PHARMALA BIOTECH HOLDINGS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022

(EXPRESSED IN CANADIAN DOLLARS)

CLEARHOUSE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Pharmala Biotech Holdings Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Pharmala Biotech Holdings Inc. (the Company or Pharmala), which comprise the statements of financial position as at August 31, 2023 and 2022 and the statements of loss and comprehensive loss, statements of changes in equity and statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Relating to Going Concern

We draw your attention to Note 1 in the consolidated financial statements, which indicates the Company incurred a comprehensive loss of $779,813 during the year ended August 31, 2023. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended August 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Emphasis of Matter - *Material Uncertainty Related to Going Concern* section of our report, we have determined the matter described below to be the key audit matter to be communicated in our report.

Accounting for Investment in Cortexa Pty. Limited

Description of the matter

As described in note 15 to the consolidated financial statements, the Company entered into a Joint Venture Agreement (the Agreement) with Australian-based Vitura Health Limited (Vitura), whereby both parties acquired a 50% equity interest in Australian-based Cortexa Pty. Ltd. (Cortexa).

Pursuant to the Agreement, Cortexa has exclusive rights to manufacture and distribute MDMA and Psilocybin in Australia under GMP conditions using Pharmala's manufacturing technology and intellectual property.

The accounting treatment for the Agreement is governed by multiple standards under International Financial Reporting Standards (IFRS). Initially the Company assessed whether it has control over Cortexa, as defined in IFRS 10, *Consolidated Financial Statements*, and on concluding it did not, assessed whether it had joint control over Cortexa, as defined in IFRS 11, *Joint Arrangements*, which it did. Having established joint control, a final assessment was made to determine whether the joint arrangement is that of a joint operation – to be accounted using proportionate consolidation method per IFRS 11 or joint venture - to be accounted for using equity method under IAS 28, *Investments in Associates and Joint Ventures*. Management concluded Cortexa arrangement as being joint venture.

Why the matter is a key audit matter
Due to the complexity of the Agreement and relevant IFRS, as detailed above, significant judgement was required to access whether the Company has control, joint control or significant influence over Cortexa. Further once joint control was established, significant judgement was required to determine the appropriate classification of the joint arrangement as being a joint operation or joint venture. These conditions in turn necessitated significant auditor judgement, knowledge and effort in executing and evaluating the results of our audit procedures.

How the matter was addressed in the audit
The following were the primary procedures we performed to address this key audit matter:

- We reviewed agreements (joint venture, supply, distribution and IP license) with regards to the joint venture and evaluated the substance of the arrangement. Notably whether any qualitative provisions in the Agreement conferred control to either of the parties;
- We reviewed management's assessment of the arrangement to determine whether the accounting treatments applied were consistent with relevant IFRS. We concluded it was appropriate to treat the transaction as a joint venture, as defined in IFRS 11, and apply equity method accounting pursuant to IAS 28;
- We obtained and reviewed the accounting records for Cortexa and agreed related transactions to the books of Pharmala;
- We reviewed accounting of initial carrying amount of investment in Cortexa, and ensured appropriate loss pick up on application of equity method. We considered eliminations for upstream and downstream transactions between Pharmala and Cortexa; and
- We assessed the appropriateness and completeness of the related disclosures in the consolidated financial statements.

Intangible Assets Impairment Testing

Description of the matter
As described in Note 6 to the consolidated financial statements, the Company's intangible assets comprise four categories: (i) MDXX Molecules (ii) Process Development (iii) Drug Delivery and (iv) Preclinical Testing. The MDXX Molecules, Drug Delivery and Preclinical Testing intangible assets are in process research and development (IPR&D), not yet available for use, and the Process Development intangible asset was assessed as having a definite useful life.

In accordance with IAS 36, I*mpairment of* Assets, management is required to test intangible assets not yet available for use for impairment annually, or when facts and circumstances suggest they may be impaired. Intangible assets with a definite useful life are tested for impairment when facts and circumstances suggest

they may be impaired. An impairment is recognized if the carrying amount of an asset, or its CGU, exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value-in-use and its fair value less costs of disposal. Management concluded an impairment charge was not required as a result of the impairment testing performed.

Why the matter is a key audit matter
This matter represented an area of significant risk of material misstatement given the magnitude of the carrying value of the intangible assets and the high degree of estimation uncertainty in determining the recoverable amounts. In addition, significant auditor judgement, knowledge and effort were required. Lastly, the involvement of those with specialized skills and knowledge was required in evaluating the results of our audit procedures.

How the matter was addressed in the audit
The following were the primary procedures we performed to address this key audit matter:

- We involved our internal valuation professionals with specialized skills and knowledge who assisted in evaluating the reasonableness of management's expert impairment analysis; notably the valuation techniques applied, being replacement cost for the IPR&D intangible assets and discounted cash flow (DCF) for the Process Development intangible asset;
- We validated the underlying data used in the recoverable amount calculations and tested the mathematical accuracy;
- Evaluated reasonableness of judgments made in management's impairment assessment; including internal and external qualitative factors impacting on the recoverable amount of the IPR&D intangible assets, and revenue growth rate, EBITDA margins, net working capital requirements, sustaining capital expenditure and discount rate inputs to the DCF impacting on the recoverable amount of the Process Development intangible asset ; and
- We assessed the appropriateness and completeness of the related disclosures in the consolidated financial statements.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon
Management is responsible for the other information. The other information comprises the annual management's discussion and analysis, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other

matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because of the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Pat Kenney.

