UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2023

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to _________

Commission File Number: 001-41616

Lucy Scientific Discovery Inc.
(Exact name of registrant as specified in its charter)

British Columbia, Canada	Not Applicable
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

301-1321 Blanshard Street
Victoria, British Columbia, Canada V8W 0B6
(Address of Principal Executive Offices)

(778) 410-5195
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading symbol	Name of Exchange on which registered
Common Shares, no par value	LSDI	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of February 13, 2024, there were 17,646,296 common shares of the registrant issued and outstanding.

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Cautionary Note on Forward-Looking Statements

This Quarterly Report on Form 10-Q, or Quarterly Report, contains forward-looking statements concerning our business, operations and financial performance, as well as our plans, objectives and expectations for our business operations and financial performance and condition. All statements other than statements of historical or current facts contained in this Quarterly Report, including statements regarding our future results of operations and financial positions, business strategy, product candidates, planned preclinical studies and clinical trials, results of clinical trials, research and development costs, regulatory approvals, commercial strategy, timing and likelihood of success, as well as plans and objectives of management for future operations, are forward-looking statements. These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other important factors that are in some cases beyond our control, and may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expect,” “plan,” “is expected to,” “anticipate,” “could,” “intend,” “target,” “project,” “contemplate,” “believe,” “estimate,” “predict,” “potential” or “continue” or the negative of these terms or other similar expressions, although not all forward-looking statements contain these words. Forward-looking statements contained in this Quarterly Report, but are not limited to, statements about:

- our ability to generate commercially viable products through our research and development efforts;
- estimates of our addressable market, future revenue, expenses, capital requirements and our needs for additional financing;
- our ability to obtain funding for our operations, including funding necessary to complete the expansion of our operations;
- our ability to complete the acquisition of Bluesky Biologicals Inc. or the acquisition of the intellectual property of Hightimes Holding Corp.;
- the implementation of our business model and strategic plans for our products, technologies and businesses;
- our expectations regarding our ability to establish and maintain intellectual property protection for our products and technologies and our ability to operate our business without infringing on the intellectual property rights of others;
- companies and technologies in our industry with which we may compete;
- our ability to attract and retain key scientific and engineering personnel;
- our expectations regarding the period during which we qualify as an emerging growth company under the JOBS Act;
- business disruptions affecting our operations due to the global COVID-19 pandemic;
- our expectations regarding market trends; and
- other risks and uncertainties, including those listed under the caption “Risk Factors.”

We have based these forward-looking statements largely on our current expectations, estimates, forecasts and projections about our business, the industry in which we operate and financial trends that we believe may affect our business, financial condition, results of operations and prospects, and these forward-looking statements are not guarantees of future performance or development. These forward-looking statements speak only as of the date of this Quarterly Report and are subject to a number of risks, uncertainties and assumptions described in the section titled “Risk Factors” and elsewhere in this Quarterly Report. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as predictions of future events. Although we believe that we have a reasonable basis for each forward-looking statement contained in this Quarterly Report, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur at all, and our actual results may differ materially from those projected in the forward-looking statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein until after we distribute this Quarterly Report, whether as a result of any new information, future events or otherwise.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this Quarterly Report, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and you are cautioned not to unduly rely upon these statements.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LUCY SCIENTIFIC DISCOVERY INC.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS
(Expressed in US Dollars, except share amounts)
(unaudited)

	December 31, 2023	June 30, 2023
	$	$
ASSETS		
Current assets		
Cash	**211,120**	1,673,874
Prepaid expenses, current	**1,118,025**	1,170,021
Accounts receivable	**642**	7,048
Other assets – GST receivable	**8,338**	62,649
Other receivable	**—**	336,706
Deferred financing costs	**—**	523,041
Assets of discontinued operations, current	**—**	49,159
Total current assets	**1,338,125**	3,822,498
Non-current assets		
Prepaid expenses, noncurrent	**1,503,371**	1,663,333
Intangible assets	**1,445,552**	1,484,250
Assets of discontinued operations, noncurrent	**—**	1,808,565
TOTAL ASSETS	**4,287,048**	8,778,646
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**1,384,412**	1,291,063
Due to related parties	**608,240**	1,019,894
Notes payable	**60,487**	60,423
Convertible notes (including $3,019 due to a related party as of December 31, 2023)	**9,056**	—
Commitment to issue common shares (including $109,714 due to a related party as of December 31, 2023)	**329,143**	—
Conversion feature (including $222,507 due to a related party as of December 31, 2023)	**667,521**	—
Default penalty (including $23,369 due to a related party as of December 31, 2023)	**70,107**	—
Liabilities of discontinued operations, current	**357,557**	338,819
Total current liabilities	**3,486,523**	2,710,199
Non-current liabilities		
Liabilities of discontinued operations, noncurrent	**719,367**	1,389,558
TOTAL LIABILITIES	**4,205,890**	4,099,757
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, no par value; unlimited shares authorized; 17,646,296 and 17,462,963 shares issued and outstanding as at December 31, 2023 and June 30, 2023, respectively	**49,032,701**	48,934,278
Accumulated deficit	**(49,033,375)**	(44,415,798)
Accumulated other comprehensive income	**81,832**	160,409
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	**81,158**	4,678,889
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	**4,287,048**	8,778,646

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

LUCY SCIENTIFIC DISCOVERY INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
For the three and six months ended December 31, 2023 and 2022
(Expressed in US Dollars, except share numbers)
(unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2023	2022	**2023**	2022
	$	$	**$**	$
Net product sales	**9,684**	—	**9,684**	—
Cost of sales	**3,868**	—	**3,868**	—
Gross profit	**5,816**	—	**5,816**	—
Operating expenses				
Selling, general and administrative expense	**868,325**	182,043	**2,254,798**	810,675
Total expenses	**868,325**	182,043	**2,254,798**	810,675
Non-operating expense (income)				
Interest expense	**128,471**	485,278	**519,075**	1,028,499
Loss on convertible note issuance (including $151,866 with a related party for the three and six months ended December 31, 2023)	**508,599**	—	**508,599**	—
Change in commitment to issue common shares (including $19,831 with a related party for the three and six months ended December 31, 2023)	**(59,493)**	—	**(59,493)**	—
Change in fair value of conversion feature (including $46,479 with a related party for the three and six months ended December 31, 2023)	**(139,437)**	—	**(139,437)**	—
Change in fair value of default penalty (including $1,033 with a related party for the three and six months ended December 31, 2023)	**3,099**	—	**3,099**	—
Other income	**(6)**	(5)	**(17)**	(44)
Total non-operating expense (income)	**441,233**	485,273	**831,826**	1,028,455
Income tax expense for continuing operations	—	—	—	—
Net loss from continuing operations	**(1,303,742)**	(667,316)	**(3,080,808)**	(1,839,130)
Loss from discontinued operations	**(1,315,785)**	(266,491)	**(1,536,769)**	(466,418)
Income tax expense for discontinued operations	—	—	—	—
Net loss from discontinued operations	**(1,315,785)**	(266,491)	**(1,536,769)**	(466,418)
Net loss	**(2,619,527)**	(933,807)	**(4,617,577)**	(2,305,548)
Foreign exchange translation adjustment, net of tax of $nil	**(1,182)**	(101,117)	**(78,577)**	299,663
Comprehensive loss	**(2,620,709)**	(1,034,924)	**(4,696,154)**	(2,005,885)
Net loss per common share				
Net loss from continuing operations	**(0.07)**	(0.06)	**(0.17)**	(0.18)
Net loss from discontinued operations	**(0.07)**	(0.03)	**(0.09)**	(0.04)
Net loss	**(0.14)**	(0.09)	**(0.26)**	(0.22)
Weighted average number of common shares outstanding				
Basic and diluted	**17,646,296**	10,443,560	**17,613,801**	10,443,560

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

LUCY SCIENTIFIC DISCOVERY INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)
(Expressed in US Dollars, except share numbers)
(unaudited)

	Common shares			Accumulated Other	Total
	Number of shares	Paid-in capital	Accumulated deficit	Comprehensive income (loss)	Equity (deficit)
		$	$	$	$
Balance, June 30, 2022	10,443,560	30,790,410	(35,427,342)	(141,018)	(4,777,950)
Foreign exchange translation adjustment, net of tax of $nil	—	—	—	400,780	400,780
Net loss	—	—	(1,371,741)	—	(1,371,741)
Balance, September 30, 2022	10,443,560	30,790,410	(36,799,083)	259,762	(5,748,911)
Foreign exchange translation adjustment, net of tax of $nil	—	—	—	(101,117)	(101,117)
Net loss	—	—	(933,807)	—	(933,807)
Balance, December 31, 2022	**10,443,560**	**30,790,410**	**(37,732,890)**	**158,645**	**(6,783,835)**
Balance, June 30, 2023	17,462,963	48,934,278	(44,415,798)	160,409	4,678,889
Shares issued as settlement of due to related parties	100,000	98,000	—	—	98,000
Shares issued for consulting agreement	187,500	177,188	—	—	177,188
Shares cancelled for donation cancellation agreement	(104,167)	(257,032)	—	—	(257,032)
Warrants issued for consulting agreement	—	80,267	—	—	80,267
Foreign exchange translation adjustment, net of tax of $nil	—	—	—	(77,395)	(77,395)
Net loss	—	—	(1,998,050)	—	(1,998,050)
Balance, September 30, 2023	17,646,296	49,032,701	(46,413,848)	83,014	2,701,867
Foreign exchange translation adjustment, net of tax of $nil	—	—	—	(1,182)	(1,182)
Net loss	—	—	(2,619,527)	—	(2,619,527)
Balance, December 31, 2023	**17,646,296**	**49,032,701**	**(49,033,375)**	**81,832**	**81,158**

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

LUCY SCIENTIFIC DISCOVERY INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
For the six months ended December 31, 2023
(Expressed in US Dollars)
(unaudited)

	2023	2022
	$	$
Operating activities		
Net loss from continuing operations	**(3,080,808)**	(1,839,130)
Items not involving cash:		
Amortization expense	**38,555**	—
Interest expense (including $1,639 with a related party for the six months ended December 31, 2023)	**513,227**	1,028,499
Loss on convertible note issuance (including $151,866 with a related party for the six months ended December 31, 2023)	**508,599**	—
Change in commitment to issue common shares (including $19,831 with a related party for the six months ended December 31, 2023)	**(59,493)**	—
Change in fair value of conversion feature (including $46,479 with a related party for the six months ended December 31, 2023)	**(139,437)**	—
Change in fair value of default penalty (including $1,033 with a related party for the six months ended December 31, 2023)	**3,099**	—
Amortization of debt discount (including $380 with a related party for the six months ended December 31, 2023)	**1,140**	—
Shares issued for services	—	51,838
Shares issued for consulting agreement	**177,188**	—
Share cancelled for donation cancellation agreement	**(257,032)**	—
Shares to be issued for consulting agreement	**36,000**	—
Warrants issued for consulting agreement	**80,267**	—
Unrealized foreign exchange transaction adjustment	—	197,273
Changes in non-cash working capital:		
Prepaid expenses	**256,391**	(16,213)
Accounts receivable	**6,406**	—
Other assets – GST receivable	**52,790**	(24,839)
Other receivable	**336,706**	—
Accounts payable and accrued liabilities	**211,664**	420,264
Due to related parties	**(304,482)**	356,160
Net cash flows (used in) provided by in operating activities – continuing operations	**(1,619,220)**	173,852
Net cash flows (used in) operating activities – discontinued operations	**(408,744)**	(544,819)
Investing activities		
Sale of digital assets	—	34,106
Purchase of intangible assets	**(123,000)**	—
Net cash (used in) provided by investing activities	**(123,000)**	34,106
Financing activities		
Net proceeds from convertible notes	**757,003**	340,000
Deferred share issuance costs	—	(29,131)
Net cash flows provided by financing activities	**757,003**	310,869
Effect of foreign exchange on cash	**(68,793)**	(1,328)
Decrease in cash	**(1,462,754)**	(27,320)
Cash, beginning of period	**1,673,874**	53,379
Cash, end of period	**211,120**	26,059
Supplemental disclosures of cash flow information:		
Interest paid in cash	**5,848**	—
Income taxes paid in cash	—	—
Non-Cash activities for financing activities:		
Shares issued for settlement of due to related parties	**98,000**	—
Renewal of lease	—	1,144,349
Deferred offering costs accrued but unpaid	—	59,386

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

LUCY SCIENTIFIC DISCOVERY INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(unaudited)

NOTE 1 — NATURE OF THE ORGANIZATION AND BUSINESS

Lucy Scientific Discovery Inc. ("we," "our," "us," or the "Company") was incorporated under the Business Corporations Act (British Columbia) on February 17, 2017. The Company previously specialized in developing supply chain products, services, and distribution channels for the cannabis industry in the areas of cannabis production, cannabis extracts, edibles and other pharmaceutical grade products. The Company changed its name from Hollyweed North Cannabis Inc. to Lucy Scientific Discovery Inc. and, under a new business model, was engaged in the research, manufacturing and commercialization of psychedelic products. In November 2023, we surrendered our Controlled Drugs and Substances Dealer's Licence under Part J of the Food and Drug Regulations promulgated under the Food and Drugs Act (Canada), (the "Dealer's Licence"), to better manage our costs, and the revocation was effective January 2024. The Company intends to monitor the psychedelic marketplace and revisit the Dealer's Licence when the regulatory landscape provides for a clearer path to meaningful revenues. The Company is currently engaged in the research of psychedelic products and sale of psychotropic products. The Company's registered office is Suite 301 — 1321 Blanshard Street, Victoria, British Columbia, Canada.

