province of Ontario, Canada. Psyched Wellness is a Canadian-based health supplements company dedicated to the distribution of mushroom-derived products and associated consumer packaged goods. The Company’s objective is to create premium mushroom-derived products that have the potential to become a leading North American brand in the emerging functional food category. The Company is currently producing and developing a line of Amanita Muscaria-derived water-based extracts, teas and capsules designed to help with three health objectives: (i) promote stress relief, (ii) relaxation and (iii) assist with restful sleeping.

The Company’s common shares are listed on the Canadian Securities Exchange (the “CSE”) under the ticker symbol “PSYC.” The Company’s common shares are also listed in the United States (the “U.S.”) on the OTCQB® Venture Market under the ticker symbol “PSYCF,” and in Germany on the Frankfurt Stock Exchange under the ticker symbol “5U9”. The Company’s registered office address is 77 King Street West, Suite 2900, Toronto, Ontario, M5K 1G8, Canada.

The business of distributing mushroom-derived products involves a high degree of risk, and there is no assurance that any prospective project in the health and wellness industry will be successfully initiated or completed. Further, regulatory evolution and uncertainty may require the Company to alter its business plan and make further investments to react to regulatory changes.

These unaudited condensed interim consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of operations. The application of the going concern basis is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or, in the absence of adequate cash flows from operations, obtaining additional financing to support operations for the foreseeable future. During the three and nine months ended August 31, 2024, the Company incurred a comprehensive loss of \$1,599,032 and \$3,598,399 respectively (2023 – \$512,774 and \$2,316,076, respectively), and as of that date, the Company’s accumulated deficit was \$26,199,094 (November 30, 2023 – accumulated deficit of \$25,959,557). It is not possible to predict whether financing efforts will continue to be successful in the future or if the Company will attain profitable levels of operations. These conditions represent material uncertainties which may cast doubt on the Company’s ability to continue as a going concern.

These unaudited condensed interim consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements. Such adjustments could be material.

2. Basis of Presentation

(a) Statement of Compliance

These unaudited condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board, and interpretations of the IFRS Interpretations Committee. These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards 34 – Interim Financial Reporting (“IAS 34”).

These unaudited condensed interim consolidated financial statements were reviewed, approved, and authorized for issuance by the Board of Directors (the “Board”) of the Company on October 29, 2024.

(b) Basis of Measurement

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS, on the historical cost basis except for financial instruments which are measured at fair value. In addition, these unaudited condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(c) Basis of Consolidation

These unaudited condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Psyched Wellness Corp. (“Psyched Corp.”) and AME Wellness Inc. (“AME Wellness”), and include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

Psyched Wellness Ltd.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended August 31, 2024 and 2023
(Expressed in Canadian Dollars)

2. Basis of Presentation (continued)

(d) Functional Currency

These consolidated financial statements are presented in Canadian dollars (“\$” or “CAD”), which is also the functional currency of the Company and Psyched Corp. The functional currency is the currency of the primary economic environment in which the Company operates. The functional currency of AME Wellness is the U.S. dollar (“USD”).

(e) Material Accounting Judgments, Estimates and Assumptions

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue, and expenses. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue, and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. These estimates are reviewed periodically, and adjustments are made as appropriate in the period they become known.

Items for which actual results may differ materially from these estimates are described as follows:

Going concern

At each reporting period, management exercises judgment in assessing the Company’s ability to continue as a going concern by reviewing the Company’s performance, resources and future obligations. The conclusion that the Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding the short and longterm operating budgets, expected profitability, investment and financing activities and management’s strategic planning. The assumptions used in management’s going concern assessment are derived from actual operating results along with industry and market trends. Management believes there is sufficient capital to meet the Company’s business obligations for at least the next 12 months, after taking into account expected cash flows, capital commitments, future financings and the cash and cash equivalents position at periodend.

Fair value of financial assets and financial liabilities

Fair value of financial assets and financial liabilities on the consolidated statements of financial position that cannot be derived from active markets, are determined using a variety of techniques including the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include, but are not limited to, consideration of model inputs such as volatility, estimated life and discount rates.