Clearhouse LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
December 28, 2023

PharmAla Biotech Holdings Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at,	**August 31, 2023**	August 31, 2022
ASSETS		
Current		
Cash	**$ 195,042**	$ 852,138
Accounts receivables (note 5)	**194,958**	23,216
Subscription receivables	**4,000**	4,000
HST receivable	**24,531**	23,334
Prepaid expenses and deposit	**173,227**	66,443
Inventory	**122,192**	116,343
Total current assets	**713,950**	1,085,474
Equipment (note 4)	**2,102**	3,799
Intangible assets (note 6)	**1,696,486**	1,240,819
Total assets	**$ 2,412,538**	$ 2,330,092
LIABILITIES		
Current		
Accounts payables and accrued liabilities (note 18)	**$ 585,698**	$ 371,661
Customer deposits (note 14)	**189,787**	52,122
Cortexa deposits (note 15)	**253,537**	-
Total liabilities	**1,029,022**	423,783
SHAREHOLDER'S EQUITY		
Share capital (note 8)	**5,139,502**	4,831,536
Contributed surplus (note 9)	**376,363**	379,150
Warrants (note 10)	**-**	190,272
Deficit	**(4,132,349)**	(3,494,649)
Total shareholder's equity	**1,383,516**	1,906,309
Total liabilities and shareholder's equity	**$ 2,412,538**	$ 2,330,092

Nature of operations and going concern (note 1)
Commitment and Contingencies (note 17)
Subsequent event (note 20)

Approved on behalf of the Board:

"Nicholas Kadysh"
Director

"Kevin Roy"
Director

PharmAla Biotech Holdings Inc.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Year Ended August 31, 2023	2022
Revenue (note 16)	**$ 532,003**	$ 78,070
Cost of goods sold	**77,904**	2,288
Gross profit	**454,099**	75,782
Expenses		
Bad debt expense	**16,863**	-
Consulting (note 18)	**563,090**	183,287
Depreciation and amortization (note 4 and 6)	**52,765**	12,135
Investor relations (note 18)	**110,866**	105,198
Office and general (note 18)	**205,940**	195,378
Research costs (note 6)	**(14,089)**	-
Payroll expenses (note 18)	**71,405**	104,193
Professional fees (note 18)	**243,937**	198,889
Stock based compensation (note 9 and 18)	**67,725**	236,531
Scientific research and experimental development	**(152,433)**	-
Travel	**67,843**	25,754
Total expenses	**1,233,912**	1,061,365
Net loss and comprehensive loss for the year	**$ (779,813)**	$ (985,583)
Net loss and comprehensive loss per share - basic and diluted (note 11)	**$ (0.01)**	$ (0.01)
Weighted average number of common shares outstanding - basic and diluted (note 11)	**84,527,402**	79,756,846

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

PharmAla Biotech Holdings Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended August 31, 2023	2022
Operating activities		
Loss for the year	**$ (779,813)**	$ (985,583)
Items not affecting cash:		
Depreciation and amortization (note 4 and 6)	**52,765**	12,135
Stock based compensation (note 9)	**67,725**	236,531
Bad debt expense	**16,863**	-
Accrued license revenue (note 16)	**(74,058)**	-
Changes in non-cash working capital items:		
Accounts receivables	**(114,547)**	(23,216)
Prepaid expenses and deposit	**(106,784)**	(66,443)
HST receivable	**(1,197)**	32,244
Inventory	**(5,849)**	(116,343)
Accounts payables and accrued liabilities	**214,037**	233,182
Customer and Cortexa deposits	**391,202**	52,122
Net cash used in operating activities	**(339,656)**	(625,371)
Investing activities		
Purchase of capital assets (note 4)	**-**	(2,989)
Intangible asset development costs (note 6)	**(506,735)**	(991,882)
Net cash (used in) provided by investing activities	**(506,735)**	(994,871)
Financing activities		
Proceeds from exercise of warrants (note 8)	**92,295**	-
Proceeds from exercise of stock options (note 8)	**97,000**	-
Net cash provided by financing activities	**189,295**	-
(Decrease) in cash	**(657,096)**	(1,620,242)
Cash, beginning of year	**852,138**	2,472,380
Cash, end of year	**$ 195,042**	$ 852,138

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

PharmAla Biotech Holdings Inc.
Consolidated Statements of Changes in Equity
For the years ended August 31, 2023 and 2022
(Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Special Warrants	Warrants	Contributed Surplus	Deficit	Total
Balance, August 31, 2021	**42,309,000**	**$ 2,195,844**	**$ 2,635,692**	**$ 190,272**	**$ 142,619**	**$ (2,509,066)**	**$ 2,655,361**
Conversion of special warrants issued (net of transaction costs) (note 7 and 8)	40,689,600	2,635,692	(2,635,692)	-	-	-	-
Stock based compensation (note 9)	-	-	-	-	236,531	-	236,531
Net loss for the year	-	-	-	-	-	(985,583)	(985,583)
Balance, August 31, 2022	**82,998,600**	**4,831,536**	**-**	**190,272**	**379,150**	**(3,494,649)**	**1,906,309**
Exercise of stock options (note 8)	1,770,000	167,512	-	-	(70,512)	-	97,000
Expiry of warrants (note 10)	-	-	-	(142,113)	-	142,113	-
Exercise of warrants (note 8)	1,313,952	140,454	-	(48,159)	-	-	92,295
Stock based compensation (note 9)	-	-	-	-	67,725	-	67,725
Net loss for the year	-	-	-	-	-	(779,813)	(779,813)
Balance, August 31, 2023	**86,082,552**	**$ 5,139,502**	**$ -**	**$ -**	**$ 376,363**	**$ (4,132,349)**	**$ 1,383,516**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

PharmAla Biotech Inc. ("PharmAla") was incorporated under the Business Corporations Act (British Columbia) on December 23, 2020. The registered head office of the Company is 1055 West Georgia Street P.O. Box 11117, Vancouver, BC V6E 4N7, Canada.

PharmAla is a Canadian Biotechnology company dedicated to the development, manufacture and sales of MDMA and MDXX class molecules in service to the burgeoning clinical research community, and growing commercial use cases in select jurisdictions.

PharmAla Biotech Holdings Inc. (previously Greenridez 3.0 Acquisitions Corp.) ("Holdings Inc.") was incorporated under the Business Corporations Act (British Columbia) on January 12, 2021.

On March 19, 2021, Holdings Inc. issued 40,000,000 common shares as consideration for acquisition of the 5,000,000 outstanding common shares in the capital of PharmAla. The Acquisition was accounted for as a reverse takeover ("RTO") whereby PharmAla was identified as the acquirer for accounting purposes and the resulting consolidated financial statements are presented as a continuance of PharmAla. After the RTO, the combined entity of Holdings Inc. and PharmAla is referred to also as "the Company" in these consolidated financial statements.

On May 1, 2023, the Company along with Australian-based Vitura Health Limited (ASX: VIT) ("Vitura") each own 50% equity interest in Cortexa Pty Ltd. (“Cortexa” or “Joint Venture”). Cortexa has exclusive rights to manufacture and distribute MDMA and Psilocybin in Australia under GMP conditions using PharmAla’s manufacturing technology and intellectual property.