Subsidiaries that are active and wholly-owned by the Company to facilitate its business activities include:

- TerraCube International Inc. — On October 4, 2017, the Company acquired control of TerraCube International Inc. ("TerraCube"), formerly Crop2Scale International Inc. which was incorporated under the Business Corporations Act of British Columbia. TerraCube innovates, develops and produces highly controlled agricultural grow environments for plant manufacturing and replication. The Company does not plan to continue pursuing development and commercialization of TerraCube.

- LSDI Manufacturing Inc. — On June 29, 2017, the Company incorporated LSDI Manufacturing Inc. ("LMI"), under the Business Corporations Act of British Columbia for the purposes of cannabis extraction and manufacturing of adult-use and pharmaceutical products. LMI held a Health Canada Processor's License under the Cannabis Act but has never engaged in plant-touching activities up to the date the Board of Directors approved these consolidated financial statements. On August 10, 2021, the Health Canada Standard Processor's License was voluntarily withdrawn by LMI with the revocation effective September 3, 2021. In August 2021, Health Canada's Office of Controlled Substances granted us a Dealer's Licence. The Dealer's Licence authorizes us to develop and produce (through cultivation, extraction or synthesis) certain restricted substances. In November 2023, we surrendered the Dealer's Licence, to better manage our costs, and the revocation was effective January 2024. The Company intends to monitor the psychedelic marketplace and revisit the Dealer's License when the regulatory landscape provides for a clearer path to meaningful revenues.

- LSDI Retail Inc. — On June 5, 2023, the Company incorporated LSDI Retail Inc. under the laws of the state of Delaware for the purpose of the sale of the Company's products through online distribution platform.

- Lucy Therapeutic Discoveries Inc. — On June 15, 2023, the Company incorporated LSDI Therapeutics Inc. under the laws of the state of Delaware to facilitate the acquisition of intellectual property from Wesana Health Holdings Inc. ("Wesana") on June 30, 2023, as further described in Note 7.

- Lucy Scientific Discovery USA Inc. — On November 17, 2022, the Company incorporated Lucy Scientific Discovery USA Inc. under the laws of the state of Delaware for the purpose of entering into employment agreements with key executive officers of the Company.

Impact of COVID-19

In March 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, and led to an economic downturn. To date, COVID-19 has not had any material impact on the Company's operations; however, it is possible that estimates in these unaudited condensed consolidated interim financial statements may change in the near term as a result of COVID-19 variants.

Going Concern

The Company has incurred net losses in recent periods and has accumulated a deficit of $49,033,375 as of December 31, 2023. The Company has funded operations in the past primarily by the sale and issuance of our common shares, from the issuance of convertible and non-convertible promissory notes, and our initial public offering ("IPO"). We will continue to be dependent upon equity and debt financings or collaborations or other forms of capital at least until we are able to generate positive cash flows from product sales, if ever.

These unaudited condensed consolidated interim financial statements have been prepared on a going concern basis, which implies that the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The continuation of the Company as a going concern is dependent upon the continued financial support from its management, its ability to identify future investment opportunities, to obtain the necessary debt or equity financing, generating profitable operations from the Company's future operations or the success of an initial public offering. As a result of these factors there is substantial doubt regarding the Company's ability to continue as a going concern during the next twelve months. These unaudited condensed consolidated interim financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying condensed consolidated interim balance sheet as of December 31, 2023, which has been derived from audited consolidated financial statements, and the unaudited condensed consolidated interim financial statements as of and for the three and six months ended December 31, 2023 and 2022, have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") regarding interim financial reporting and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and footnote disclosures in these unaudited condensed consolidated interim financial statements, normally included in financial statements prepared in accordance with U.S. GAAP, have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the unaudited condensed consolidated interim financial statements reflect all adjustments necessary for a fair statement of the Company's financial position at December 31, 2023, the Company's operating results for the three and six months ended December 31, 2023 and 2022, and the Company's cash flows for the six months ended December 31, 2023 and 2022. The unaudited condensed consolidated interim financial statements and notes should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended June 30, 2023. The unaudited condensed consolidated interim financial statements include the accounts of the Company and our subsidiaries in which we have controlling financial interest. All inter-company balances and transactions among the companies have been eliminated upon consolidation.

Use of Estimates

The preparation of the unaudited condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenue, and expenses as well as the related disclosures. The Company must often make estimates about effects of matters that are inherently uncertain and will likely change in subsequent periods. Actual results could differ materially from those estimates.

Functional and Presentation Currency

The Company's reporting currency is the United States Dollar ("USD"). The Company's functional currency is the local currency, Canadian Dollar ("CAD"). Assets and liabilities of these operations are translated into USD at the end-of-period exchange rates; income and expenses are translated using the average exchange rates for the reporting period. Resulting cumulative translation adjustments are recorded as a component of stockholder's equity (deficit) in the unaudited condensed consolidated interim balance sheet in accumulated other comprehensive income (loss).

Significant Accounting Policies

The Company's significant accounting policies are disclosed in the audited consolidated financial statements for the years ended June 30, 2023 and 2022, which are contained in the Company's Form 10-K for the year ended June 30, 2023. The accounting policies applied in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those applied and disclosed in note 2 to the annual audited consolidated financial statements except as noted below:

Derivative Liability

The Company accounts for derivative instruments in accordance with ASC 815, *Derivatives and Hedging*, which establishes accounting and reporting standards for derivative instruments and hedging activities, including certain derivative instruments embedded in other financial instruments or contracts, and requires recognition of all derivatives on the balance sheet at fair value. Fair value changes in the derivative instruments are recorded through profit and loss. As at December 31, 2023, the Company recorded the conversion feature and default penalty associated with the convertible notes as derivative liabilities (Note 10).

Recently Issued Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the FASB or other standard setting bodies that the Company adopts as of the specified effective date. The Company is an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. The Company has elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date that it is (i) no longer an emerging growth company or (ii) has affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, these unaudited condensed consolidated interim financial statements may not be comparable to companies that comply with the new or revised accounting pronouncements as of public company effective dates.

NOTE 3 — DISCONTINUED OPERATIONS

In November 2023, we made the strategic decision to surrender the Dealer's Licence and vacate our leased warehouse to better manage our costs. The Company intends to monitor the psychedelic marketplace and revisit the Dealer's License when the regulatory landscape provides for a clearer path to meaningful revenues. In addition, the Company does not plan to continue pursuing development and commercialization of TerraCube.

Discontinued operations consist of the following:

	December 31, 2023	June 30, 2023
	$	$
Prepaid expenses	—	49,159
Assets of discontinued operations, current	—	49,159
Property, plant, and equipment [(a)]	—	764,650
Right of use asset [(b)]	—	1,025,033
Long-term deposits [(b)]	—	18,882
Assets of discontinued operations, noncurrent	—	1,808,565
Lease liability, current [(b)]	**357,557**	338,819
Liabilities of discontinued operations, current	**357,557**	338,819
Lease liability [(b)]	**719,367**	1,389,558
Liabilities of discontinued operations, noncurrent	**719,367**	1,389,558

(a) On February 25, 2021, the Company entered an agreement whereby the Company acquired certain equipment for consideration of 990,741 Class B common non-voting shares with a fair value of $1,687,032 (CAD$2,140,000). At the time of acquisition, the equipment had a fair value of $843,500. The excess of fair value of the Class B common non-voting shares above the fair value of the equipment of $843,532 was recorded as compensation expense within selling, general and administrative expenses on the consolidated statement of operations and comprehensive loss during the year ended June 30, 2021. At June 30, 2023, the equipment had a fair value of $764,650. The excess of carrying value above the fair value of the equipment of $78,850 was recorded as impairment loss on the consolidated statement of operations and comprehensive loss during the year ended June 30, 2023.

During the three months ended December 31, 2023, the Company surrendered equipment with a fair value of $209,040 as settlement of a $17,500 invoice related to storage of the equipment which resulted in a loss on disposal of property and equipment of $191,540. In addition, the equipment held at the leased warehouse was surrendered to the landlord when the Company made the strategic decision to vacate the warehouse in November 2023 resulting in an impairment loss of $555,610.

The equipment was not in use prior to disposal and therefore no depreciation was taken for the six months ended December 31, 2023 and 2022.

(b) The lease liability relates to a warehouse leased by the Company (the "Warehouse Lease"). The lease commenced on August 1, 2017 with an initial term of 5 years expiring on July 31, 2022. On August 1, 2022, the Company exercised its option to renew for 5 years. The new term starts on August 1, 2022 and ends on July 31, 2027, with an option to extend the lease for an additional five years. The renewal option needs to be exercised no less than six months from the expiry date. As of lease renewal, the Company anticipated exercising the option to renew and as such determined the lease term to be 10 years in determining the lease liability. The discount rate used was 16%, equivalent to the interest rate the Company would incur to borrow funds equal to the future lease payments on a collateralized basis over a similar term and in a similar economic environment. As a result, the Company increased its right-of-use asset by $1,144,349 and lease liability by $1,144,349 related to the Warehouse Lease on August 1, 2022. During the three and six months ended December 31, 2023, the Company recorded amortization expense of $9,282 and $37,128, respectively (three and six months ended December 31, 2022- $27,510 and $46,755, respectively) with respect to the right of use asset.

In November 2023, the Company made the strategic decision to surrender the Dealer's License and vacate the leased warehouse which resulted in an impairment loss of $959,609 with respect to the right of use asset. In addition, the Company reassessed the expected term of the lease and determined that the strategic decision would result in the Company not exercising the 5-year renewal term which has originally been anticipated. The Company revalued the lease over the remaining term of the initial 5 years and recorded a gain on change in estimated lease term of $588,033.

Leases with an initial term of less than 12 months are not recorded on the statement of financial position. We recognize lease expense for these leases on a straight-line basis over the lease term.

The long-term deposit of $18,350 (CAD$25,000) relates to a security deposit on the Warehouse Lease which was forfeited by the Company in November 2023 upon making the decision to vacate the warehouse. The Company recorded an impairment loss for the six months ended December 31, 2023 of $18,350.

The maturity of the lease liability is as follows:

Year ended June 30,	Amount
2024	$ 170,424
2025	377,606
2026	417,706
2027	439,427
2028	36,758
Thereafter	—
Total lease payments	1,441,921
Less: Unamortized interest	(364,997)
Total lease liability	**$ 1,076,924**

The results of discontinued operations for the three and six months ended December 31, 2023 and 2022 are as follows:

	Three months ended December 31,		**Six months ended December 31,**	
	2023	2022	**2023**	2022
	$	$	**$**	$
Operating expenses				
Selling, general and administrative expense	**275,819**	266,491	**399,692**	466,418
Impairment loss	**1,436,459**	—	**1,533,570**	—
Gain on change in estimated lease term	**(588,033)**	—	**(588,033)**	—
Loss on disposal of property, plant, and equipment	**191,540**	—	**191,540**	—
Total operating expenses	**1,315,785**	266,491	**1,536,769**	466,418
Income tax expense	**—**	—	**—**	—
Net loss from discontinued operations	**(1,315,785)**	(266,491)	**(1,536,769)**	(466,418)

The cash flows of discontinued operations for the three and six months ended December 31, 2023 and 2022 are as follows:

	2023	2022
	$	$
Operating activities		
Net loss from discontinued operations	**(1,536,769)**	(466,418)
Items not involving cash:		
Amortization expense	**37,128**	46,755
Amortization of debt discount	**—**	5,715
Impairment loss	**1,533,570**	—
Gain on change in estimated lease term	**(588,033)**	—
Loss on disposal of property, plant, and equipment	**191,540**	—
Changes in non-cash working capital:		
Prepaid expenses	**—**	17,133
Lease liability	**(46,180)**	(148,004)
Net cash flows used in operating activities – discontinued operations	**(408,744)**	(544,819)

NOTE 4 — PREPAID EXPENSES AND DEPOSITS

Prepaid expenses and deposits consist of the following:

	December 31, 2023	June 30, 2023
	$	$
Advertising [(a)]	**2,187,500**	2,187,500
Consulting [(b)]	**401,305**	585,279
Insurance	**17,081**	60,575
Deposit	**10,270**	—
Other	**5,240**	—
Total	**2,621,396**	2,833,354
Current portion	**1,118,025**	1,170,021
Non-current portion	**1,503,371**	1,663,333

(a) On January 16, 2023, the Company entered into a strategic investment agreement with Hightimes Holding Corp., ("Hightimes"), 1252240 BC LTD, a wholly owned subsidiary of Hightimes, and Trans-High Corporation, a wholly-owned subsidiary of Hightimes, pursuant to which Hightimes granted to us $833,333 of annual advertising and marketing credits, for three consecutive years, in exchange for 625,000 of our common shares.