Valuation of inventories

The valuation of work in process and finished goods requires the estimate of production costs incurred, which become part of the carrying amount for inventories. The Company must also determine if the cost of any inventories exceeds its net realizable value (“NRV”), such as cases where prices have decreased, or inventories have spoiled or otherwise been damaged. The Company estimates the NRV of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company’s inventory valuation and gross profit.

Impairment

Long-lived assets, including property and equipment and intangible assets, are reviewed for indicators of impairment at each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is defined as the higher of: (i) value-in-use; or (ii) fair value less cost to sell. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Psyched Wellness Ltd.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended August 31, 2024 and 2023
(Expressed in Canadian Dollars)

2. Basis of Presentation (continued)

(e) Material Accounting Judgments, Estimates and Assumptions (continued)

Warrants, options and restricted share units

Management determines the costs for share-based compensation on stock options, restricted share units ("RSUs"), and share purchase warrants using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgments are used in applying the valuation techniques. These assumptions and judgments include the expected volatility of the share price, expected forfeitures, expected dividend yield, expected term of the warrants or options, and expected risk-free interest rate. Such assumptions and judgments are inherently uncertain. Changes in these assumptions can affect the fair value estimates of share-based compensation.

Income taxes

Income taxes and tax exposures recognized in the consolidated financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

Expected credit losses on financial assets

Determining an allowance for expected credit losses ("ECL") for amounts receivable and all debt financial assets not held at fair value through profit and loss requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

Provisions

The Company recognizes provisions if there is a present obligation as a result of a past event, it is probable that the Company will be required to settle the obligation, and the obligation can be reliably estimated. The amount recognized as a provision reflects management's best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

Research and development costs

Judgment is required to distinguish the research phase and the development phase to correctly identify costs that qualify for capitalization.

Functional currency

Foreign currency translation under IFRS requires each entity to determine its own functional currency, which becomes the currency that entity measures its results and financial position in. Judgment is necessary in assessing each entity's functional currency. In determining the functional currencies of the Company and its subsidiaries, the Company considered many factors, including the currency that mainly influences sales prices for goods and services, the currency of the country whose competitive forces and regulations mainly determine the sales prices, and the currency that mainly influences labor, material and other costs for each consolidated entity.

Psyched Wellness Ltd.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Nine Months Ended August 31, 2024 and 2023

(Expressed in Canadian Dollars)

3. Summary of Material Accounting Policies

The accounting policies applied by the Company in these unaudited condensed interim consolidated financial statements are the same as those disclosed in Note 3 of the Company's audited consolidated financial statements for the years ended November 30, 2023 and 2022, unless otherwise noted.

4. Cash and Cash Equivalents

As at August 31, 2024, the Company had total cash and cash equivalents of \$6,888,580 (November 30, 2023 – \$6,128,333), including a balance of \$6,683,064 (November 30, 2023 – \$4,776,643) invested in money market funds with a U.S. bank, which are available on demand.

During the three and nine months ended August 31, 2024, investment income of \$112,640 and \$213,139, respectively, (2023 – \$nil and \$nil, respectively) was received and reinvested into the money market funds.

5. Accounts Receivable

The Company's accounts receivable balance comprises amounts due from government taxation authorities in respect of the Harmonized Sales Tax and trade and other receivables from customers. The Company anticipates full recovery of all trade receivables balances and had therefore not recorded any ECL against these receivables during the three and nine months ended August 31, 2024, which are due in less than one year.

	August 31, 2024	November 30, 2023
	\$	\$
Sales tax recoverable	14,352	8,479
Trade and other receivable	40,173	16,525
	54,525	25,004

6. Inventories

As at August 31, 2024 and November 30, 2023, the Company's inventories consisted of the following:

	August 31, 2024	November 30, 2023
	\$	\$
Raw materials	889,837	783,770
Finished goods in process	-	117,888
Finished goods	12,444	61,323
	902,281	962,981

During the three and nine months ended August 31, 2024, inventories of finished goods expensed to cost of goods sold were \$141,795 and \$315,533, respectively (2023 – \$28,040 and \$268,544, respectively).