The Company is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia. On January 11, 2022, the Company’s shares were listed on the Canadian Securities Exchange ("CSE") under the symbol "MDMA" (note 15).

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. For the year ended August 31, 2023, the Company reported a net loss of $779,813 (year ended August 31, 2022 - $985,583), and cumulative deficit of $4,132,349 as of August 31, 2023 (August 31, 2022 - $3,494,649). As of August 31, 2023, the Company has cash balance of $195,042 (August 31, 2022 - $852,138). The Company's ability to continue as a going concern is dependent upon its ability to develop and maintain profitable operations and/or to obtain additional financing. Management is of the opinion that the Company will achieve profitable operations, or that sufficient working capital will be obtained from either increased sales through access to new markets or new clients, or external financing to sustain its operations for the foreseeable future and that the going concern assumption is appropriate. However, there is no assurance that the outcome of these matters will be successful and, as a result, there are material uncertainties that might cause significant doubt regarding the going concern assumption.

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

2. BASIS OF PREPARATION

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the IFRS Interpretations Committee ("IFRIC").

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on December 22, 2023.

2. BASIS OF PREPARATION (Continued)

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Functional currency and presentation currency

These consolidated financial statements are presented in Canadian ("CDN") dollars, except as otherwise noted, which is the functional currency of the Company.

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and its subsidiary.

The subsidiary is consolidated from the date of acquisition, being the date on which the Company obtains control, and continues to be consolidated until the date that such control ceases. Control is achieved when an investor has power over an investee to direct its activities, exposure to variable returns from an investee, and the ability to use the power to affect the investor's returns.

The results of subsidiary acquired or disposed of during the period presented are included in the consolidated statements of comprehensive loss from the effective date of control and up to the effective date of disposal or loss of control, as appropriate. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company's accounting policies and its standards of financial disclosure set out below are in accordance with IFRS and have been applied consistently throughout the period presented in these financial statements, unless otherwise stated.

Revenue recognition

The Company generates revenue primarily from the sale of tablets, raw MDMA and MDXX compounds/formulations, and royalties from licensing of its IP. The Company uses the following five-step contract-based analysis of transactions to determine if, when and how much revenue can be recognized:

- *Identify the contract with a client;*
- *Identify the performance obligations in the contract;*
- *Determine the transaction price;*
- *Allocate the transaction price to the performance obligations; and*
- *Recognize revenue when, or as, the Company satisfies a performance obligation.*

Revenue may be earned over time as the performance obligations are satisfied or at a point in time, and recognized when control over the goods has been transferred to the customer. Payment is due based on the underlying terms of the agreement. The Company generally satisfies its performance obligation and transfers control to the customer upon delivery and acceptance by the customer for revenue from product sales of MDMA and MDXX. License revenue is recognised on a time apportioned basis or immediately depending on the contractual terms of the agreement.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (continued)

The Company's arrangements with clients can include multiple performance obligations. When contracts involve various performance obligations, the Company evaluates whether each performance obligation is distinct and should be accounted for as a separate unit of accounting under IFRS 15, Revenue from Contracts with Customers.

The Company determines the standalone selling price by considering its overall pricing objectives and market conditions. Significant pricing practices taken into consideration include discounting practices, the size and volume of our transactions, our marketing strategy, historical sales and contract prices. The determination of standalone selling prices is made through consultation with and approval by management, taking into consideration our go-to-market strategy. As the Company's go-to-market strategies evolve, the Company may modify its pricing practices in the future, which could result in changes in relative standalone selling prices.

Customer deposit (contract liability)

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Company transfers the control of related goods or services. Contract liabilities are recognised as revenue when the Company performs under the contract (i.e., transfers control of the related goods or services to the customer).

Inventories

Inventory consists of finished MDMA and MDXX compounds, raw MDMA and encapsulated drug products. Inventories are measured at the lower of cost and net realizable value, with cost being determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less the costs necessary to make the sale. When the reversal of previously written down inventories is recognized, this reversal is recognized in net income. The cost of purchased inventory comprise the purchase price and other costs directly attributable to the acquisition of inventory and any cost of conversion. Trade discounts and rebates are deducted in the costs of the purchase of finished goods. A write-down is recorded to cost of goods sold for any slow moving or obsolete inventory.

Cost to obtain a contract

The Company pays sales commission to its employees for each contract that they obtain from the sale of MDMA. The Company applies the optional practical expedient to immediately expense costs to obtain a contract if the amortisation period of the asset that would have been recognised is one year or less. As such, sales commissions are immediately recognised as an expense and included as part of employee benefits.

Financial Assets

Initial recognition and measurement

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as “financial assets at fair value”, as either fair value through profit and loss ("FVPL") or fair value through other comprehensive income ("FVOCI"), and “financial assets at amortized costs”, as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company’s business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Assets (continued)

Initial recognition and measurement (continued)

Financial assets with embedded derivatives are considered in their entirety when determining their classification at FVPL or at amortized cost. The Company has measured cash at FVTPL, accounts receivables and subscription receivables at amortized cost.

Subsequent measurement – financial assets at amortized cost

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in profit or loss.

Subsequent measurement – financial assets at FVPL

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the statement of financial position with changes in fair value recognized in other income or expense in the statement of loss. The Company does not measure any financial assets at FVPL.

Subsequent measurement – financial assets at FVOCI

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the statement of comprehensive loss. When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

Dividends from such investments are recognized in other income in the statement of loss when the right to receive payments is established.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

Impairment of financial assets

The Company's only financial assets subject to impairment are other accounts receivable, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, accounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Liabilities

Initial recognition and measurement

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. Accounts payable and accrued liabilities and customer deposits are measured at amortized cost.

Subsequent measurement – financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in profit or loss.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the statement of loss.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Classification of financial instruments

The following is a summary of significant categories of financial instruments outstanding at August 31, 2023:

Cash and cash equivalents	FVTPL
Accounts receivables	Amortized cost
Subscription receivables	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Customer deposits	Amortized cost

Carrying value and fair value of financial assets and liabilities are approximately equal.