(b) On February 13, 2023, the Company issued 250,000 common shares pursuant to a two-year marketing agreement.

NOTE 5 — OTHER RECEIVABLE

During the year ended June 30, 2023, a past consultant of the Company obtained a garnishing order in an action against the Company whereby $336,706 (CAD$445,799) of cash held at the Company's bank was garnished and paid into the British Columbia Supreme Court. The amount was recorded as other receivable as at June 30, 2023 on the audited consolidated statement of financial position. On August 1, 2023 the British Columbia Supreme Court ordered that the garnished funds be repaid to the Company and the funds were received during the six months ended December 31, 2023. The Company has no ongoing obligation to the consultant and the legal action has been concluded.

NOTE 6 — DIGITAL ASSETS

During the six months ended December 31, 2022, the Company sold approximately 34,106 Tether for $34,106 in cash. The 34,106 Tether was acquired during the year ended June 30, 2021 for cash of $34,106.

NOTE 7 — INTANGIBLE ASSETS

On June 30, 2023, pursuant to an asset purchase agreement dated June 30, 2023 (the "Agreement"), the Company closed on the acquisition of intellectual property and related assets relating to Wesana psilocybin and cannabidiol combination investigational therapy, SAN-013 ("Intellectual Property") for consideration consisting of: (a) 1,000,000 shares of the Company's common stock with an aggregate issuance date fair value of $914,250, and (b) $570,000 in cash. The Company paid $300,000 on March 20, 2023 with the remaining $270,000 due in the following 4 installments: (i) $123,000 due on or before July 1, 2023; (ii) $48,991 due on or before October 1, 2023; (iii) $48,991 due on or before January 1, 2024; and (iv) $49,018 due on or before April 1, 2024. The instalment payments are included within accounts payable and accrued liabilities on the unaudited condensed consolidated interim balance sheet. While the July payment was made, the October payment has not yet been made. Wesana has not yet accelerated the debt or declared an event of default with regard to the debt.

Under the screen test requirements under ASC 805, *Business Combinations*, the Company concluded that the Intellectual Property represented substantially all of the fair value of the gross assets acquired and, accordingly, determined the set was not considered a business, such that the Company applied asset acquisition accounting and recorded the acquisition of the Intellectual Property as an intangible asset in the amount of $1,484,250 that will be amortized on a straight-line basis over the remaining weighted average useful life of 19.2 years. During the three and six months ended December 31, 2023, the Company recorded amortization expense of $19,206 and $38,555 respectively (three and six months ended December 31, 2022- $nil and $nil, respectively) with respect to the intangible assets.

The estimated future amortization expense is as follows:

Year ended June 30,	**Amount**
2024	$ 38,697
2025	77,395
2026	77,395
2027	77,395
2028	77,395
Thereafter	1,097,275
	$ 1,445,552

NOTE 8 — ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	December 31, 2023	June 30, 2023
	$	$
Accounts payable	**1,348,412**	1,291,063
Accrued liabilities [(a)]	**36,000**	—
Total	**1,384,412**	1,291,063

(a) The balance relates to a commitment to issue $36,000 in common shares to a consultant of the Company. The amount was recorded as a liability as per ASC 480, *Distinguishing Liabilities from Equity*, as the number of common shares to be issued is variable based on the weighted average price of the Company's common shares.

NOTE 9 — LINE OF CREDIT

On November 5, 2020, the Company established a line of credit of $4,937,130 (CAD$6,675,000). The line of credit is secured by the Company's assets, bears an interest rate of 8% per annum and matured on November 5, 2023. Pursuant to entering the line of credit, the Company issued the lender warrants to purchase 3,906,209 common shares of the Company at an exercise price of $1.60 (CAD$2.16) per common share until November 5, 2025. On January 22, 2021, the Company amended the warrants whereby in the event that the Company effects a closing or closings of convertible notes is the minimum aggregate of (i) $1,000,000, the exercise price of 1,111,112 warrants shall be adjusted to $0.015 (CAD$0.018), (ii) $2,000,000, the exercise price of 2,222,223 warrants shall be adjusted to $0.015 (CAD$0.018), and (iii) $3,000,000, the exercise price of 3,333,334 warrants shall be adjusted to $0.015 (CAD$0.018).

The warrants were valued at $4,775,535 and recorded as deferred financing costs to be recognized over the term of the line of credit. During the three and six months ended December 31, 2023, the Company recorded interest expense of $121,119 and $508,311, respectively (three and six months ended December 31, 2022 — $386,125 and $765,040, respectively) related to the warrants.

On January 22, 2021, pursuant to the warrant amendment, the Company reclassified 3,906,209 warrants valued at $4,775,535 to warrant liability as the exercise price became variable based on the amount of convertible notes payable raised. The incremental fair value resulting from the warrant amendment of $1,079,468 was recorded as interest expense on the condensed consolidated interim statement of operations and comprehensive loss.

On December 8, 2021, the Company reclassified 3,906,209 warrants valued at $6,392,476 to share capital as the exercise price became fixed for the remaining warrants outstanding since the Company had successfully raised $3,000,000 in convertible notes, resolving the contingency affecting the exercise price.

NOTE 10 — CONVERTIBLE NOTES

Following is a summary of the Company's convertible notes:

	December 31, 2023	June 30, 2023
	$	$
Balance, beginning of period	—	—
Convertible notes issued [(a)]	**944,447**	—
Original issue discount [(a)]	**(94,445)**	—
Closing costs [(a)]	**(92,999)**	—
Commitment to issue common shares [(b)]	**(388,636)**	—
Conversion feature [(c)]	**(806,958)**	—
Default penalty [(d)]	**(67,008)**	—
Loss on convertible note issuance [(e)]	**508,599**	—
Amortization of debt discount [(a)]	**1,140**	—
Interest expense [(a)]	**4,916**	—
Balance, end of period	**9,056**	—

a) On December 12, 2023, the Company entered into a securities purchase agreement ("SPA") with three purchasers (each a "December Note Purchaser") for the sale of convertible notes (the "Notes"), having an aggregate principal amount of up to $2,000,000 and convertible into the Company's common shares. The Notes carry an original issue discount of up to a total of $200,000. The aggregate purchase price of the Notes is $1,800,000. One of the December Note Purchasers is Whistling Pines LLC. The biological son of Paul Abramowitz, one of our directors, is a beneficial owner of Whistling Pines LLC.

On December 12, 2023, the Company received a total of $850,003, before closing costs, at the closing of the first tranche of the financing (the "First Tranche"). The First Tranche's original issue discount, added to the principal amount owed by the Company, was a total of $94,445, for a total principal balance of $944,447. Closing costs including legal fees and a brokerage fee were $92,999. The Notes are repayable on December 12, 2024 and accrue interest at a rate of 10.0% per annum. The payment of further consideration by the December Note Purchasers to the Company, pursuant to the SPA and the Notes, is at the December Note Purchasers sole discretion (the "Subsequent Tranches"). The obligations of the Company under the Notes are secured by all of the Company's assets pursuant to the terms of the security and pledge agreements by and between the Company and each December Note Purchaser.

Pursuant to the SPA, in connection with the payment of the First Tranche, the December Note Purchasers received warrants to purchase up to an aggregate of 1,500,000 common shares at an exercise price of $0.25 for a term of 5 years. Despite the warrants having positive fair value as calculated using the Black-Scholes option pricing model, no consideration was allocated to the warrants since no residual proceeds were available after the proceeds are allocated to the financial liabilities at their fair value.

During the three and six months ended December 31, 2023, the Company recorded amortization of debt discount of $1,140 and $1,140, respectively (three and six months ended December 31, 2022 - $nil and $nil, respectively).

During the three and six months ended December 31, 2023, the Company recorded interest expense of $4,916 and $4,916, respectively (three and six months ended December 31, 2022 - $nil and $nil, respectively).

The unamortized discount as of December 31, 2023 was $940,307 which will be recorded as amortization of debt discount over the remaining term of the Notes.

b) On the earliest date that the common shares underlying the Note would be eligible to be unrestricted in the hands of the December Note Purchasers (either pursuant to registration, Rule 144, or any other applicable exemption from registration), the Company shall issue to the December Note Purchasers a number of common shares so that the value of such common shares is equal to a total of $450,000 (the "Equity Interest Value") based on the lowest daily closing price of the Company's common shares during the 20 trading days preceding the date of issuance (the "Equity Interest"). The Equity Interest Value related to the First Tranche was $270,000. The Company recorded the Equity Interest Value on the condensed consolidated interim balance sheet as a commitment to issue common shares. The Company initially recorded the commitment to issue common shares using the lowest closing price of the Company's common shares on the 20 trading days prior to December 12, 2023 of $0.198 resulting in the initial recognition of a financial liability of $388,636. The Company revalued the commitment to issue common shares on December 31, 2023 and reduced the liability to $329,143 resulting in the recognition of a gain on commitment to issue common shares for the three and six months ended December 31, 2023 of $59,493 and $59,493, respectively (three and six months ended December 31, 2022 - $nil and $nil, respectively) on the condensed consolidated interim statement of operations and comprehensive loss based on an increase in the lowest closing price of the Company's common stock during the 20 trading days prior to December 31, 2023 of $0.21.

c) The Notes plus accrued and unpaid interest are convertible (in whole or in part) at any time at a conversion price of $0.21, subject to decrease on the event of default (as defined in the Notes) to the lower of the lowest trading price on the default date or $0.21 less a 25% discount. The conversion price will be further reduced each 30 days period by 15% until the event of default is cured. The Company has determined that the conversion feature embedded in the Notes constitutes a derivative liability and has been bifurcated from the Notes and recorded as a conversion feature of $806,958, with a corresponding discount recorded to the associated debt, on the accompanying balance sheet to be amortized over the 12-month term of the Notes. The Company revalued the conversion feature on December 31, 2023 and reduced the liability to $667,521 resulting in the recognition of a gain on change in fair value of conversion feature during the three and six months ended December 31, 2023 of $139,437 and $139,437, respectively (three and six months ended December 31, 2022 - $nil and $nil, respectively) on the condensed consolidated interim statement of operations and comprehensive loss. Significant assumptions used in calculating the fair value of the conversion feature of the Notes at the date of issuance and December 31, 2023, assuming a default is cured within 30 days, are as follows:

Date	Expected dividends	Expected Volatility	Risk-free rate of interest	Expected term (years)	Probability of an event of default	Closing price per common share
December 12, 2023	0.00%	125.41%	5.14%	1.00	12.50%	$ 0.285
December 31, 2023	0.00%	124.07%	4.69%	0.95	12.50%	$ 0.256

d) The Notes set forth certain standard events of default subject to certain cure periods. Upon the occurrence of an event of default (after the expiration of any applicable cure period), (i) interest shall accrue at the default interest rate of 24%; (ii) the Notes shall become immediately due and payable and the Company shall pay to the December Note Purchasers an amount equal to the sum of the principal amount then outstanding plus accrued and unpaid interest through the date of the event of default, plus unaccrued interest through the remainder of the term of the Notes, together with all costs, including, without limitation, legal fees and expenses of collection and default interest through the date of full repayment; and (iii) a liquidated damages charge equal to 25% of the outstanding balance due under the Notes will be assessed and will become immediately due and payable to the December Note Purchasers ("Default Penalty"). The Company has determined that the Default Penalty embedded in the Notes constitutes a derivative liability and has been bifurcated from the Notes and recorded as a default penalty of $67,008, with a corresponding discount recorded to the associated debt, on the accompanying balance sheet to be amortized over the 12-month term of the Notes. The Company revalued the Default Penalty on December 31, 2023 and increased the liability to $70,107 resulting in the recognition of a loss on change in fair value of Default Penalty during the three and six months ended December 31, 2023 of $3,099 and $3,099, respectively (three and six months ended December 31, 2022 - $nil and $nil, respectively) on the condensed consolidated interim statement of operations and comprehensive loss. Significant assumptions used in calculating the fair value of the conversion feature of the Notes at the date of issuance and December 31, 2023 are as follows:

Date	Expected dividends	Expected Volatility	Risk-free rate of interest	Expected term (years)	Probability of an event of default
December 12, 2023	0.00%	125.41%	5.14%	1.00	12.50%
December 31, 2023	0.00%	124.07%	4.69%	0.95	12.50%

e) The Company recorded a loss of $508,599 on issuance of the Notes as the consideration and closing costs exceeded the principal balance of the Notes. The loss was the result of the value assigned to the conversion feature which increased due to an increase in the Company's share price from $0.21 on the date that the Company signed a term sheet to $0.285 on closing of the First Tranche.

NOTE 11 — STOCKHOLDERS' EQUITY

Share Capital

Stock Split

On December 1, 2021, the Company authorized an 18:1 reverse stock split of its issued and outstanding Class B common stock. Also on December 1, 2021, the Company amended its articles to create a single class of common shares and cancel the Class A voting common shares and Class B non-voting common shares. Pursuant to the amendment, the Class A voting common shares and Class B non-voting common shares were converted on a one-for-one basis into common shares of the Company.

Common Stock Issuances and Transfers

During the six months ended December 31, 2023, the Company had the following common stock transactions:

On July 4, 2023, the Company issued 100,000 common shares and made a cash payment of $226,586 (CAD$300,000) pursuant to a mutual settlement and release agreement.