7. Prepaid Expenses and Deposits

	August 31, 2024	November 30, 2023
	\$	\$
Prepaid insurance	104,995	107,118
Advances made to suppliers	113,289	40,774
	218,284	147,892

Psyched Wellness Ltd.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
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(Expressed in Canadian Dollars)

8. Property and Equipment

	Machinery	Total
	\$	\$
Cost at:		
November 30, 2022	25,714	25,714
Additions	10,927	10,927
August 31, 2023	36,641	36,641
Accumulated depreciation at:		
November 30, 2022	1,339	1,339
Depreciation expense	3,686	3,686
August 31, 2023	5,025	5,025
Net book value:		
August 31, 2023	31,616	31,616
	Machinery	Total
	\$	\$
Cost at:		
November 30, 2023	36,641	36,641
Additions	-	-
August 31, 2024	36,641	36,641
Accumulated depreciation at:		
November 30, 2023	6,374	6,374
Depreciation expense	4,050	4,050
August 31, 2024	10,424	10,424
Net book value:		
August 31, 2024	26,217	26,217

9. Intangible Assets

During the year ended November 30, 2021, the Company had submitted an application with the United States Patent and Trademark Office to register the trademark “AME-I” in connection with its Amanita Muscaria Extract formulation. As at November 30, 2023, the Company has submitted applications for various provisional patents relating to Amanita Muscaria Extract formulation, extraction and usage. As the trademarks and patents are considered to have an indefinite life, they are not subject to amortization. Provisional patents are considered to have an indefinite life until they are either granted or rejected.

During the nine months ended August 31, 2023, the Company incurred an additional cost of \$49,879 in relation to internally-generated research costs incurred on AME-I. Subsequently, the Company recorded a write-off of \$114,914 on certain balance of internally-generated intangible assets which no longer met the capitalization requirement. During the three and nine months ended August 31, 2024, there were no activities in relation to internally-generated research costs incurred on AME-I.

As of August 31, 2024, the internally-generated research costs incurred on AME-I were measured at the carrying value of \$44,764 (November 30, 2023 – \$43,848).

Psyched Wellness Ltd.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
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10. Accounts Payable and Accrued Liabilities

Accounts payable of the Company are principally comprised of amounts outstanding for trade purchases relating to regular business activities. The Company's standard term for trade payable is 30 to 60 days.

	August 31, 2024	November 30, 2023
	\$	\$
Accounts payable	134,556	139,220
Accrued liabilities	113,320	162,361
	247,876	301,581

11. Share Capital

Authorized share capital

The Company is authorized to issue an unlimited number of common shares without par value. Common shares issued and outstanding as at August 31, 2024 are as follows:

	August 31, 2024	November 30, 2023
	\$	\$
Issued: 288,066,834 common shares (November 30, 2023 – 233,777,550 common shares)	26,890,471	24,632,003

Share capital activity for the three and nine months ended August 31, 2024

On April 30, 2024, the Company closed the final tranche (the "Tranche 2B") of a non-brokered private placement (the "Offering"). Pursuant to the Tranche 2B, the Company issued 48,889,284 units (each a "Unit") at a price of \$0.07 per Unit for gross proceeds of \$3,422,250 (US\$2,500,000). Each Unit is comprised of one common share and one warrant (each a "Warrant") exercisable at \$0.10 for a period of 60 months from issuance, exercisable on a cashless basis, subject to acceleration and compliance with the policies of the CSE. The Company recorded \$1,813,124 for the issuance of shares and \$1,609,126 for the issuance of warrants based on a relative fair value calculation. See Note 14 for more details.

In connection with the closing of the Tranche 2B, the Company paid total issuance costs of \$36,157.

During the nine months ended August 31, 2024, the Company also issued 5,400,000 common shares as a result of the vesting of RSUs. These common shares were valued at an amount of \$554,500. See Note 12 for more details.