Fair value hierarchy

The Company classifies financial instruments recognized at fair value in accordance with a fair value hierarchy that prioritizes the inputs to valuation technique used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Joint venture

The Company holds an interest in a joint venture, Cortexa Limited Pty. The Company has assessed the nature of its joint arrangements and determined it to be a joint venture, whereby the Company has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. An interest in a joint venture is accounted for using the equity accounting method in accordance with IAS 28. It is recognized initially at cost, which includes transaction costs. After initial recognition, the consolidated financial statements include the Company's share of the profit or loss and other comprehensive income ("OCI") of equity accounted investees until the date on which significant influence or joint control ceases. If the Company's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Company discontinues recognizing its share of further losses. The interest in a joint venture is the carrying amount of the investment in the joint venture together with any long-term interests that, in substance, form part of the Company's net investment in the joint venture. Such items include long-term receivables and loans. Losses recognized using the equity accounting method in excess of the entity's investment in shares are applied to the other components of the Company's interest in the joint venture in the reverse order of their liquidity. Unrealized gains and losses on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in those entities. Where unrealized losses are eliminated, the underlying asset is also tested for impairment.

Stock based Payments

The Company may grant stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

Stock options granted to directors, officers and employees are measured at their fair values determined on their grant date, using the Black-Scholes option pricing model, and are recognized as an expense over the vesting periods of the options on a graded basis. Options granted to consultants or other non-insiders are measured at the fair value of goods or services received from these parties, or at their Black-Scholes fair values if the fair value of goods or services received cannot be measured. A corresponding increase is recorded to equity reserves for share-based payments recorded.

When stock options are exercised, the cash proceeds along with the amount previously recorded as equity reserves are recorded as share capital. When the right to receive options is forfeited before the options have vested, any expense previously recorded is reversed.

Equipment

Equipment is stated at cost less accumulated depreciation and impairment loss. The cost of an asset consists of its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Depreciation of each asset is calculated using the straight-line method to allocate its cost less its residual value over its estimated useful life. The estimated useful life of the equipment is 3 years, in which is depreciated over that time.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognized within the statement of loss and other comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets consist of costs incurred to acquire patents, unpatented technology, inprogress research, development programs, and trademarks. Development expenditures are capitalized as intangible assets only if the expenditure can be measured reliably, the process is technically and commercially feasible, future economic benefits are probable to the Company and the Company has sufficient resources to complete the development and use or sell the asset. Otherwise, it is recognized in the consolidated statements of comprehensive loss as incurred. Research costs are expensed in the period that they are incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite lives, or not yet available for use are not amortized, and are subject to an annual recoverability impairment assessment.

Detail	Rate	Method
MDXX	These assets are not yet available for use.	N/A
Process development	15 years	Straight-line
Preclinical testing	These assets are not yet available for use.	N/A
Drug delivery	These assets are not yet available for use.	N/A

Impairment of long-lived assets and intangible assets

Long-lived assets and intangible assets are reviewed for impairment at each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss equal to the amount by which the carrying amount 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.

The estimated useful lives, residual values, and amortization methods are reviewed at each year end or more frequently if events or changes in circumstances indicate potential impairment, and any changes in estimates are accounted for prospectively.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development

Expenditures during the research phase are expensed as incurred. Expenditures during the development phase are capitalized as internally generated intangible assets if the Company can demonstrate each of the following criteria:

- *the technical feasibility of completing the intangible asset so that it will be available for use or sale;*
- *its intention to complete the intangible assets and use or sell it;*
- *how the asset will generate future economic benefits;*
- *the availability of resources to complete the asset; and*
- *the ability to measure reliably the expenditure during development.*

Financing Costs

Costs incurred to obtain equity financing are deducted from the value assigned to shares issued. When costs are incurred prior to the closing of a financing arrangement, these amounts are presented as a deferred asset until the financing has closed. When an expected financing arrangement does not occur, any deferred costs are recorded as an expense.

Government assistance

Government assistance consist of grants received under the refundable scientific research and experimental development tax credits ("SR&ED"). Currently government assistance is recorded in net income or loss upon cash receipt. When reasonable assurance exists that the Company has complied with the terms and conditions of the SR&ED program and that the grant will be received the grant will be recorded on an accrual basis.

Income Taxes

Tax provisions are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, a provision is made for the amount that is expected to be settled, where this can be reasonably estimated. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in income in the period in which the change occurs. Deferred tax assets or liabilities, arising from temporary differences between the tax and accounting values of assets and liabilities, are recorded based on tax rates expected to be enacted when these differences are reversed.

Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recovered. This involves an assessment of when those deferred tax assets are likely to be realized, and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as in the amounts recognized in income in the period in which the change occurs.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in income both in the period of change, which would include any impact on cumulative provisions, and in future periods.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Harmonised sales tax (HST)

Expenses and assets are recognised net of the amount of HST, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the HST is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of HST included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Loss Per Share

Basic loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period which excludes shares held in escrow. All of the escrow shares are considered contingently returnable until the Company completes a qualifying transaction and, accordingly, are not considered to be outstanding shares for the purposes of the loss per share calculation.

Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments, which includes stock options, as if their dilutive effect was at the beginning of the period. The calculation of the diluted number of common shares assumes that proceeds received from the exercise of “in-the-money” stock options and common share purchase warrants are used to purchase common shares of the Company at their average market price for the period.

In periods that the Company reports a net loss, any stock options or warrants outstanding are excluded from the calculation of diluted loss per share as their inclusion would be anti-dilutive.

Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the closing exchange rate being the rate prevailing on the statement of financial position date. Non-monetary assets and liabilities are translated at historical rates of exchange at the time of the acquisition of assets or obligations incurred. Revenues and expenses are translated at the rate of exchange in effect at the date of the transactions. Foreign exchange translation gains and losses are recorded in operations in the period in which they occur.

Summary of Accounting Estimates, Judgments, and Assumptions

The preparation of these consolidated financial statements under IFRS requires management to make certain estimates, judgments and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Although these estimates are based on management’s best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgements, estimates and assumptions in determining carrying values include, but are not limited to:

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Summary of Accounting Estimates, Judgments, and Assumptions (continued)

Revenue recognition

Revenue is recognized when the revenue recognition criteria expressed in the accounting policy stated above for Revenue Recognition have been met. Judgment may be required when allocating revenue or discounts on sales amongst the various elements in a sale involving multiple deliverables, or performance obligations that are satisfied over time.