On July 5, 2023, the Company cancelled 104,167 common shares which had previously been issued pursuant to a donation to the Austin Community Foundation.

On August 1, 2023, the Company issued 187,500 common shares to the former Chief Executive Officer with respect to the settlement of an award equal to the quotient obtained by dividing (x) $750,000 by (y) the closing price of the Company's common shares on the closing date of the IPO.

During the six months ended December 31, 2022, the Company had no common stock transactions.

Share Purchase Options

The following is a summary of the changes in share purchase options Plan during the six months ended December 31, 2023 and 2022:

	Number of options	Weighted average exercise price ($)	Weighted average remaining life (years)	Aggregate intrinsic value ($)
Balance at June 30, 2022	621,697	2.34 (CAD3.01)	1.91	—
Expired[1]	(54,266)	2.35 (CAD3.22)	—	—
Balance at December 31, 2022	567,431	2.18 (CAD2.99)	1.57	—
Balance at June 30, 2023	591,115	2.20 (CAD2.91)	1.74	—
Balance at December 31, 2023	**591,115**	**2.20 (CAD2.91)**	**1.24**	—

(1) On September 17, 2022, 54,266 share purchase options expired, unexercised.

During the three and six months ended December 31, 2023, the Company recognized share-based payment expense of $nil and $nil, respectively (three and six months ended December 31, 2022 - $nil and $nil, respectively) related to vested share purchase options. As at December 31, 2023, total unrecognized share-based payment expense related to the outstanding share purchase options was $nil.

The Company has computed the fair value of options granted using the Black-Scholes option pricing model. The expected term is the estimated period of time that options granted are expected to be outstanding. The Company utilizes the "simplified" method to develop an estimate of the expected term of "plain vanilla" employee option grants. The Company is utilizing an expected volatility figure based on a review of the historical volatilities, over a period of time, equivalent to the expected life of the instrument being valued, of similarly positioned public companies within its industry. The risk-free interest rate was determined from the implied yields from U.S. Treasury zero-coupon bonds with a remaining term consistent with the expected term of the instrument being valued.

In addition to the options discussed above, the Company plans to issue 1,642,861 share purchase options to various officers and the executive chairman. The exercise price of these share purchase options will be the closing price of the Company's common shares on the closing date of an IPO. These share purchase options will vest as to 25% of the underlying common shares on the grant date, and the balance of these share purchase options will vest and become exercisable with respect to 45,635 common shares in 36 equal monthly instalments commencing on the 13th month following the date of grant and continuing until the 48th month following the date of grant, subject to continued employment with us through each vesting date. No expense has been recorded through December 31, 2023 with respect to these options.

Warrants

The Company has computed the fair value of warrants issued using the Black-Scholes option pricing model. The expected term used for warrants issued is the contractual term. The Company is utilizing an expected volatility figure based on a review of the historical volatilities, over a period of time, equivalent to the expected life of the instrument being valued, of similarly positioned public companies within its industry. The risk-free interest rate was determined from the implied yields from U.S. Treasury zero-coupon bonds with a remaining term consistent with the expected term of the instrument being valued.

Pursuant to entering the line of credit, on January 15, 2021, the Company issued 3,906,209 warrants to purchase 3,906,209 common shares of the Company at an exercise price of $1.60 (CAD$2.16) per common share until November 5, 2025. On January 22, 2021, the Company amended the warrants whereby in the event that the Company effects a closing or closings of convertible notes is the minimum aggregate of (i) $1,000,000, the exercise price of 1,111,112 warrants shall be adjusted to $0.015 (CAD$0.018), (ii) $2,000,000, the exercise price of 2,222,223 warrants shall be adjusted to $0.015 (CAD$0.018), and (iii) $3,000,000, the exercise price of 3,333,334 warrants shall be adjusted to $0.015 (CAD$0.018).

On December 8, 2021, the Company reclassified 3,906,209 warrants valued at $6,392,476 to share capital as the exercise price became fixed for the remaining warrants outstanding since the Company had successfully raised $3,000,000 in convertible notes, resolving the contingency affecting the exercise price. On December 8, 2021, the Company issued 3,477,919 common shares pursuant to the exercise of 3,477,919 warrants with an exercise price of $0.015 (CAD$0.018) per warrant.

The following is a summary of the warrants for the six months ended December 31, 2023 and 2022:

	Number of options	Weighted average exercise price ($)	Weighted average remaining life (years)	Aggregate intrinsic value ($)
Balance at June 30, 2022	428,290	1.58 (CAD2.16)	3.35	—
Balance at December 31, 2022	**428,290**	**1.58 (CAD2.16)**	**3.10**	—
Balance at June 30, 2023	428,290	1.63 (CAD2.16)	2.35	—
Granted(1) (2)	1,593,750	0.31	5.00	69,000
Balance at December 31, 2023	**2,022,040**	**0.59**(3)	**4.28**	**69,000**

(1) On July 28, 2023, the Company granted 93,750 share purchase warrants with an exercise price of $1.25 and a term of five years.

(2) On December 12, 2023, the Company granted 1,500,000 share purchase warrants with an exercise price of $0.25 and term of five years. No consideration was allocated to the warrants since no residual proceeds were available after the proceeds are allocated to the financial liabilities at their fair value (Note 10).

(3) 428,290 warrants have an exercise price of $1.63 (CAD$2.16) and the remainding 1,593,750 warrants have a weighted average exercise price of $0.31.

The Company applied the following assumptions in the Black-Scholes option pricing model for the 93,750 warrants described above:

	July 28, 2023 $	June 30, 2023 $
Expected life warrants (years)	**5.00**	—
Expected volatility	**112%**	—
Expected dividend yield	**0%**	—
Risk-free interest rate	**4.02%**	—
Black-Scholes value of each warrant	**0.86**	—

NOTE 12 — RELATED PARTY TRANSACTIONS

The following is a summary of the Company's related party transactions:

Due to related parties

Included under due to related parties on our consolidated balance sheet as of December 31, 2023 is $608,240 (June 30, 2023 - $1,019,894) that relates to wages, short-term benefits and contracted services for key management personnel. The amounts are unsecured and non-interest bearing.

Convertible Notes

On December 12, 2023, the Company entered into an SPA for the sale of Notes to Whistling Pines LLC. The biological son of Paul Abramowitz, one of our directors, is a beneficial owner of Whistling Pines LLC. The Notes have an aggregate principal amount of up to $666,666 and are convertible into the Company's common shares, as noted below. The Notes carry an original issue discount of up to a total of $66,666. The aggregate purchase price of the Notes is $600,000.

On December 12, 2023, the Company received a total of $283,334, before closing costs, at the closing of the First Tranche. The First Tranche's original issue discount, added to the principal amount owed by the Company, was a total of $31,482, for a total principal balance of $314,816. Closing costs including legal fees and a brokerage fee were $13,333. The Notes are repayable on December 12, 2024 and accrue interest at a rate of 10.0% per annum. The payment of Subsequent Tranches by Whistling Pines LLC to the Company, pursuant to the SPA and the Notes, is at Whistling Pines LLC sole discretion.

During the three and six months ended December 31, 2023, the Company recorded amortization of debt discount of $380 and $380 respectively (three and six months ended December 31, 2022 - $nil and $nil, respectively).

During the three and six months ended December 31, 2023, the Company recorded interest expense of $1,639 and $1,639, respectively (three and six months ended December 31, 2022 - $nil and $nil, respectively).

The unamortized discount as of December 31, 2023 was $313,446 which will be recorded as amortization of debt discount over the remaining term of the Notes.

The Company shall issue to Whistling Pines LLC Equity Interest Value equal to a total of $150,000 based on the lowest daily closing price of the Company's common shares during the 20 trading days preceding the date of issuance. The Equity Interest Value related to the First Tranche was $90,000. The Company recorded the Equity Interest Value on the condensed consolidated interim balance sheet as a commitment to issue common shares of $129,545. The Company revalued the commitment to issue common shares on December 31, 2023 and reduced the liability to $109,714 resulting in the recognition of a gain on commitment to issue common shares for the three and six months ended December 31, 2023 of $19,831 and $19,831, respectively (three and six months ended December 31, 2022 - $nil and $nil, respectively) on the condensed consolidated interim statement of operations and comprehensive loss based on an increase in the lowest closing price of the Company's common stock during the 20 trading days prior to December 31, 2023 of $0.21.

The Company recorded as a conversion feature of $268,986, with a corresponding discount recorded to the associated debt, on the accompanying balance sheet to be amortized over the 12-month term of the Notes. The Company revalued the conversion feature on December 31, 2023 and reduced the liability to $222,507 resulting in the recognition of a gain on change in fair value of conversion feature during the three and six months ended December 31, 2023 of $46,479 and $46,479, respectively (three and six months ended December 31, 2022 - $nil and $nil, respectively) on the condensed consolidated interim statement of operations and comprehensive loss.

The Company recorded a Default Penalty of $22,336, with a corresponding discount recorded to the associated debt, on the accompanying balance sheet to be amortized over the 12-month term of the Notes. The Company revalued the Default Penalty on December 31, 2023 and increased the liability to $23,369 resulting in the recognition of a loss on change in fair value of Default Penalty during the three and six months ended December 31, 2023 of $1,033 and $1,033, respectively (three and six months ended December 31, 2022 - $nil and $nil, respectively) on the condensed consolidated interim statement of operations and comprehensive loss.

The Company recorded a loss of $151,866 on issuance of the Notes as the consideration and closing costs exceeded the principal balance of the Notes. The loss was the result of the value assigned to the conversion feature which increased due to an increase in the Company's share price from $0.21 on the date that the Company signed a term sheet to $0.285 on closing of the First Tranche.

Share Capital

On July 4, 2023, the Company issued 100,000 common shares and made a cash payment of $226,586 (CAD$300,000) pursuant to a mutual settlement and release agreement with a former officer of the Company.

On August 1, 2023, the Company issued 187,500 common shares to its former Chief Executive Officer with respect to the settlement of an award equal to the quotient obtained by dividing (x) $750,000 by (y) the closing price of the Company's common shares on the closing date of the IPO.

Share Purchase Options

The Company plans to issue 1,642,861 share purchase options to various officers and the executive chairman. The exercise price of these share purchase options will be the closing price of the Company's common shares on the closing date of an IPO. These share purchase options will vest as to 25% of the underlying common shares on the grant date, and the balance of these share purchase options will vest and become exercisable with respect to 45,635 common shares in 36 equal monthly instalments commencing on the 13th month following the date of grant and continuing until the 48th month following the date of grant, subject to continued employment with us through each vesting date. No expense has been recorded through December 31, 2023 with respect to these options.

Warrants

Pursuant to the SPA, in connection with the payment of the First Tranche, the Whistling Pines LLC received warrants to purchase up to an aggregate of 500,000 common shares at an exercise price of $0.25 for a term of 5 years. Despite the warrants having positive fair value as calculated using the Black-Scholes option pricing model, no consideration was allocated to the warrants since no residual proceeds were available after the proceeds are allocated to the financial liabilities at their fair value.

NOTE 13 — FINANCIAL INSTRUMENTS

The Company has established a fair value hierarchy that reflects the significance of inputs of valuation techniques used in making fair value measurements as follows:

- Level 1: quoted prices 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. from derived prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data.

The Company's financial assets and financial liabilities are measured at amortized cost. As at December 31, 2023 and June 30, 2023 the carrying value of the cash, accounts receivable, other assets – GST receivable, accounts payable and accrued liabilities and amounts due to related parties approximates the fair value due to the short-term nature of these instruments. The commitment to issue common shares is categorized as Level 1 and has been recorded at fair value based upon the closing price of the Company's common stock.

The notes payable and Notes are categorized as Level 2 and have been recorded at amortized cost. The carrying value approximates its fair value due to its relatively short-term nature. The commitment to issue common shares has been categorized as Level 2 due to the timing of issuance which will impact the pricing of the shares and the actual number of common shares issued. It is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

The conversion feature and Default Penalty associated with the Notes are categorized as level 3. The conversion feature and Default Penalty were valued using a Monte Carlo simulation prepared by a third-party valuation firm. Refer to Note 10 for significant assumptions used in the valuation of the conversion feature and Default Penalty. Changes in fair value are summarized below:

	Conversion feature	**Default Penalty**
	$	$
Balance, June 30, 2023	—	—
Addition on issuance of the Notes	806,958	67,008
Change in fair value	(139,437)	3,099
Balance, December 31, 2023	**667,521**	**70,107**

NOTE 14 — SUBSEQUENT EVENTS

In connection with the preparation of the condensed consolidated interim financial statements, the Company evaluated subsequent events through February 13, 2023, which was the date the condensed consolidated interim financial statements were issued, and determined that the following subsequent events occurred as of that date:

Financing Activities

The Equity Interest Value related to the First Tranche was $270,000. As agreed to by the December Note Purchasers, the price per common share in relation to the commitment to issue common shares has been fixed at $0.1979 based on the lowest closing price of the Company's common shares on the 20 trading days prior to the February 2, 2024.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial conditions and results of operations should be read together with our condensed consolidated interim financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q, or Quarterly Report, and our Form 10-K for the year ended June 30, 2023, or the Annual Report. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Some of the information with respect to our plans and strategy for our business, including forward-looking statements that involve risks and uncertainties. As a result of many factors, including those set forth in the section entitled "Risk Factors in Part II, Item 1A of this Quarterly Report, our actual results could differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. You should carefully read the section entitled "Risk Factors" in Part II, Item 1A of this Quarterly Report to gain an understanding of the important factors that could cause actual results to differ materially from our forward-looking statements.