Share capital activity for the three and nine months ended August 31, 2023

On June 12, 2023, the Company closed the initial tranche (the "Initial Tranche") of the "Offering. Pursuant to the Initial Tranche, the Company issued 9,585,000 Units at a price of \$0.07 per Unit for gross proceeds of \$670,950 (USD \$500,000). Each Unit is comprised of one common share and one Warrant exercisable at \$0.10 for a period of 60 months from the date of issuance, exercisable on a cashless basis, subject to acceleration and compliance with the policies of the CSE.

On August 31, 2023, the Company closed the second tranche ("Tranche 2A") of the Offering. Pursuant to Tranche 2A, the Company issued 87,402,855 Units at a price of \$0.07 per Unit for gross proceeds of \$6,118,200 (USD \$4,500,000). Each Unit is comprised of one common share and one Warrant exercisable at \$0.10 for a period of 60 months from the date of issuance, exercisable on a cashless basis, subject to acceleration and compliance with the policies of the CSE.

The Company recorded \$3,619,106 for the issuance of shares and \$3,170,044 for the issuance of warrants based on a relative fair value calculation. See Note 14 for more details.

In connection with the closing of the Offering, the Company paid total issuance costs of \$147,394.

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II. Share Capital (continued)

Basic and diluted loss per share

Basic and diluted loss per share is calculated by dividing the comprehensive loss of \$1,599,032 and \$3,598,399 for the respective three and nine months ended August 31, 2024 (2023 – \$512,774 and \$2,316,076, respectively) by the respective weighted-average number of common shares outstanding of 288,066,834 and 258,533,121 during the period (2023 – 144,124,478 and 138,588,235, respectively).

For the three and nine months ended August 31, 2024, the basic and diluted loss per share was \$0.006 and \$0.014, respectively (2023 – basic and diluted loss of \$0.004 and \$0.017, respectively).

12. Reserve for Restricted Share Units

On January 24, 2022, the Company implemented the RSU Plan. Under the RSU Plan, Eligible Persons (as such term is defined in the RSU Plan) may, at the discretion of the Compensation Committee of the Board, be allocated a number of RSUs, which are subject to a maximum vesting term of three years from the end of the calendar year in which RSUs were granted.

During the three and nine months ended August 31, 2024, 5,400,000 RSUs were exercised. As a result, an amount of \$554,500 was reallocated from reserve from RSUs to share capital.

During the three and nine months ended August 31, 2024, the Company recorded stock-based compensation of \$24,318 and \$113,487, respectively (2023 - \$nil) related to the vesting of RSUs.

13. Contributed Surplus

The Company maintains the Option Plan whereby certain key employees, officers, directors and consultants may be granted stock options for common shares of the Company. The Option Plan provides that the aggregate number of securities reserved for issuance will be up to 10% of the number of the common shares issued and outstanding from time to time. The Option Plan is administered by the Board, which has full and final authority with respect to granting stock options thereunder. As at August 31, 2024, the Company had 7,931,683 common shares that are issuable under the Option Plan.

Under the Option Plan, the exercise price of stock options grants will be determined by the Board, will not be less than the greater of the closing market prices of the underlying securities on: (a) the trading day prior to the date of grant of the stock options; and (b) the date of grant of the stock options. All stock options granted under the Option Plan will expire not later than the date that is ten years from the date that such options are granted. Stock options terminate earlier as follows: (i) immediately in the event of dismissal with cause; (ii) 90 days from the date of termination other than for cause employment (or such other date as Board or a committee thereof may determine); (iii) one year from the date of death or disability. Vesting terms are determined at the discretion of the Board.