The Company collects advance payments in accordance with the contract terms. These payments are deferred as customer deposits until such time as the revenue recognition criteria are met, at which time the customer deposit is recognized as revenue.

Income taxes

The calculation of income taxes requires judgment in interpreting tax rules and regulations. There are transactions and calculations for which the ultimate tax determination is uncertain. The Company's tax filings also are subject to audits, the outcome of which could change the amount of current and deferred tax assets and liabilities. Management believes that it has sufficient amounts accrued for outstanding tax matters based on information that currently is available.

Management judgment is used to determine the amounts of deferred tax assets and liabilities and future tax liabilities to be recognized. In particular, judgment is required when assessing the timing of the reversal of temporary differences to which future income tax rates are applied.

Share-based payments

The fair value of stock-based compensation and warrants are estimated using the Black-Scholes option pricing model and rely on a number of estimates, such as the expected life of the option, the volatility of the underlying share price, the risk free rate of return, and the estimated rate of forfeiture of options granted.

Going concern

Management assessment of going concern and uncertainties of the Company's ability to raise additional capital and/or obtain financing to meet its commitments.

Scientific research and experimental development ("SR&ED")

The determination of the amount of the Federal and British Columbia SR&ED tax credit requires management to make calculations based on its interpretation of eligible expenditures in accordance with the terms of the programs. The reimbursement claims submitted by the Company are subject to review by the relevant government agencies. Although the Company has used its best judgment and understanding of the related program agreements in determining the claim, the Company does not have reoccurring history of claim submission and it is possible that the amounts could increase or decrease by a material amount submitted, dependent on the review and audit by the government agency. Reasonable assurance of collection has not been obtained and therefore the claim is recorded upon cash receipt.

The capitalization of costs for internally generated intangible assets

The capitalization of costs for internally generated intangible assets is subject to judgment including the technical feasibility, timeframe to commercialization, assessment of availability of resources to complete the project, and if economic benefits will be generated from its use.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Summary of Accounting Estimates and Assumptions (continued)

Impairment of intangible assets

The recoverability and useful lives of capitalized intangible assets which are included in the consolidated statements of financial position. Management's assessment of whether indicator of impairment are present requires judgment based on facts and circumstances as reporting period ends. There is a material degree of judgment with respect to the estimates of the recoverable amounts of the CGU, given the necessity of making key economic assumptions about the future

Estimated Useful Lives of Equipment and Intangible Assets

Depreciation of equipment and intangible assets is dependent upon estimates of useful lives based on management's judgment. Judgment is required in evaluating potential impairment indicators at reporting period ends.

Valuation of inventory

The Company adjusts inventory values so that the carrying values do not exceed the net realizable value. The valuation of inventory at the lower of cost or net realizable value requires the use of estimates with regards to the amount of current inventory that will be sold, the prices at which it will be sold, and an estimate of expected orders from customers. Additionally, the estimates reflect changes in products or changes in demand because of various factors, including the market for products, obsolescence, change in product offerings, technology changes and competition.

Accounting for joint venture

Judgement is required to classify the joint arrangement as a joint venture. The joint arrangement is held through a separate vehicle and the terms of the Joint Venture Agreement indicate the Company has the rights to the net assets. As a result, Cortexa is a joint venture.

Valuation of accounts receivables

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts. Management monitors receivables for indications of impairment on an ongoing basis. The Company recognizes a loss allowance for expected credit losses using the simplified approach which permits the use of the lifetime expected loss provision for all trade receivables.

Accounting Standards Issued and Adopted

IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets ("IAS 37") was amended. The amendments clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract – i.e. a full-cost approach. Such costs include both the incremental costs of the contract (i.e. costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract – e.g. contract management and supervision, or depreciation of equipment used in fulfilling the contract. The amendments are effective for annual periods beginning on January 1, 2022. The Company adopted the amendment to IAS 37 on September 1, 2022, and it did not have a material impact on the consolidated financial statements.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Standards Issued and Adopted

IFRS 3 – Business Combinations ("IFRS 3") was amended. The amendments introduce new exceptions to the recognition and measurement principles in IFRS 3 to ensure that the update in references to the revised conceptual framework does not change which assets and liabilities qualify for recognition in a business combination. An acquirer should apply the definition of a liability in IAS 37 – rather than the definition in the Conceptual Framework – to determine whether a present obligation exists at the acquisition date as a result of past events. For a levy in the scope of IFRIC 21, the acquirer should apply the criteria in IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. In addition, the amendments clarify that the acquirer should not recognize a contingent asset at the acquisition date. The amendments are effective for annual periods beginning on January 1, 2022. The Company adopted the amendment to IFRS 3 on September 1, 2022, and it did not have a material impact on the consolidated financial statements.

Accounting Standards Issued but not yet Applied

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for annual periods beginning on or after January 1, 2023 or later periods.

IAS 1 – Presentation of Financial Statements ("IAS 1") was amended in January 2020 to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company's right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company's own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1, 2023. Upon adoption of this policy the Company does not expect a significant impact on the consolidated financial statements.

4. EQUIPMENT

Equipment	Cost	Depreciation	Net book value
Balance, August 31, 2021	**$ 2,667**	**$ (303)**	**$ 2,364**
Additions	2,989	(1,554)	1,435
Balance, August 31, 2022	**5,656**	**(1,857)**	**3,799**
Additions	-	(1,697)	(1,697)
Balance, August 31, 2023	**$ 5,656**	**$ (3,554)**	**$ 2,102**

5. ACCOUNTS RECEIVABLES

Accounts receivables consist of:

	As of August 31, 2023	2022
Trade receivables	**$ 138,804**	$ 19,939
Other receivables	**73,017**	3,277
Allowance for bad debt	**(16,863)**	-
Total	**$ 194,958**	$ 23,216

(Expressed in Canadian Dollars)

5. ACCOUNTS RECEIVABLES (Continued)

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. The aging of the gross trade receivables at each reporting date was as follows:

	Current	Past due 1-90	Past due 91-181	Past due >182	Total
August 31, 2023	$ -	$ 90,319	$ 31,622	$ 16,863	**$ 138,804**
August 31, 2022	$ 19,939	$ -	$ -	$ -	**$ 19,939**