Overview

We were initially founded in 2017 as Hollyweed North Cannabis, Inc., or HNCI. In May 2018, our newly-constructed facility was inspected by Health Canada, and we received our Controlled Substances dealer's licence in June of that year. Shortly thereafter, our wholly-owned subsidiary TerraCube was founded, and the first TerraCube prototype was constructed. Later that same year, HNCI obtained a Health Canada Cannabis Standard Processing Licence. On August 10, 2021, the Health Canada Standard Processor's License was voluntarily withdrawn with the revocation effective September 3, 2021.

In May of 2020, we submitted an application to Health Canada for a Controlled Substances Dealer's Licence (the "Dealer's License") for the ability to produce and conduct research using psilocybin, psilocin, N,N-DMT, and mescaline. In parallel, we began the process of rebranding to our current name, Lucy Scientific Discovery, Inc ("Lucy"). In February 2021, the Health Canada Office of Controlled Substances completed the inspection, and the Dealer's Licence was obtained by Lucy in August 2021. In October 2021, we filed an amendment with Health Canada to add the ability to sell, send, transport, and deliver the substances currently included on our licence and add MDMA, LSD, and 2C-B to our license, which was approved on December 17, 2021. In November 2023, we surrendered the Dealer's Licence, to better manage our costs. The Company intends to monitor the psychedelic marketplace and revisit the Dealer License when the regulatory landscape provides for a clearer path to meaningful revenues.

On June 30, 2023, pursuant to an asset purchase agreement dated June 30, 2023, the Company closed on the acquisition of intellectual property and related assets relating to Wesana psilocybin and cannabidiol combination investigational therapy, SAN-013.

In addition, the Company is engaged in the sale of psychotropic products under the names Mindful by Lucy and Twilight by Lucy.

To date, we have financed our operations primarily with proceeds from the sales of our common shares, convertible and non-convertible promissory notes, and from a bridge loan agreement. Until such time as we can generate significant revenue from our contract manufacturing and research services, as to which no assurance can be given, we expect to finance our cash needs through public or private equity or debt financings, third-party funding and marketing and distribution arrangements, as well as other collaborations, strategic alliances and licensing arrangements, or any combination of these approaches. However, we may be unable to raise additional funds or enter into such other arrangements when needed or on commercially reasonable terms, or at all.

We have incurred net losses in each year since inception. Our net loss was $4,617,577 for the six months ended December 31, 2023. As of December 31, 2023, we had an accumulated deficit of $49,033,375 and we had cash and cash equivalents of $211,120. Our net losses may fluctuate significantly from quarter to quarter and year to year, depending on the timing of our research efforts, the expansion of our product and research offerings and the timing of our other operating activities. Because of the numerous risks and uncertainties associated with our business, we are unable to predict the timing or amount of increased expenses or when or if we will be able to achieve or maintain profitability. We expect to incur increased expenses as we:

- conduct research related to SAN-013;
- seek regulatory authorization to distribute and export our product offerings;
- acquire or license products or technologies;
- obtain, maintain, protect and enforce our intellectual property portfolio;
- seek to attract and retain new and existing skilled personnel;
- create additional infrastructure to support our operations as a public company and incur increased legal, accounting, investor relations and other expenses; and
- experience delays or encounter issues with any of the above.

To the extent that that psychotropics-based medicines receive approval from the FDA or Health Canada and the market for our products expands into commercial-scale projects, we expect to incur significant additional expenses in connection with product manufacturing, marketing, and distribution.

Recent Developments

On July 11, 2023, we announced the launch of Twilight by Lucy, a blend of Amanita and Reishi mushrooms that include a variety of other nootropics promoting improved cognitive function and enhanced sleep quality. This release comes on the heels of the recent launch of Mindful by Lucy. Both of these products are now available for purchase on the company's official online store, www.buytrippy.com, as well as through Hightimes.com and other channels. Twilight by Lucy is a product designed to enhance and optimize consumer's nightly sleep. The introduction of Twilight alongside Mindful underscores Lucy's dedication to providing solutions in the psychotropic marketplace.

On July 24, 2023, Christopher McElvany resigned from his positions as the Company's President and Chief Executive Officer and resigned as a member of the Company's Board. The Company and Mr. McElvany agreed that his last day of employment was July 14, 2023. Mr. McElvany did not resign as a result of any disagreement with the Company on any matter relating to the Company's operations, policies or practices.

On July 24, 2023, the Board ratified the appointment of Richard Nanula (a member of the Board since February 2022) as Chief Executive Officer.

On September 6, 2023, we entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with Hightimes to acquire the intellectual property of High Times. Hightimes owns all of the issued and outstanding shares of common stock of HT-Lucy Acquisition Corp., a Delaware corporation. Pursuant to the Stock Purchase Agreement, Hightimes agreed to sell to us all of the common stock of HT-Lucy Acquisition Corp. upon the terms and subject to the conditions of the Stock Purchase Agreement. In exchange for the common stock of HT-Lucy Acquisition Corp., we shall pay Hightimes as consideration (i) the number of shares of common stock of the Company that represents 19.9% of the total issued and outstanding shares of the Company at the closing; and (ii) semi-annual earn-out payments (the "Hightimes Earn-Out Payments") payable for the five (5) consecutive fiscal years ending on June 30, 2029, in amounts equal to three (3) times the adjusted EBITDA of HT-Lucy Acquisition Corp., calculated pursuant to the terms of the Stock Purchase Agreement. We have the discretion to pay the Hightimes Earn-Out Payments with either Buyer Common Stock or cash. At the closing, we will also cause HT-Lucy Acquisition Corp. to enter into an intellectual property license agreement pursuant to which HT-Lucy Acquisition Corp. will grant to an affiliate of Hightimes the exclusive right and license to utilize certain intellectual property rights to operate retail stores and to manufacture and sell THC products in the United States in return for a license fee of $1.0 million per year, increasing to $2.0 million per year upon Federal legalization.

On September 12, 2023, we entered into an amalgamation agreement (the "Amalgamation Agreement") with Bluesky Biologicals Inc. ("Bluesky") to acquire the Bluesky. Bluesky, through Bluesky Wellness Inc., owns a portfolio of plant-based wellness brands including Keoni, Keoni Sport, Blush Wellness and AMMA Healing. Pursuant to the Amalgamation Agreement, Bluesky will amalgamate with a wholly-owned subsidiary of the Company upon the terms and subject to the conditions of the Amalgamation Agreement. We shall pay Bluesky as consideration (i) the number of shares of common stock of the Company that represents 19.9% of the total issued and outstanding shares of the Company at the closing; and (ii) earn-out payments (the "Bluesky Earn-Out Payments") payable for the four (4) consecutive fiscal years ending on June 30, 2028, the six (6) month period ended June 30, 2024, and the six (6) month period ending December 31, 2028, in amounts equal to two and one half (2.5) times the adjusted EBITDA of Bluesky, calculated pursuant to the terms of the Amalgamation Agreement. We have the discretion to pay the Bluesky Earn-Out Payments with either the Company's common shares or cash.

On September 21, 2023, we received a deficiency letter (the "Notice") from the Listing Qualifications Department of Nasdaq notifying the Company that, based upon the closing bid price of the Common Shares, for the last 30 consecutive business days, the Company was not in compliance with the requirement to maintain a minimum bid price of $1.00 per share for continued listing on Nasdaq, as set forth in Nasdaq Listing Rule 5550(a)(2) (the "Minimum Bid Requirement").

The Notice had no immediate effect on the continued listing status of the Common Shares on Nasdaq, and, therefore, the Company's listing remains fully effective. We were provided a compliance period of 180 calendar days from the date of the Notice, or until March 19, 2024, to regain compliance with the Minimum Bid Requirement. If the Company is not in compliance with the Minimum Bid Requirement by March 19, 2024, the Company may be afforded a second 180 calendar day compliance period. To qualify for this additional compliance period, the Company will be required to meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for Nasdaq, with the exception of the Minimum Bid Price requirement.

The Company will continue to monitor the closing bid price of its Common Shares and seek to regain compliance with all applicable Nasdaq requirements within the allotted compliance period. However, there can be no assurance that the Company will regain compliance with the Minimum Bid Requirement within the allotted compliance period, including any extensions that may be granted by Nasdaq. If the Company does not regain compliance, Nasdaq will provide notice that the Common Shares will be subject to delisting. The Company would then be entitled to appeal that determination to a Nasdaq hearings panel.

On December 12, 2023, the Company entered into a securities purchase agreement ("SPA") with three purchasers (each a "December Note Purchaser") for the sale of convertible notes (the "Notes"), having an aggregate principal amount of up to $2,000,000 and convertible into the Company's common shares. The Notes carry an original issue discount of up to a total of $200,000. The aggregate purchase price of the Notes is $1,800,000. One of the December Note Purchasers is Whistling Pines LLC. The biological son of Paul Abramowitz, one of our directors, is a beneficial owner of Whistling Pines LLC. Refer to "Liquidity and Capital Resources" for additional disclosure with respect to the Notes.

COVID-19 Impacts

We are continuing to closely monitor the impact of the global COVID-19 pandemic on our business, and we are taking proactive efforts designed to protect the health and safety of our employees and consultants and to maintain the continuity of our business. We believe that the measures we are implementing are appropriate, and we will continue to monitor and seek to comply with guidance from governmental authorities and adjust our activities as we deem appropriate.

While the COVID-19 pandemic has not yet resulted in a significant impact to the development of our business and operations, as the pandemic continues, we could see an impact on our ability to advance our manufacturing and research programs, obtain supplies from key suppliers or interact with regulators, ethics committees or other important agencies due to limitations in regulatory authority, employee resources or otherwise. In any event, if the COVID-19 pandemic continues and persists for an extended period of time, we could experience significant disruptions to our development timelines, which would adversely affect our business, financial condition, results of operations, and growth prospects.

In addition, while the potential economic impact brought by, and the duration of, the COVID-19 pandemic may be difficult to assess or predict, the pandemic could result in significant and prolonged disruption of global financial markets, reducing our ability to access capital, which could in the future negatively affect our liquidity. In addition, a recession or market correction resulting from the spread of COVID-19 could materially affect our business and the potential value of our common shares.

The extent of the impact of the COVID-19 pandemic on our efforts, our ability to raise sufficient additional capital on acceptable terms, if at all, and the future value of and market for our common shares will depend on future developments that are highly uncertain and cannot be predicted with confidence at this time, such as the ultimate duration of the pandemic, travel restrictions, quarantines, social distancing and business closure requirements in Canada, the United States and in other countries, and the effectiveness of actions taken globally to contain and treat COVID-19.

Components of Operating Results

Net Product Sales

Net product sales consist primarily of sales of Mindful by Lucy which was launched in March 2023 and Twilight by Lucy which was launched in July 2023. The online order and receipt of full payment creates the customer contract. Revenue is measured based on the amount of consideration that we receive from customers when they place an order, reduced by estimates for return allowances. Performance obligation is the delivery of the ordered product to the customer and the performance condition is satisfied, and revenue is recognized, when control of the goods is transferred to the customer, which generally occurs upon our delivery to a third-party carrier. There were no product sales during the three months ended September 30, 2023 as the Company was changing its payment processor. Sales commenced again in October 2023.

Cost of Sales

Cost of sales primarily consists of the purchase price of Mindful by Lucy and Twilight by Lucy, shipping costs, payment processing and related transaction costs, and applicable sales taxes. There were no product sales during the three months ended September 30, 2023 as the Company was changing its payment processor. Sales commenced again in October 2023.

Selling, General and Administrative Expenses

Selling, general and administrative expense consists primarily of employee-related expenses, including salaries, share-based compensation expense, benefits, and travel for our personnel in executive, finance and accounting, human resources, and other administrative functions, as well as fees paid for accounting, legal and tax services, consulting fees and facilities costs. General and administrative expense also includes corporate facility costs, including allocated rent and utilities, insurance premiums, legal fees related to corporate matters, and fees for auditing, accounting, and other consulting services.

Interest Expense

Interest expense primarily relates to interest charges associated with warrants issued under our line of credit. The warrants were fully expensed in November 2023, which will result in a reduction of interest expense in future periods.

Loss on Issuance of Convertible Notes

Loss on issuance of convertible notes relates to the December 12, 2023 convertible note issuance since the financial liabilities at fair value exceeded the proceeds resulting in a loss on issuance.

Change in Commitment to Issue Common Shares

Change in commitment to issue common shares relates to an obligation to issue common shares with a value of $270,000 in relation to the December 12, 2023 convertible note issuance. The number of common shares to be issued is based on the lowest closing price of the Company's common shares on the 20 days preceding issuance. As the number of common shares to be issued is variable, the Company recorded the obligation as a financial liability with changes in fair value recorded in profit and loss.