The following summarizes the options activity for the three and nine months ended August 31, 2024 and 2023:

	2024		2023	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	#	\$	#	\$
Outstanding, beginning of period	18,875,000	0.10	12,875,000	0.17
Granted	3,800,000	0.10	7,150,000	0.10
Granted	-	-	500,000	0.10
Cancelled	(1,800,000)	0.10	(1,050,000)	0.15
Cancelled	-	-	(2,000,000)	0.145
Cancelled	-	-	(750,000)	0.185
Cancelled	-	-	(100,000)	0.19
Cancelled	-	-	(250,000)	0.225
Cancelled	-	-	(1,000,000)	0.23
Cancelled	-	-	(2,000,000)	0.39
Outstanding, end of period	20,875,000	0.10	13,375,000	0.10

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13. Contributed Surplus (continued)

Options activities for the three and nine months ended August 31, 2024

On May 8, 2024, the Company granted 800,000 options to certain employees. The options are exercisable at a price of \$0.10 per common share for a period of five years. The options vest four months from the date of grant and were valued using Black Scholes with the following assumptions: expected volatility of 150.52% based on the estimated volatility for the psychedelic industry, expected dividend yield of 0%, risk-free interest rate of 3.68% and an expected life of five years. The grant date fair value attributable to these options was \$69,426.

On May 14, 2024, the Company granted 3,000,000 options to certain directors, advisory board members, employees, advisors and consultants. The options are exercisable at a price of \$0.10 per common share for a period of five years. The options vest four months from the date of grant and were valued using Black Scholes with the following assumptions: expected volatility of 150.53% based on the estimated volatility for the psychedelic industry, expected dividend yield of 0%, risk-free interest rate of 3.76% and an expected life of five years. The grant date fair value attributable to these options was \$260,405.

During the three months ended August 31, 2024, the Company cancelled an aggregate 1,800,000 options exercisable at \$0.10 per common share. An amount of \$114,743, representing the grant date fair value recognized as stock-based compensation of these options recorded in contributed surplus, was transferred to accumulated deficit upon the cancellation.

Options activities for the three and nine months ended August 31, 2023

On January 6, 2023, the Company cancelled an aggregate 7,150,000 options previously granted to directors, advisory board members, employees, advisors and consultants (collectively the "Participants"), exercisable at prices ranging from \$0.145 to \$0.39 per common share. An amount of \$1,152,963, representing the grant date fair value recognized as stock-based compensation of these options recorded in contributed surplus, was transferred to accumulated deficit upon the cancellation.

On February 5, 2023, the Company, in compliance with the policies of the CSE, granted an equal number of options to such Participants at an exercise price of \$0.10. These options vested immediately on grant and will expire three years from the date of grant. These options were valued using the Black-Scholes pricing model ("Black-Scholes") with the following assumptions: expected volatility of 124% based on historical share price of the Company, expected dividend yield of 0%, risk-free interest rate of 3.54% and an expected life of three years. The grant date fair value attributable to these options of \$399,626.

On March 15, 2023, the Company granted 500,000 options to certain employees. The options are exercisable at a price of \$0.10 per common share for a period of five years. The options vest four months from the date of grant and were valued using Black Scholes with the following assumptions: expected volatility of 100% based on the estimated volatility for the psychedelic industry, expected dividend yield of 0%, risk-free interest rate of 2.85% and an expected life of five years. The grant date fair value attributable to these options was \$29,023.

The following table summarizes information of stock options outstanding and exercisable as at August 31, 2024:

Date of expiry	Number of options outstanding	Number of options exercisable	Exercise price	Weighted average remaining contractual life
	#	#	\$	Years
July 13, 2025	4,975,000	4,975,000	0.10	0.87
February 5, 2026	6,400,000	6,400,000	0.10	1.43
March 15, 2028	200,000	200,000	0.10	3.54
September 1, 2028	5,500,000	1,750,000	0.10	4.00
May 8, 2029	800,000	-	0.10	4.69
May 14, 2029	3,000,000	-	0.10	4.70
	20,875,000	13,325,000	0.10	2.59

During the three and nine months ended August 31, 2024, the Company recorded stock-based compensation of \$279,943 and \$432,190, respectively (2023 - \$10,705 and \$428,756, respectively) related to the vesting of stock options.

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14. Reserve for Warrants

Warrant activities for the three and nine months ended August 31, 2024

On February 17, 2024, 22,395,365 warrants exercisable at \$0.43 and 1,491,000 broker warrants exercisable at \$0.31 expired unexercised, respectively. An amount of \$3,254,521, representing the grant date fair value of these warrants, was transferred from the reserve for warrants to accumulated deficit upon the expiry.