6. INTANGIBLE ASSETS

Intangible assets consist of deferred development costs for internally generated intangible assets such as:

- Patents of novel MDXX class compounds, as well as novel synthesis routes to manufacture these molecules;
- Preclinical testing of MDXX molecules to advance development of the molecules through regulatory pathway into human trails.
- Development of manufacturing pathways allowing for the manufacture and testing of clinical-grade MDMA at scale;
- The development of novel delivery mechanisms for non-scheduled, and MDMA and MDXX class compounds; and

Cost	MDXX	Process Development	Drug Delivery	Preclinical Testing	Total
Balance, August 31, 2021	**$ 77,843**	**$ 181,675**	**$ -**	**$ -**	**$ 259,518**
Additions	253,699	540,677	27,500	170,006	991,882
Balance, August 31, 2022	**331,542**	**722,352**	**27,500**	**170,006**	**1,251,400**
Additions	242,829	199,313	-	64,593	506,735
Balance, August 31, 2023	**$ 574,371**	**$ 921,665**	**$ 27,500**	**$ 234,599**	**$ 1,758,135**

Amortization	MDXX	Process Development	Drug Delivery	Preclinical Testing	Total
Balance, August 31, 2021	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Amortization	-	10,581	-	-	10,581
Balance, August 31, 2022	**$ -**	**$ 10,581**	**$ -**	**$ -**	**$ 10,581**
Amortization	-	51,068	-	-	51,068
Balance, August 31, 2023	**$ -**	**$ 61,649**	**$ -**	**$ -**	**$ 61,649**

Net Book value	MDXX	Process Development	Drug Delivery	Preclinical Testing	Total
Balance, August 31, 2022	**$ 331,542**	**$ 711,771**	**$ 27,500**	**$ 170,006**	**$ 1,240,819**
Balance, August 31, 2023	**$ 574,371**	**$ 860,016**	**$ 27,500**	**$ 234,599**	**$ 1,696,486**

The Company performed its required annual impairment test related to each of its Cash Generating Units ("CGUs"). The Company determined the recoverable amount of the process development intangible assets by calculating its value in use ("VIU") using discounted future cash flows.

Estimating future cash flows requires judgement, considering past and actual performance as well as expected development in the respective markets and the overall macro-economic environment.

(Expressed in Canadian Dollars)

6. INTANGIBLE ASSETS (Continued)

Process development

The recoverable amount of the process development CGU exceeded the carrying value of the CGU and therefore no impairment loss was recognized.

The calculation of the VIU for the Process Development CGU was based on the following key assumptions:

- Average revenue growth rate of 24.25% over a 5-year period ;
- Terminal value growth rate of 2% after the 5-year period;
- Discount rate of 20.62% based on management's best estimate of a pre-tax weighted average cost of capital.
- Average earnings before income taxes, depreciation, and amortization margin of 30%.

Other

The other category of the Company's cash generating unit consist of MDXX, drug delivery, and pre-clinical testing. As at August 31, 2023, and 2022, the recoverable amount the CGU exceeded the carrying value of the CGU and therefore no impairment loss was recognized. The recoverable amount was determined using a cost recovery valuation technique.

7. SPECIAL WARRANTS

As at August 31, 2021, the Company has 40,689,600 special warrants with a gross value of $3,044,360, in connection the Company incurred transaction costs of $408,668. Each special warrant entitled the holder thereof to automatically receive, without payment of additional consideration and without further action on the part of the holder, one common share of the Company.

On September 30, 2021, the 40,689,600 special warrants were converted into 40,689,600 common shares for no additional consideration.

8. SHARE CAPITAL

Authorized share capital

The Company is authorized to issue an unlimited number of common shares without par value.

Common shares issued

	Number of Shares		Share Capital
Balance, August 31, 2021	**42,309,000**	**$**	**2,195,844**
Conversion of special warrants (note 7)	40,689,600		2,635,692
Balance, August 31, 2022	**82,998,600**		**4,831,536**
Exercise of stock options	1,770,000		167,512
Exercise of warrants	1,313,952		140,454
Balance August 31, 2023	**86,082,552**	**$**	**5,139,502**

Warrant exercises

During the year ended August 31, 2023, the Company received funds for the exercise of 1,313,952 warrants for gross proceeds of $92,295, with a black scholes value of $48,159.

Option exercises

During the year ended August 31, 2023, the Company received funds for the exercise of 1,770,000 options for gross proceeds of $97,000, with a black scholes value of $70,512.

(Expressed in Canadian Dollars)

9. STOCK OPTIONS

The Company has adopted an incentive stock option plan in accordance with the policies of the Exchange (the "Stock Option Plan"). Options may be granted for a maximum term of ten years from the date of the grant. They are not transferable. Unless the Board determines otherwise, options shall be exercisable in whole or in part at any time during this period. Options expire within 90 days of termination of employment or holding office as director or officer of the Company and, in the case of death, expire within a maximum period of one year after such death, subject to the expiry date of the option.

The Company had the following stock options activity during the years ended August 31, 2023 and 2022.

	Number of Stock options	Weighted Average Exercise Price ($)
Balance, August 31, 2021	**5,010,000**	**0.07**
Issued (i)(ii)(iii)	2,800,000	0.10
Balance, August 31, 2022	**7,810,000**	**0.08**
Exercised	(1,770,000)	0.05
Balance, August 31, 2023	**6,040,000**	**0.09**

During the year ended August 31, 2023, the Company recorded $6,090 (August 31, 2022 - $114,205) related to options granted prior to two financial statement reporting periods.

(i) On January 5, 2022, the Company granted stock options to an employee to purchase 750,000 common shares of the Company at an exercise price of $0.10 for a period of 4.82 years following the date of grant, which 41,667, vest immediately, and the remainder vest equally over 34 month. The options were valued at $55,975 using a Black-Scholes valuation model with the following assumptions: share price of $0.10 per common shares, expected dividend yield of 0%, expected volatility of 100%, risk-free rate of 0.89%, and expected life of 5 years. During the year ended August 31, 2023, the Company recorded stock based compensation expense of $18,177 (August 31, 2022 - $30,027) related to this grant of stock options.