Change in Fair Value of Conversion Feature

Change in fair value of conversion feature relates to the conversion option associated with the December 12, 2023 convertible note issuance. The Company has determined that the conversion feature embedded in the convertible notes constitutes a derivative liability which has been bifurcated from the convertible notes. Changes in fair value of the conversion feature are recorded in profit and loss.

Change in Fair Value of Default Penatly

Change in fair value of default penalty relates to the default penalty associated with the December 12, 2023 convertible note issuance. The Company has determined that the default penalty embedded in the convertible notes constitutes a derivative liability which has been bifurcated from the convertible notes. Changes in fair value of the default penalty are recorded in profit and loss.

Loss from Discontinued Operations

In November 2023, we made the strategic decision to surrender the Dealer's Licence and vacate our leased warehouse to better manage our costs. The Company intends to monitor the psychedelic marketplace and revisit the Dealer's License when the regulatory landscape provides for a clearer path to meaningful revenues. In addition, the Company will no longer be pursuing development and commercialization of TerraCube.

Foreign Currency Translation Adjustment

The amount of foreign currency translation adjustment will fluctuate from period to period with changes in foreign exchange rates between Canadian dollars and U.S. dollars.

Results of Operations

Comparison of the Three Months Ended December 31, 2023 and 2022

The following table summarizes our results of operations for the periods indicated:

For the three months ended December 31:	**2023**	2022
	$	$
Net product sales	**9,684**	—
Cost of sales	**3,868**	—
Gross profit	**5,816**	—
Operating expenses		
Selling, general and administrative expense	**868,325**	182,043
Total operating expenses	**868,325**	182,043
Operating loss	**(862,509)**	(182,043)
Non-operating expense (income)		
Interest expense	**128,471**	485,278
Loss on convertible note issuance	**508,599**	—
Change in commitment to issue common shares	**(59,493)**	—
Change in fair value of conversion feature	**(139,437)**	—
Change in fair value of default penalty	**3,099**	—
Other income	**(6)**	(5)
Net loss from continuing operations	**(1,303,742)**	(667,316)
Net loss from discontinued operations	**(1,315,785)**	(266,491)
Foreign currency translation adjustment, net of tax of $nil	**(1,182)**	(101,117)
Comprehensive loss	**(2,620,709)**	(1,034,924)

Net Product Sales. Net product sales consist primarily of sales of Mindful by Lucy which was launched in March 2023 and Twilight by Lucy which was launched in July 2023. The online order and receipt of full payment creates the customer contract. Revenue is measured based on the amount of consideration that we receive from customers when they place an order, reduced by estimates for return allowances. Performance obligation is the delivery of the ordered product to the customer and the performance condition is satisfied, and revenue is recognized, when control of the goods is transferred to the customer, which generally occurs upon our delivery to a third-party carrier.

Cost of Sales. Cost of sales primarily consists of the purchase price of Mindful by Lucy and Twilight by Lucy, shipping costs, payment processing and related transaction costs, and applicable sales taxes.

Selling, general and administrative expenses. Selling, general and administrative expenses were $868,325 for the three months ended December 31, 2023, compared to $182,043 for the three months ended December 31, 2022. The increase is attributable to increased expenses as a result of operating as a public company, including expenses related to audit, legal, regulatory and tax-related services associated with maintaining compliance with SEC rules and regulations and those of any national securities exchange on which our securities are traded, additional insurance expenses, investor relations activities and other administrative and professional services. The three months ended December 31, 2022 was reduced due to the Company incurring fewer legal, regulatory, and personnel expenses in anticipation of completion of the IPO.

Interest expense. Interest expense was $128,471 for the three months ended December 31, 2023, compared to interest expense of $485,278 for the three months ended December 31, 2022. During the three months ended December 31, 2023, interest expense included $121,119 related to warrants issued in connection with the line of credit. During the three months ended December 31, 2022, interest expense included $382,345 related to the warrants issued in connection with the line of credit. The interest expense related to the warrants decreased due to the maturity of the line of credit on November 5, 2023. Interest expense decreased due to the automatic conversion of convertible notes and repayment and conversion of notes payable on IPO.

Loss on issuance of convertible notes. Loss on issuance of convertible notes was $508,599 for the three months ended December 31, 2023, compared to loss on issuance of convertible notes of $nil for the three months ended December 31, 2022. The amount relates to the issuance of convertible notes on December 12, 2023 where the fair value of financial liabilities exceeded the proceeds of the convertible notes.

Change in commitment to issue common shares. Change in commitment to issue common shares was a gain of $59,493 for the three months ended December 31, 2023, compared to a gain on the change in commitment to issue common shares of $nil for the three months ended December 31, 2022. The gain was the result of an increase in the lowest closing price of the Company's common shares for the 20 trading days preceding December 31, 2023 to $0.21 as compared to $0.198 for the 20 trading days preceding December 12, 2023.

Change in fair value of conversion feature. Change in fair value of conversion feature was a gain of $139,437 for the three months ended December 31, 2023, compared to a gain on change in fair value of conversion feature of $nil for the three months ended December 31, 2022. The gain was a result of a decline in the price of the Company's common shares from $0.285 on December 12, 2023 to $0.256 on December 31, 2023.

Change in fair value of default penalty. Change in fair value of default penalty was a loss of $3,099 for the three months ended December 31, 2023, compared to a loss on change in fair value of default penalty of $nil for the three months ended December 31, 2022. The loss was a result of a decline in the volatility and risk-free rate assumptions.

Other income. Other income was $6 for the three months ended December 31, 2023, compared to other income of $5 for the three months ended December 31, 2022.

Loss from discontinued operations. Loss from discontinued operations was $1,315,785 for the three months ended December 31, 2023 as compared to a loss of $266,491 for the three months ended December 31, 2022. The increase in net loss was attributable to an impairment loss of $1,436,459 related to the Company's property, plant, and equipment, right of use asset and long-term deposits and a loss of $191,540 related to the disposal of property, plant, and equipment. These losses were partially offset by a gain on change in estimated lease term of $588,033 for the Company's leased warehouse as the Company no longer anticipates exercising the 5-year renewal option and therefore revalued the lease to exclude payments during the renewal period.

Foreign Currency Translation Adjustment. Foreign currency translation adjustment was a loss of $1,182 for the three months ended December 31, 2023, compared to a loss of $101,117 for the three months ended December 31, 2022. The decrease in net loss is due to the weakening of the US Dollar relative to the Canadian Dollar.

Comparison of the Six Months Ended December 31, 2023 and 2022

The following table summarizes our results of operations for the periods indicated:

For the six months ended December 31:	**2023**	2022
	$	$
Net product sales	**9,684**	—
Cost of sales	**3,868**	—
Gross profit	**5,816**	—
Operating expenses		
Selling, general and administrative expense	**2,254,798**	810,675
Total operating expenses	**2,254,798**	810,675
Operating loss	**(2,248,982)**	(810,675)
Non-operating expense (income)		
Interest expense	**519,075**	1,028,499
Loss on convertible note issuance	**508,599**	—
Change in commitment to issue common shares	**(59,493)**	—
Change in fair value of conversion feature	**(139,437)**	—
Change in fair value of default penalty	**3,099**	—
Other income	**(17)**	(44)
Net loss from continuing operations	**(3,080,808)**	(1,839,130)
Net loss from discontinued operations	**(1,536,769)**	(466,418)
Foreign currency translation adjustment, net of tax of $nil	**(78,577)**	299,663
Comprehensive loss	**(4,696,154)**	(2,005,885)

Net Product Sales. Net product sales consist primarily of sales of Mindful by Lucy which was launched in March 2023 and Twilight by Lucy which was launched in July 2023. The online order and receipt of full payment creates the customer contract. Revenue is measured based on the amount of consideration that we receive from customers when they place an order, reduced by estimates for return allowances. Performance obligation is the delivery of the ordered product to the customer and the performance condition is satisfied, and revenue is recognized, when control of the goods is transferred to the customer, which generally occurs upon our delivery to a third-party carrier.

Cost of Sales. Cost of sales primarily consists of the purchase price of Mindful by Lucy and Twilight by Lucy, shipping costs, payment processing and related transaction costs, and applicable sales taxes.

Selling, general and administrative expenses. Selling, general and administrative expenses were $2,254,798 for the six months ended December 31, 2023, compared to $810,675 for the six months ended December 31, 2022. The increase is attributable to increased expenses as a result of operating as a public company, including expenses related to audit, legal, regulatory and tax-related services associated with maintaining compliance with SEC rules and regulations and those of any national securities exchange on which our securities are traded, additional insurance expenses, investor relations activities and other administrative and professional services. The six months ended December 31, 2022 was reduced due to the Company incurring fewer legal, regulatory, and personnel expenses in anticipation of completion of the IPO.

Interest expense. Interest expense was $519,075 for the six months ended December 31, 2023, compared to interest expense of $1,028,499 for the six months ended December 31, 2022. During the six months ended December 31, 2023, interest expense included $508,311 related to warrants issued in connection with the line of credit. During the six months ended December 31, 2022, interest expense included $765,039 related to the warrants issued in connection with the line of credit. The interest expense related to the warrants decreased due to the maturity of the line of credit on November 5, 2023. Interest expense decreased due to the automatic conversion of convertible notes and repayment and conversion of notes payable on IPO.

Loss on issuance of convertible notes. Loss on issuance of convertible notes was $508,599 for the six months ended December 31, 2023, compared to loss on issuance of convertible notes of $nil for the six months ended December 31, 2022. The amount relates to the issuance of convertible notes on December 12, 2023 where the fair value of financial liabilities exceeded the proceeds of the convertible notes.

Change in commitment to issue common shares. Change in commitment to issue common shares was a gain of $59,493 for the six months ended December 31, 2023, compared to a gain on the change in commitment to issue common shares of $nil for the six months ended December 31, 2022. The gain was the result of an increase in the lowest closing price of the Company's common shares for the 20 trading days preceding December 31, 2023 to $0.21 as compared to $0.198 for the 20 trading days preceding December 12, 2023.

Change in fair value of conversion feature. Change in fair value of conversion feature was a gain of $139,437 for the six months ended December 31, 2023, compared to a gain on change in fair value of conversion feature of $nil for the six months ended December 31, 2022. The gain was a result of a decline in the price of the Company's common shares from $0.285 on December 12, 2023 to $0.256 on December 31, 2023.

Change in fair value of default penalty. Change in fair value of default penalty was a loss of $3,099 for the six months ended December 31, 2023, compared to a loss on change in fair value of default penalty of $nil for the six months ended December 31, 2022. The loss was a result of a decline in the volatility and risk-free rate assumptions.

Other income. Other income was $17 for the six months ended December 31, 2023, compared to other income of $44 for the six months ended December 31, 2022.

Loss from discontinued operations. Loss from discontinued operations was $1,536,769 for the six months ended December 31, 2023 as compared to a loss of $466,418 for the six months ended December 31, 2022. The increase in net loss was attributable to an impairment loss of $1,533,570 related to the Company's property, plant, and equipment, right of use asset and long-term deposits and a loss of $191,540 related to the disposal of property, plant, and equipment. These losses were partially offset by a gain on change in estimated lease term of $588,033 for the Company's leased warehouse as the Company no longer anticipates exercising the 5-year renewal option and therefore revalued the lease to exclude payments during the renewal period.

Foreign Currency Translation Adjustment. Foreign currency translation adjustment was a loss of $78,577 for the six months ended December 31, 2023, compared to a gain of $299,663 for the six months ended December 31, 2022. The loss is due to the strengthening of the US Dollar relative to the Canadian Dollar.

Liquidity and Capital Resources

Sources of Liquidity

Since inception, we have incurred operating losses and negative cash flows from our operations. Our operations have been financed primarily by the sale and issuance of our common shares, from the issuance of convertible and non-convertible promissory notes, and our IPO. We will continue to be dependent upon equity and debt financings or collaborations or other forms of capital at least until we are able to generate positive cash flows from product sales, if ever.

Our comprehensive loss was $4,696,154 for the six months ended December 31, 2023. As of December 31, 2023, we had an accumulated deficit of $49,033,375 and cash of $211,120. Our primary use of cash is to fund operating expenses, which consist primarily of selling, general and administrative expenditures and expenditures for research and development activities when liquidity permits. Cash used to fund operating expenses is impacted by the timing of when we pay these expenses, as reflected in the change in accounts payable and accrued expenses. Our strategy for managing liquidity over the long-term is based on achieving positive cash flows from operations to internally fund operating and capital requirements. We continually monitor factors that may affect our liquidity. These factors include research and development costs, operating costs, capital costs, income tax refunds, foreign currency fluctuations, seasonality, market immaturity and a highly fluid environment related to state and federal law passage and regulations.