On April 19, 2024, the Company entered into a master services agreement with Zerkalo, LLC, ("Zerkalo") pursuant to which the Company engaged Zerkalo to develop product development, marketing, distribution, and supply chain set up for a product derived from AME-I. On April 30, 2024, the Company issued 35,066,632 Warrants to Zerkalo in connection with the master services agreement. Each Warrant is exercisable at \$0.10 for a period of 60 months from the date of issuance, exercisable on a cashless basis, subject to acceleration and compliance with the policies of the CSE. 23,377,755 warrants vest in quarterly installments over the span of 10 quarters, and the remaining 11,688,877 warrants vest only upon the completion of the product launch pursuant to the master services agreement. The grant date fair value of the warrants issued was estimated to be \$1,711,667 using Black-Scholes with the following assumptions: expected volatility of 150.57% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 3.87% and an expected life of five years.

On April 30, 2024, the Company issued 48,889,284 Warrants in connection with the closing of Tranche 2B, as disclosed in Note 11. Each Warrant is exercisable at \$0.10 for a period of 60 months from the date of issuance, exercisable on a cashless basis, subject to acceleration and compliance with the policies of the CSE. The grant date fair value of the warrants issued was estimated to be \$1,609,126 using Black-Scholes with the following assumptions: expected volatility of 150.57% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 3.87% and an expected life of five years.

In connection with the closing of the Offering, issuance costs of \$17,001 were allocated to warrants reserve.

Warrant activities for the three and nine months ended August 31, 2023

On June 12, 2023, the Company issued 9,585,000 Warrants in connection with the closing of the Initial Tranche, as disclosed in Note 11. Each Warrants is exercisable at \$0.10 for a period of 60 months from the date of issuance, exercisable on a cashless basis, subject to acceleration and compliance with the policies of the CSE. The grant date fair value of the Warrants issued was estimated to be \$314,382 using Black-Scholes with the following assumptions: expected volatility of 139% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 3.64% and an expected life of five years.

On August 31, 2023, the Company issued 87,402,855 Warrants in connection with the closing of Tranche 2A, as disclosed in Note 11. Each Warrants is exercisable at \$0.10 for a period of 60 months from the date of issuance, exercisable on a cashless basis, subject to acceleration and compliance with the policies of the CSE. The grant date fair value of the Warrants issued was estimated to be \$2,855,662 using Black-Scholes with the following assumptions: expected volatility of 143% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 3.89% and an expected life of five years.

In connection with the closing of the Offering, issuance costs of \$68,796 were allocated to warrants reserve.

The following summarizes the warrant activity for the three and nine months ended August 31, 2024 and 2023:

	2024		2023	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
	#	\$	#	\$
Outstanding, beginning of period	120,874,220	0.16	23,886,365	0.42
Expired	(22,395,365)	0.43	-	-
Expired	(1,491,000)	0.31	-	-
Granted	35,066,632	0.10	96,987,855	0.10
Granted	48,889,284	0.10	-	-
Outstanding, end of period	180,943,771	0.10	120,874,220	0.16

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14. Reserve for Warrants (continued)

The following table summarizes information of warrants outstanding as at August 31, 2024:

Date of expiry	Number of warrants outstanding #	Exercise price \$	Weighted average remaining contractual life Years
June 12, 2028	9,585,000	0.10	3.78
August 31, 2028	87,402,855	0.10	4.00
April 30, 2029	35,066,632	0.10	4.67
April 30, 2029	48,889,284	0.10	4.67
	180,943,771	0.10	4.30

During the three and nine months ended August 31, 2024, the Company recorded stock-based compensation of \$358,697 and \$518,643, respectively (2023 - \$nil) related to the vesting of warrants.