(ii) On January 5, 2022, the Company granted stock options to directors, and officers to purchase 1,750,000 common shares of the Company at an exercise price of $0.10 for a period of 5 years following the date of grant. Included in the 1,750,000 options are 1,500,000 options vest over 12 months, the remaining options vest 25% every three months. The options were valued at $130,525 using a Black-Scholes valuation model with the following assumptions: share price of $0.10 per common shares, expected dividend yield of 0%, expected volatility of 100%, risk-free rate of 1.42%, and expected life of 5 years. During the year ended August 31, 2023, the Company recorded stock based compensation expense of $39,678 (August 31, 2022 - $90,844) related to this grant of stock options.

(iii) On July 13, 2022, the Company granted stock options to a director to purchase 300,000 common shares of the Company at an exercise price of $0.10 for a period of 5 years following the date of grant, which vest over 12 months. The options were valued at $5,235 using a Black-Scholes valuation model with the following assumptions: share price of $0.10 per common shares, expected dividend yield of 0%, expected volatility of 100%, risk-free rate of 3.13%, and expected life of 5 years. During the year ended August 31, 2023, the Company recorded stock based compensation expense of $3,780 (August 31, 2022 - $1,455) related to this grant of stock options.

(Expressed in Canadian Dollars)

9. STOCK OPTIONS (Continued)

The following table reflects the stock options issued and outstanding as of August 31, 2023:

Expiry Date	Exercise Price ($)	Weighted Average Remaining Contractual Life (years)	Number of Options Outstanding	Number of Options Vested (Exercisable)
March 23, 2026	0.05	2.56	1,260,000	1,260,000
June 18, 2026	0.10	2.80	1,600,000	1,600,000
August 12, 2026	0.10	2.95	380,000	250,000
November 1, 2026	0.10	3.17	750,000	395,833
January 5, 2027	0.10	3.35	1,750,000	1,750,000
July 13, 2027	0.10	3.87	300,000	300,000
Total	**0.09**	**3.02**	**6,040,000**	**5,555,833**

10. WARRANTS

The Company had the following activity regarding warrants during the year ended August 31, 2023 and 2022.

	Number of Warrants	Weighted Average Exercise Price ($)
Balance, August 31, 2021, and August 31, 2022	**6,766,952**	**0.05**
Expired	(5,453,000)	0.05
Exercised	(1,313,952)	0.05
Balance, August 31, 2023	**-**	**-**

As at August 31, 2023, the Company has no warrants outstanding.

11. LOSS PER SHARE

For the year ended August 31, 2023, basic and diluted loss per share has been calculated based on the loss attributable to common shareholders of $779,813 (August 31, 2022 - $985,583) and the weighted average number of common shares outstanding of 84,527,402 (August 31, 2022 - 79,756,846).

12. FINANCIAL INSTRUMENTS AND OBJECTIVES AND POLICIES

Risk Management

In the normal course of business, the Company is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

Fair Values

The Company has designated its cash as FVTPL which are measured at fair value. Fair value of cash is determined based on transaction value and is categorized as a Level One measurement.

- Level One - includes quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level Two - includes inputs that are observable other than quoted prices included in Level One.
- Level Three - includes inputs that are not based on observable market data.

As at August 31, 2023, the carrying and fair value amounts of the Company's cash are approximately equivalent due to its short term nature.

(Expressed in Canadian Dollars)

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. As at August 31, 2023, management believes that the credit risk with respect to cash and cash equivalents, subscription receivables, accounts receivable, and HST receivable is minimal.

Concentration Risk

During the year ended August 31, 2022, the Company's sales were to a single customer. The Company did not have concentration risk for the year ended August 31, 2023.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying its financial obligations. The Company manages its liquidity risk by forecasting it operations and anticipating its operating and investing activities.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market risk factors.

13. CAPITAL MANAGEMENT

The Company objectives when manages its capital is to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions and to maximize shareholder return through enhancing the share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Board of Directors on an ongoing basis. The Company's ability to continue to carry out its planned activities is uncertain and dependent upon the continued financial support of its shareholders and securing additional financing.

The Company considers its capital to be equity, which comprises share capital, warrants, contributed surplus and, accumulated deficit, which at August 31, 2023 totaled equity of $1,383,516 (August 31, 2022 - $1,906,309).

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

14. CUSTOMER DEPOSITS

Deferred revenue relates to advance consideration received from customers for services yet to be performed. Deferred revenue will be reconised as revenue as the Company satisfies its performance obligation. Below is a summary of deferred revenue from contracts with customers and the significant changes in those balances during the years ended August 31, 2023 and 2022.

	Year Ended August 31,	
	2023	2022
Balance, beginning of the period	**$ 52,122**	**$ -**
Additions during the period	595,072	130,192
Deferred revenue recognized as revenue during the period	(457,407)	(78,070)
Balance, end of the period	**$ 189,787**	**$ 52,122**

15. JOINT VENTURE

On May 1, 2023, the Company along with Australian-based Vitura Health Limited (ASX: VIT) each acquired a 50% equity interest in Cortexa. Cortexa has exclusive rights to manufacture and distribute MDMA and Psilocybin in Australia under GMP conditions using PharmAla's manufacturing technology and intellectual property. Cortexa is controlled by a board consisting of equal representatives of both the Company and Vitura. Cortexa is considered a joint venture for accounting purposes and accordingly is accounted for using the equity method.

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic, financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

PharmAla may make available from time to time products to Cortexa for import into Australia for supply to medical practitioners under the Therapeutic Goods Administration (TGA) Authorised Prescriber 2 scheme.

Cortexa has a licence based on PharmAla's manufacturing technology and intellectual property, allowing for the manufacturing of MDMA and Psilocybin in Australia under GMP conditions. During the year ended August 31, 2023, the Company accrued license revenue of $74,058 (AUS 83,333).

The following table summarizes, in aggregate, the financial information of Cortexa. The amounts included in the IFRS financial statements of the associate are presented in Australian dollars, and adjusted to reflect adjustments made by the Company when using the equity method.