Working Capital

At December 31, 2023 and June 30, 2023, we had a working capital deficiency of $2,148,398 and working capital of $1,112,299, respectively, as follows:

As of:	December 31, 2023	June 30, 2023
	$	$
Cash	**211,120**	1,673,874
Prepaid expenses	**1,118,025**	1,170,021
Accounts receivable	**642**	7,048
Other assets – GST receivable	**8,338**	62,649
Other receivable	—	336,706
Deferred financing costs, current	—	523,041
Assets of discontinued operations, current	—	49,159
Total current assets	**1,338,125**	3,822,498
Accounts payable and accrued liabilities	**1,384,412**	1,291,063
Due to related parties	**608,240**	1,019,894
Notes payable, current	**60,487**	60,423
Convertible notes	**9,056**	—
Commitment to issue common shares	**329,143**	—
Conversion feature	**667,521**	—
Default penalty	**70,107**	—
Liabilities of discontinued operations, current	**357,557**	338,819
Total current liabilities	**3,486,523**	2,710,199
Working capital (deficiency)	**(2,148,398)**	1,112,299

Cash Flows

Comparison of the Six Months Ended December 31, 2023 and 2022

The following table summarizes our results of operations for the periods indicated:

Net cash provided by (used in)	December 31, 2023	December 31, 2022
	$	$
Operating activities – continuing operations	**(1,619,220)**	173,852
Operating activities – discontinued operations	**(408,744)**	(544,819)
Investing activities	**(123,000)**	34,106
Financing activities	**757,003**	310,869
Effect of exchange rate changes on cash	**(68,793)**	(1,328)
Cash, beginning of period	**1,673,874**	53,379
Cash, end of period	**211,120**	26,059

Operating Activities – Continuing Operations

Cash used in operating activities of continuing operations during the six months ended December 31, 2023 was $1,619,220. The cash used in operating activities of continuing operations is attributable to the following:

- Net loss from continuing operations of $3,080,808 due primarily to spend on selling, general and administrative expenses and non-cash interest expense. Included in net loss are non-cash items of $902,113 for the six months ended December 31, 2023.
- Movements in prepaid expenses and deposits increased cash by $256,391 related to insurance payments and warrants issued for consulting.
- Movements in accounts receivable which increased cash by $6,406 due to timing of receipt from product sales.
- Movements in other assets including GST receivable which increased cash by $52,790 due to timing of receipt from the Canadian government.
- Movements in other receivable which increased cash by $336,706 due to timing of receipt of funds garnished and paid into the British Columbia Supreme Court and subsequently received by the Company.

- Movements in accounts payable and accrued liabilities which increased cash by $211,664 due to timing of payments to vendors.

- Movements in due to related parties which decreased cash by $304,482 due to payments for various related parties.

Cash provided by operating activities of continuing operations during the six months December 31, 2022 was $173,852. The cash provided by operating activities of continuing operations is attributable to the following:

- Net loss from continuing operations of $1,839,130 due primarily to spend on selling, general and administrative expenses and non-cash interest and change in fair value of warrant liability. Included in net loss are non-cash items of $1,277,610 for the six months ended December 31, 2022.

- Movements in prepaid expenses and deposits decreased cash by $16,213.

- Movements in other assets including GST receivable which decreased cash by $24,839 due to timing of receipt from the Canadian government.

- Movements in accounts payable and accrued liabilities which increased cash by $420,264 due to timing of payments to vendors.

- Movements in due to related parties which increased cash by $356,160 due to deferral of payments for various related parties.

Operating Activities – Discontinued Operations

Cash used in operating activities of discontinued operations during the six months ended December 31, 2023 was $408,744. The cash used in operating activities of discontinued operations is attributable to the following:

- Net loss from discontinued operations of $1,536,769 due primarily to spend on selling, general and administrative expenses and non-cash impairment loss, loss of disposal of property, plant, and equipment which was partially offset by a gain on change in estimated lease term. Included in net loss are non-cash items of $1,174,205 for the six months ended December 31, 2023.

- Movements in lease liability which decreased cash by $46,180 due to contractual lease payments.

Cash used in operating activities of discontinued operations during the six months December 31, 2022 was $466,418. The cash used in operating activities of discontinued operations is attributable to the following:

- Net loss from discontinued operations of $466,418 due primarily to spend on selling, general and administrative expenses. Included in net loss are non-cash items of $52,470 for the six months ended December 31, 2022.

- Movements in prepaid expenses and deposits increased cash by $17,133.

- Movements in lease liability which decreased cash by $148,004 due to contractual lease payments.

Investing Activities

Cash used in investing activities during the six months ended December 31, 2023 was $123,000 related to payment of balances due on the acquisition of intellectual property and related assets of Wesana Health Holdings Inc.

Cash provided by investing activities during the six months ended December 31, 2022 was $34,106 related to the sales of digital assets which had been purchased through funds received on issuance of convertible notes.

Financing Activities

Cash provided by financing activities for the six months ended December 31, 2023 was $757,003 which was the result of funds raised from the issuance of convertible notes.

Cash provided by financing activities for the six months ended December 31, 2022 was $310,869, which was the result of funds raised from the issuance of convertible notes which was partially offset by deferred issuance costs.

Indebtedness

The company had the following indebtedness during the six months ended December 31, 2023 and 2022:

Credit Facility

In November 2020, we entered into a credit agreement with Origo BC Holdings Ltd., ("the Origo Credit Agreement"). Under the Origo Credit Agreement, we obtained a line of credit in an aggregate principal amount of up to $4,937,130, of which we can request an advance of up to $369,822 in any calendar quarter. The Origo Credit Agreement has a term of three years, and all borrowings thereunder bear interest at a rate of 8% per annum. In the event of default, all outstanding indebtedness under the Origo Credit Agreement will bear interest at a rate of 15% per annum. In November 2023 the Origo Credit Agreement matured and is no longer available to the Company.

Convertible Notes

On December 12, 2023, the Company entered into a SPA with three December Note Purchasers for the sale of Notes, having an aggregate principal amount of up to $2,000,000 and convertible into the Company's common shares. The Notes carry an original issue discount of up to a total of $200,000. The aggregate purchase price of the Notes is $1,800,000. One of the December Note Purchasers is Whistling Pines LLC. The biological son of Paul Abramowitz, one of our directors, is a beneficial owner of Whistling Pines LLC.

On December 12, 2023, the Company received a total of $850,003, before closing costs, at the closing of the first tranche of the financing (the "First Tranche"). The First Tranche's original issue discount, added to the principal amount owed by the Company, was a total of $94,445, for a total principal balance of $944,447. Closing costs including legal fees and a brokerage fee were $92,999. The Notes are repayable on December 12, 2024 and accrue interest at a rate of 10.0% per annum. The payment of further consideration by the December Note Purchasers to the Company, pursuant to the SPA and the Notes, is at the December Note Purchasers sole discretion (the "Subsequent Tranches"). The obligations of the Company under the Notes are secured by all of the Company's assets pursuant to the terms of the security and pledge agreements by and between the Company and each December Note Purchaser.

Pursuant to the SPA, in connection with the payment of the First Tranche, the December Note Purchaser received warrants to purchase up to an aggregate of 1.500,000 common shares at an exercise price of $0.25 for a term of 5 years (the "Warrants").

On the earliest date that the common shares underlying the Note would be eligible to be unrestricted in the hands of the December Note Purchasers (either pursuant to registration, Rule 144, or any other applicable exemption from registration), the Company shall issue to the December Note Purchaser s a number of common shares so that the value of such common shares is equal to a total of $450,000 (the "Equity Interest Value") based on the lowest daily closing price of the Company's common shares during the 20 trading days preceding the date of issuance (the "Equity Interest"). The Equity Interest Value related to the First Tranche was $270,000.

The Company may prepay the Notes at any time prior to the Maturity Date, upon 30 days' notice to the December Note Purchaser's in an amount equal to 110% multiplied by the sum of (i) the outstanding principal amount, (ii) all accrued and unpaid interest, (iii) all accrued interest through the remainder of the Note term, and (iv) any other amounts due under the Note. The Company is required to make monthly interest payments to the December Note Purchasers, starting in January 2024, until the principal amount is due in December 2024.

The Notes are convertible at the December Note Purchasers option (in whole or in part) at any time into the number of common shares equal to the sum of (1) the principal amount of the Note to be converted in such conversion; plus (2) at the Investor's option, accrued and unpaid interest, provided, however, that at the option of December Note Purchaser, the accrued and unpaid interest can be converted prior to any other amounts under the Note, if any, on such principal amount at the interest rates provided in the Note to the conversion date (as defined in the Notes); plus (3) at the December Note Purchasers option, the lesser of the rate of 24% per annum or the maximum legal amount permitted by law (the "Default Interest"), if any, on the amounts referred to in the immediately preceding clauses (1) and/or (2); plus (4) the Investor's expenses relating to a conversion, including but not limited to amounts paid by Investor on the Company's transfer agent account; and (5) at the December Note Purchasers option, any amounts owed to the Investor pursuant to Sections 2.3 and 2.4(g) of the Notes.

Under the terms of the Notes and the Warrants and other warrants, if any, held by the December Note Purchasers, the December Note Purchasers may not convert any such Notes or exercise any such Warrants to the extent such exercise would cause the December Note Purchasers, together with its affiliates and attribution parties, to beneficially own a number of common shares which would exceed 9.99%, or 4.99% in certain cases, of our then outstanding common shares following such conversion or exercise, excluding for purposes of such determination common shares issuable upon conversion of such Notes or exercise of such warrants which have not been converted or exercised.

The Notes set forth certain standard events of default (such event, an "Event of Default"), subject to certain cure periods. Upon the occurrence of an Event of Default (after the expiration of any applicable cure period), (i) interest shall accrue at the Default Interest rate (as defined in the Notes); (ii) the Notes shall become immediately due and payable and the Company shall pay to the December Note Purchasers an amount equal to the sum of the principal amount then outstanding plus accrued and unpaid interest through the date of the Event of Default, plus unaccrued interest through the remainder of the term of the Notes, together with all costs, including, without limitation, legal fees and expenses of collection and Default Interest through the date of full repayment; and (iii) a liquidated damages charge equal to 25% of the outstanding balance due under the Notes will be assessed and will become immediately due and payable to the December Note Purchasers.

Funding Requirements

We have incurred significant operating losses since our inception and expect to continue to incur significant operating losses for at least the next several years. Moreover, we expect our losses to increase as we enhance our manufacturing and research facilities and product offerings. We may also incur expenses in connection with the in-licensing or acquisition of additional product candidates. Furthermore, following the completion of the IPO on February 13, 2023, we expect to incur additional costs associated with operating as a public company, including significant legal, accounting, investor relations and other expenses that we did not incur as a private company. Our primary uses of capital are, and we expect will continue to be, compensation and related expenses, manufacturing and development services, manufacturing costs, legal and other regulatory expenses and general overhead costs.

At the time of issuance of our financial statements as of and for the six months ended December 31, 2023, we concluded that there was substantial doubt about our ability to continue as a going concern for one year from the issuance of the consolidated financial statements. We have based our projections of operating capital requirements on assumptions that may prove to be incorrect and we may use all of our available capital resources sooner than we expect. Because of the numerous risks and uncertainties associated with our research and manufacturing efforts, we are unable to estimate the exact amount of our operating capital requirements. Our future funding requirements depend on many factors, including, but not limited to:

- our ability to complete the acquisition of Bluesky Biologicals Inc. or the acquisition of the intellectual property of Hightimes Holding Corp.;
- the cost of commercialization activities, including marketing, sales and distribution costs;
- our ability to establish and maintain strategic collaborations, licensing or other arrangements and the financial terms of any such agreements that we may enter into;
- the expenses needed to attract and retain skilled personnel;
- our need to implement additional internal systems and infrastructure, including financial and reporting systems, and other costs associated with being a public company;
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing our intellectual property portfolio; and
- the impact of the COVID-19 pandemic.

Further, our development and commercialization operating plans may change, and we may need additional funds to meet operational needs and capital requirements for manufacturing or research and development activities and commercialization of our products. Because of the numerous risks and uncertainties associated with the development, manufacturing and commercialization of our products, we are unable to estimate the amounts of increased capital outlays and operating expenditures associated with our current and anticipated operations.

We may finance our cash needs through public or private equity or debt offerings or other sources such as strategic collaborations. However, we may be unable to raise additional funds or enter into such other arrangements when needed or on terms that are acceptable to us, or at all. To the extent that we raise additional capital by issuing our equity securities, our existing stockholders may experience substantial dilution, and the terms of these securities may include liquidation or other preferences that could harm the rights of a common shareholder. Any agreements for future debt or preferred equity financings, if available, may involve covenants limiting or restricting our ability to take specific actions, such as incurring additional indebtedness, making capital expenditures or declaring dividends. If we raise additional funds through collaborations, strategic alliances or marketing, distribution or licensing arrangements with third parties, we may be required to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates, or grant licenses on terms that may not be favorable to us. We may seek additional capital due to favorable market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans.

Despite the risks and uncertainties, management believes that we will have sufficient working capital to meet our liquidity needs through twelve months from the issuance date of the financial statements included in this Quarterly Report.

Off-Balance Sheet Arrangements

During the periods presented we did not have, nor do we currently have, any off-balance sheet arrangements as defined in the rules and regulations of the SEC.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are more fully described in the notes to our audited financial statements included elsewhere in this Quarterly Report, we believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

Share-Based Payments

We account for our stock-based compensation as expense in the statements of operations based on the awards' grant date fair values. We account for forfeitures as they occur by reversing any expense recognized for unvested awards.