15. Related Party Transactions

In accordance with IAS 24 – Related Party Disclosures, key management personnel, including companies controlled by them, are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of directors and other members of key management personnel during the three and nine months ended August 31, 2024 and 2023 were as follows:

	Three Months ended August 31, 2024	Three Months ended August 31, 2023	Nine Months ended August 31, 2024	Nine Months ended August 31, 2023
	\$	\$	\$	\$
Management salaries and consulting fees	126,499	179,998	535,064	499,994
Professional fees	51,250	36,000	128,750	93,500
Stock-based compensation	304,260	-	545,676	195,728
	482,009	215,998	1,209,490	789,222

On May 1, 2021, Psyched Wellness and the Chief Executive Officer (“CEO”) of the Company entered into an executive agreement, whereas the Company agreed to pay an annual base salary of \$240,000 for the CEO’s services. The CEO may also be eligible to receive an annual bonus at the discretion of the Compensation Committee of up to 50% of his annual base salary, based on criteria set by the Board. Effective September 1, 2023, the CEO’s annual salary was adjusted to \$276,000. During the three and nine months ended August 31, 2024, the Company recorded management salaries of \$69,000 and \$207,000, respectively (2023 – \$80,000 and \$200,000, respectively) in relation to the CEO’s employment compensation. As at August 31, 2024, \$31,201 (November 30, 2023 – \$34,649) owing to the CEO was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

On March 25, 2020, Psyched Wellness and the Chief Operating Officer (“COO”) of the Company, entered into a consulting agreement, for a monthly remuneration of \$8,000 in consideration for the COO’s services. Subsequently, the COO’s remuneration had been adjusted to \$10,000 per month, which was further adjusted to \$16,666 per month effective January 1, 2022. Effective September 1, 2023, the consulting agreement was further amended to pay an annual fee of \$230,000 for the COO’s services. The COO may be eligible to receive an annual bonus at the discretion of the Compensation Committee of up to 50% of his annual fee, based on criteria set by the Board. During the three and nine months ended August 31, 2024, the COO charged fees of \$57,498 and \$172,494, respectively (2023 – \$49,998 and \$149,994, respectively) for consulting services provided to the Company, which are included in management salaries and consulting fees. As at August 31, 2024, \$34,774 (November 30, 2023 – \$26,527) owing to the COO was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

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15. Related Party Transactions (continued)

On December 1, 2021, Psyched Wellness and its former Chief Commercial Officer (“CCO”), entered into an executive agreement, whereas the Company agreed to pay an annual base salary of \$200,000 for the CCO’s services. During the three and nine months ended August 31, 2024, the Company recorded management salaries of \$nil and \$155,570, respectively (2023 – \$50,000 and \$150,000, respectively) in relation to the former CCO’s employment compensation. As at August 31, 2024, \$nil (November 30, 2023 – \$nil) owing to the former CCO was included in accounts payable and accrued liabilities.

During the three and nine months ended August 31, 2024, a director of the Company charged fees of \$15,250 and \$36,750, respectively (2023 – \$nil), for services provided to Psyched Wellness, which are included in professional fees. As at August 31, 2024, \$5,250 (November 30, 2023 – \$nil) owing to the director was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

During the three and nine months ended August 31, 2024, Branson Corporate Services Ltd. (“Branson”), where the Chief Financial Officer (“CFO”) of the Company is affiliated, charged fees of \$36,000 and \$92,000, respectively (2023 – \$36,000 and \$93,500, respectively), for CFO services, as well as other accounting and administrative services, which are included in professional fees. As at August 31, 2024, \$13,560 (November 30, 2023 – \$9,040) owing to Branson was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

Stock-based compensation

During the three and nine months ended August 31, 2024, the Company recorded stock-based compensation of \$304,261 and \$545,676, respectively in connection with the vesting of certain options and RSUs previously granted to officers and directors (2023 – \$195,728).

16. Capital Management

The Company’s objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain optimal returns to shareholders and benefits for its stakeholders. As the Company has begun commercial operations, management will closely monitor its capital structure and adjusts according to market conditions to meet its objectives given the current outlook of the business and industry in general. The Board does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the management team to sustain the future development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company’s capital management objectives, policies and processes have remained unchanged in the current financial reporting period. The Company is not subject to any externally imposed capital requirements.