	As of August 31, 2023 (AUS)
Cash	391,471
Total current assets	640,985
Total non-current assets	-
Total assets	640,985
Total current liabilities	739,709
Total non-current liabilities	70,248
Net assets	(168,972)

	From May 1, 2022 to August 31, 2023 (AUS)
Revenue	-
Loss from continuing operations and total comprehensive loss	169,973

Under the equity method, the Company's share of losses in Cortexa equals or exceeds its interest in Cortexa, the Company discontinues recognising its share of further losses. After the Company's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of Cortexa. If Cortexa subsequently reports profits, the entity resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

(Expressed in Canadian Dollars)

16. REVENUE

The following is a breakdown of the Company's revenues by type:

	Year Ended August 31, 2023	2022
Product sales (*)	**$ 417,645**	$ 78,070
License revenue (note 15)	**114,358**	-
Total	**$ 532,003**	$ 78,070

(*) Product sales during fiscal 2023 included engineering-grade (non-GMP) product which was expensed in fiscal 2022 due to its nature.

17. COMMITMENTS AND CONTINGENCIES

Sales contracts

Pursuant to the sales contracts with customers, the Company receives deposits for sales contracts. Certain upfront costs are non-refundable, however due to the nature of the industry of which the Company operates in, completing performance obligation for the contract often requires regulatory approval from a number of agencies. The Company is committed to completing its performance obligations.

Contingencies

From time to time, the Company may become involved in various claims and litigation as part of its normal course of business. The Company is not currently aware of any claims and litigation that it is party to at this time.

18. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, officers, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

The Chief Financial Officer ("CFO") of the Company is the managing director of Marrelli Support Services Inc. ("MSSI"). During the year ended August 31, 2023, the Company paid for professional fees of $75,142 (August 31, 2022 - $43,712) to Marrelli Support Services Inc., DSA Corporate Services Inc., DSA Filling Services Limited, and Marrelli Trust Company Limited, collectively, the ("Marrelli Group"). The services provided by the Marrelli Group are for:

- Bookkeeping services;
- Regulatory filing services;
- Corporate secretarial services; and
- Transfer agent services.

These services are required by the Company to maintain its reporting issuer status. As at August 31, 2023, the Marrelli Group was owed $13,000 (August 31, 2022 - $11,605) and this amount is included in accounts payables and accrued liabilities. These services were incurred in the normal course of business, and these cost are included in professional fees.

During year ended August 31, 2023, the Company incurred consulting and payroll fees of $149,760 (August 31, 2022 - $144,000) to the Chief Executive Officer ("CEO") and companies controlled by the CEO. As at August 31, 2023, the CEO and companies controlled by the CEO were owed $80,170 (August 31, 2022 - $10,170) inclusive of HST, and this amount was included in accounts payables and accrued liabilities.

(Expressed in Canadian Dollars)

18. RELATED PARTY TRANSACTIONS (Continued)

During year ended August 31, 2023, the Company incurred consulting fees of $101,600 (August 31, 2022 - $72,908) to a company controlled by the Chief Operating Officer ("COO"). This service was incurred in the normal course of business, and these costs are included in consulting fees. As at August 31, 2023, companies controlled by the COO were owed $8,000 (August 31, 2022 - $nil) inclusive of HST, and this amount was included in accounts payables and accrued liabilities.

During year ended August 31, 2023, the Company incurred consulting fees of $750 (August 31, 2022 - $18,075) related to regulatory affairs to a company controlled by a Director. This service was incurred in the normal course of business, and these costs are included in investor relations.

During year ended August 31, 2023, the Company incurred advertising fees of $3,299 (August 31, 2022 - $45,675) related to development of a marketing and communication plan to a company controlled by a Director. This service was incurred in the normal course of business, and these cost are included in office and general.

See note 10(i).

See note 9.

During the year ended August 31, 2023, the Company incurred stock based compensation expense of $44,926 (August 31, 2022 - $255,857).

19. INCOME TAXES

Rate reconciliation

A reconciliation of actual income tax expense and the accounting loss multiplied by the Company's statutory tax rate of 26.5% (2022 - 26.5%) is as follows:

	August 31,	
	2023	**2022**
Loss before income taxes	**(779,813)**	**(985,583)**
Expected income tax recovery based on statutory rate	(210,550)	(266,107)
Adjustment to expected income tax benefit:		
Share issuance costs	(8,733)	(14,684)
Share based payments	18,337	63,863
Other non-deductible items	(90,410)	(5,142)
Change in unrecorded deferred tax assets	291,356	222,070
Total	**-**	**-**

Deferred tax assets and liabilities

Deferred income tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits. Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	August 31,	
	2023	**2022**
Non-Capital losses carry forward	659,677	311,471
Share issuance costs	25,152	99,396
Capital assets	17,605	501
Deferred tax asset (liability)	702,434	411,368
Less: deferred tax asset not recognized	(702,434)	(411,368)
Deferred tax asset (liability)	**-**	**-**

(Expressed in Canadian Dollars)

19. INCOME TAXES (Continued)

Deferred tax assets and liabilities (continued)

Certain deferred tax assets have not been recognized because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

Non-capital losses

As at August 31, 2023, the Company has non-capital losses of $2,443,249 available to reduce taxable income in future years expiring as follows:

2041	$ 42,039
2042	1,724,709
2043	676,501
	$ 2,443,249

20. SUBSEQUENT EVENTS

Subsequent to the year ended August 31, 2023, the CEO of the Company exercised 825,000 stock options for gross proceeds of $70,000.

On November 8, 2023, the Company announced that it has signed an exclusive long-term agreement (the "Partnership Agreement") with Clariti Strategic Advisors Inc. ("Clariti") of Toronto, pursuant to which Clariti will provide strategic and financial advisory services. In connection with Clariti's engagement, the Company has issued Clariti: (i) 2,300,000 stock options; and (ii) 2,300,000 restricted share units (each an "RSU"), pursuant to the Company's Option plan and RSU plan, respectively. Each Option is exercisable at a price of $0.175 per common share, expires ten years from the date of grant and vests only if there is, and prior to, a liquidity event (as such term is defined in the Partnership Agreement and excludes smaller capital raises). Each RSU expires ten years from the date of grant and vests only, (i) if there is, and prior to, a liquidity event (as such term is defined the Partnership Agreement and excludes smaller capital raises), and (ii) upon the Company receiving shareholder approval for the creation of the RSU plan, and shareholders ratifying this RSU grant, at the next meeting of shareholders of the Company.