17. Risk Management

The Company is exposed to various risks as it relates to financial instruments. Management, in conjunction with the Board, mitigates these risks by assessing, monitoring and approving the Company’s risk management process. There have not been any changes in the nature of these risks or the process of managing these risks from the previous reporting periods.

Credit risk

Credit risk is the risk of loss associated with a counterparty’s inability to fulfill its payment obligations. The Company’s credit risk is primarily attributable to cash and cash equivalents, and accounts receivable (excluding sales tax recoverable), which expose the Company to credit risk should the borrower default on maturity of the instruments.

Cash and cash equivalents are held at reputable Canadian and U.S. chartered banks and in trust with the Company’s legal counsel, which is closely monitored by management. Management believes that the credit risk concentration with respect to cash and cash equivalents is minimal.

The Company’s second exposure to credit risk is on receivables. At each reporting period, management assesses the credit risk of its receivables balance. The Company believes it has no significant short-or-long-term credit risk with respect to accounts receivable. As trade receivable has been regularly collected, the Company anticipates full recovery of these amounts, and therefore has not recorded any ECL against these receivables, which are due in less than one year.

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17. Risk Management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. The Company endeavors to have sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot be reasonably predicted.

As at August 31, 2024, the Company had a cash and cash equivalents balance of \$6,888,580 (November 30, 2023 – \$6,128,333) to settle current liabilities of \$247,876 (November 30, 2023 – \$303,564), and had the following contractual undiscounted obligations:

	Carrying amount	Year 1	Year 2 to 3	Year 4 to 5
	\$	\$	\$	\$
Accounts payable and accrued liabilities	247,876	247,876	-	-

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet its liabilities as they come due. The Company has undertaken several proposed restructuring initiatives and other corporate measures to rationalize its capital and debt structure to better position the Company for future opportunities and meet its obligations as they come due. Until these initiatives and efforts are finalized, there is no assurance that one or any of these initiatives will be successful.

Management believes there is sufficient capital to meet short-term business obligations, after taking into account cash flow requirements from operations and the Company's cash and cash equivalents position as at August 31, 2024.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at August 31, 2024, the Company had no financial instruments which are interest-bearing, and had no hedging agreements in place with respect to floating interest rates. Management believes that the interest rate risk concentration with respect to financial instruments is minimal.

Foreign exchange risk

Foreign exchange risk is the risk that the Company will be subject to foreign currency fluctuations in satisfying obligations related to its foreign activities. The Company's operations are based in Canada and the U.S., and will have, from time to time, transactions denominated in foreign currencies, primarily in USD. The Company's primary exposure to foreign exchange risk is that transactions denominated in foreign currency may expose the Company to the risk of exchange rate fluctuations. Based on its current operations, management believes that the foreign exchange risk remains minimal but will continue to monitor the movement of foreign exchange between CAD and USD.

Fair value

Fair value estimates of financial instruments are made at a specific point in time based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

As at August 31, 2024, the Company's financial instruments consisted of cash and cash equivalents, accounts receivable (excluding sales tax recoverable), and accounts payable and accrued liabilities. The fair value of cash and cash equivalents, accounts receivable (excluding sales tax recoverable) and accounts payables and accrued liabilities are approximately equal to their carrying value due to their short-term nature.

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17. Risk Management (continued)

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at August 31, 2024, the Company did not have any financial instruments which were carried at fair value (November 30, 2023 – \$nil).

18. Revenues

The Company's revenues for the three and nine months ended August 31, 2024 and 2023 were comprised of the following:

	Three Months ended August 31, 2024	Three Months ended August 31, 2023	Nine Months ended August 31, 2024	Nine Months ended August 31, 2023
	\$	\$	\$	\$
Mushroom-derived products	236,000	91,642	544,765	253,675
Apparels and accessories	553	1,628	4,195	3,863
	236,553	93,270	548,960	257,538

19. Contingencies and Commitments

The Company's operations are subject to a variety of provincial, state and federal regulations in Canada and the U.S. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations in that specific state or local jurisdiction.

While management believes that the Company is in compliance with applicable local and state regulations as at August 31, 2024, regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.