We estimate the fair value of options granted using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires inputs based on certain subjective assumptions, including (a) the expected stock price volatility, (b) the calculation of expected term of the award, (c) the risk-free interest rate and (d) expected dividends. Due to the historical lack of a public market for our common stock and a lack of company-specific historical and implied volatility data, we have based our estimate of expected volatility on the historical volatility of a group of similar companies that are publicly traded. The historical volatility is calculated based on a period of time commensurate with the expected term assumption. The computation of expected volatility is based on the historical volatility of a representative group of companies with similar characteristics to us, including stage of product development and life science industry focus. We use the simplified method as allowed by the Securities and Exchange Commission, or SEC, Staff Accounting Bulletin, or SAB, No. 107, Share-Based Payment, to calculate the expected term for options granted to employees as we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected term of the share purchase options. The expected dividend yield is assumed to be zero as we have never paid dividends and have no current plans to pay any dividends on our common stock. The fair value of stock-based payments is recognized as expense over the requisite service period which is generally the vesting period.

Derivative Liability

We account for derivative instruments in accordance with ASC 815, *Derivatives and Hedging*, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other financial instruments or contracts, and requires recognition of all derivatives on the balance sheet at fair value. At December 31, 2023, we classified the conversion feature and default penalty associated with the December 12, 2023 convertible notes as derivative instruments. Assumptions used in the valuation of the derivative liabilities are based on management's estimate, which are updated either quarterly or on the settlement of the derivative liability. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of loss and other comprehensive loss in specific periods.

Common Stock Valuation

As there was no public market for our common stock prior to February 13, 2023, the estimated fair value of our common stock has historically been determined by our board of directors, with input from management based upon the most recent cash common share offering to arms' length parties. In addition to considering the most recent cash arms' length third party offering, our board of directors considered various objective and subjective factors to determine the fair value of our common stock as of each grant date, including:

- the progress of our research and development programs, including the status and results of preclinical studies for our product candidates;
- our stage of development and commercialization and our business strategy;

- external market conditions affecting the biotechnology industry and trends within the biotechnology industry;
- our financial position, including cash on hand, and our historical and forecasted performance and operating results;
- the lack of an active public market for our common stock;
- the likelihood of achieving a liquidity event or sale of our company in light of prevailing market conditions; and
- the analysis of initial public offerings and the market performance of similar companies in the biotechnology industry.

The assumptions underlying these valuations represented management's best estimate, which involved inherent uncertainties and the application of management's judgment. As a result, if we had used different assumptions or estimates, the fair value of our common stock and our stock-based compensation expense could have been materially different.

Subsequent to February 13, 2023, the fair value of our common stock has been determined based on the quoted market price of our common stock on the date of grant and discounted for any trading restrictions.

Income Taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. We recognize liabilities and contingencies for anticipated tax audit issues based on our current understanding of the tax law in the relevant jurisdiction. For matters where it is probable that an adjustment will be made, we record our best estimate of the tax liability including the related interest and penalties in the current tax provision.

We believe that we have adequately provided for the probable outcome of these matters; however, the outcome may result in a materially different outcome than the amount included in the tax liabilities. In addition, we recognize deferred tax assets relating to tax losses carried forward only to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

Useful Lives of Property, Plant and Equipment and Intangibles

Property, plant, and equipment and intangible assets are amortized or depreciated over their useful lives. Useful lives are based on management's estimate of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the statement of loss and other comprehensive loss in specific periods.

Impairment

Long-lived assets, including intangible assets are reviewed for indicators of impairment at each statement of financial position date 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, or CGU. Judgments and estimates are required in defining a CGU and determining the indicators of impairment and the estimates required to measure an impairment, if any.

Recently Adopted Accounting Pronouncements

See the section titled "Notes to Condensed Consolidated Interim Financial Statements — Note 2" included elsewhere in this Quarterly Report for additional information.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As a "smaller reporting company," as that term is defined in Rule 229.10(f)(1), we are not required to provide the information required by this Item.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, including our President and Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal financial and accounting officer), do not expect that our disclosure controls or our internal control over financial reporting will prevent all error and all fraud. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our President and Chief Executive Officer and our Chief Financial Officer have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this Quarterly Report. Based on this evaluation, our President and Chief Executive Officer and our Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were not effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our President and Chief Executive Officer and our Chief Financial Officer, to allow for timely decisions regarding required disclosures, and recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

The Company has certain material weaknesses in internal controls as described below:

- Company lacks an effective control environment;
- Company has not formally designed and implemented risk assessment controls;
- Company has not formally designed and implemented monitoring controls; and
- Company lacks segregation of duties in several areas, and its review controls are not considered operating effectively due to historical misstatements.

Changes in Internal Control

During the six months ended December 31, 2023, there were no changes in our internal controls over financial reporting, which were identified in connection with our management's evaluation required by paragraph (d) of rules 13a-15 and 15d-15 under the Exchange Act, that materially affected, or is reasonably likely to have a materially affect, on our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are not aware of any pending legal actions that would, if determined adversely to us, have a material adverse effect on our business and operations.

We may, from time to time, become involved in disputes and proceedings arising in the ordinary course of business. In addition, as a public company, we are also potentially susceptible to litigation, such as claims asserting violations of securities laws. Any such claims, with or without merit, if not resolved, could be time-consuming and result in costly litigation. There can be no assurance that an adverse result in any future proceeding would not have a potentially material adverse effect on our business, results of operations, and financial condition.

Item 1A. Risk Factors

Our business involves significant risks. You should carefully consider the risks described below, together with all of the other information in this Quarterly Report on Form 10-Q, including our consolidated financial statements and related notes. In addition, we may face additional risks and uncertainties not currently known to us, or which as of the date of this Form 10-Q we might not consider significant, which may adversely affect our business. If any of the following risks occur, our business, financial condition and results of operations could be materially adversely affected. In such case the trading price of our Common Shares could decline due to any of these risks or uncertainties, and you may lose part or all of your investment.

Risks Related to Ownership of Our Securities

***Our independent auditors concurred with our management's assessment that raises concern as to our ability to continue as a* going concern.**

On a consolidated basis, we have incurred significant operating losses since inception. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty. As of December 31, 2023, we have an accumulated deficit of $49.0 million.

Because we do not expect that existing operational cash flow will be sufficient to fund presently anticipated operations, this raises substantial doubt about our ability to continue as a going concern. Therefore, we will need to raise additional funds and are currently exploring alternative sources of financing. Historically, our operations have been financed primarily by the sale and issuance of our common shares, from the issuance of convertible and non-convertible promissory notes, and our IPO. We will continue to be dependent upon equity and debt financings or collaborations or other forms of capital at least until we are able to generate positive cash flows from product sales, if ever.

If we are unable to obtain sufficient funding, our business, prospects, financial condition and results of operations will be materially and adversely affected, and we may be unable to continue as a going concern.

If we are unable to maintain compliance with all applicable continued listing requirements and standards of Nasdaq, our Common Shares could be delisted from Nasdaq.

Our Common Shares are listed on Nasdaq under the symbol "LSDI." In order to maintain that listing, we must satisfy minimum financial and other continued listing requirements and standards, including those regarding director independence and independent committee requirements, minimum stockholders' equity, minimum share price, and certain corporate governance requirements. There can be no assurances that we will be able to remain in compliance with Nasdaq's listing standards (including the Minimum Bid Requirement for which we need to regain compliance by March 19, 2024 subject to further possible extensions) or if we do later fail to comply and subsequently regain compliance with Nasdaq's listing standards, that we will be able to continue to comply with the applicable listing standards. If we are unable to maintain compliance with these Nasdaq requirements, our Common Shares will be delisted from Nasdaq.

In the event that our Common Shares are delisted from Nasdaq due to our failure to continue to comply with any requirement for continued listing on Nasdaq, and is not eligible for quotation on another market or exchange, trading of our Common Shares could be conducted in the over-the-counter market or on an electronic bulletin board established for unlisted securities such as the OTC Pink or the OTCQB tiers of the OTC marketplace. In such event, it could become more difficult to dispose of, or obtain accurate price quotations for, our Common Shares, and it would likely be more difficult to obtain coverage by securities analysts and the news media, which could cause the price of our Common Shares to decline further. Also, it may be difficult for us to raise additional capital if we are not listed on a national exchange.

The growth of our business depends, in part, on our ability to complete the acquisition of Bluesky and the acquisition of the intellectual property of Hightimes.

We expect to realize significant growth in our business if we are able to complete the acquisition of Bluesky and acquisition of the intellectual property of Hightimes. These acquisitions are subject to the approval of Nasdaq and we cannot predict when, or if, we will complete these acquisitions. The failure to complete one or both of these acquisitions could adversely affect our business, financial condition and results of operations.

Completion of one or both of the acquisitions will dilute our existing stockholders' ownership.

If we are able to complete the acquisition of Bluesky and acquisition of the intellectual property of Hightimes, we will issue the number of Common Shares to the sellers in each transaction that represents 19.9% of the total issued and outstanding shares of the Company at the closing of each transaction. These issuances will cause our existing stockholders' percentage ownership to decrease, and these stockholders to experience substantial dilution.

Future capital raises may dilute our existing stockholders' ownership and/or have other adverse effects on our operations.

If we raise additional capital by issuing equity securities, our existing stockholders' percentage ownership may decrease, and these stockholders may experience substantial dilution. If we raise additional funds by issuing debt instruments, these debt instruments could impose significant restrictions on our operations, including liens on our assets. If we raise additional funds through collaborations and licensing arrangements, we may be required to relinquish some rights to our technologies or products, or to grant licenses on terms that are not favorable to us or could diminish the rights of our stockholders.

In the event that our Common Shares are delisted from Nasdaq, U.S. broker-dealers may be discouraged from effecting transactions in our Common Shares because they may be considered penny stocks and thus be subject to the penny stock rules.

The SEC has adopted a number of rules to regulate "penny stock" that restricts transactions involving stock which is deemed to be penny stock. These rules may have the effect of reducing the liquidity of penny stocks. "Penny stocks" generally are equity securities with a price of less than $5.00 per share (other than securities registered on certain national securities exchanges or quoted on Nasdaq if current price and volume information with respect to transactions in such securities is provided by the exchange or system). Our Common Shares constitute "penny stock" within the meaning of the rules. The additional sales practice and disclosure requirements imposed upon U.S. broker-dealers may discourage such broker-dealers from effecting transactions in our Common Shares, which could severely limit the market liquidity of such Common Shares and impede their sale in the secondary market.

A U.S. broker-dealer selling penny stock to anyone other than an established customer or "accredited investor" (generally, an individual with a net worth in excess of $1,000,000 or an annual income exceeding $200,000, or $300,000 together with his or her spouse) must make a special suitability determination for the purchaser and must receive the purchaser's written consent to the transaction prior to sale, unless the broker-dealer or the transaction is otherwise exempt. In addition, the "penny stock" regulations require the U.S. broker-dealer to deliver, prior to any transaction involving a "penny stock," a disclosure schedule prepared in accordance with SEC standards relating to the "penny stock" market, unless the broker-dealer or the transaction is otherwise exempt. A U.S. broker-dealer is also required to disclose commissions payable to the U.S. broker-dealer and the registered representative and current quotations for the securities. Finally, a U.S. broker-dealer is required to submit monthly statements disclosing recent price information with respect to the "penny stock" held in a customer's account and information with respect to the limited market in "penny stocks."

Stockholders should be aware that, according to the SEC, the market for "penny stocks" has suffered in recent years from patterns of fraud and abuse. Such patterns include (i) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (ii) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (iii) "boiler room" practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (iv) excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and (v) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, resulting in investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities.

Risks Related to Our Financial Position, Limited Operating History and Capital Requirements

We have incurred operating losses since inception and anticipate that we may continue to incur operating losses. We may not achieve or maintain profitability in the foreseeable future.

We have experienced operating losses and cash outflows from operations since incorporation and will require ongoing financing to continue our research and development and production activities. Our success is dependent upon our ability to finance our cash requirements to continue our activities. There may be a risk of default on these liabilities and other liabilities of our business if we cannot raise additional funds through the issuance of additional equity securities, through loan financing, or other means. Our comprehensive loss for the six months ended December 31, 2023 was $4.7 million. As of December 31, 2023, we had an accumulated deficit of $49.0 million. We may incur operating losses for the next several years, and we may not achieve or sustain profitability in the foreseeable future.

We anticipate that our expenses will increase if, and as, we:

- market and sell our products to academic researchers, biopharmaceutical companies and other eligible partners;
- seek to identify and develop or in-license additional products or technologies;
- maintain, expand and protect our intellectual property portfolio; and
- add operational, financial and management information systems personnel to support our operations as a public company.

To become and remain profitable, we must succeed in successfully cultivating, synthesizing, extracting and purifying our products and eventually commercializing our products in order to generate significant revenue. This will require us to be successful in a range of challenging activities, including manufacturing our products at commercial scale, obtaining and maintaining compliance with all required regulatory permitting, and establishing brand recognition in the industry. Our ability to become profitable will be dependent upon, in part and among other things, the size of the market for our products, the number of competitors in such markets, the degree of market acceptance we achieve and the ability of our clients to develop, obtain regulatory approval for and successfully commercialize psychedelics-based therapies.

Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to become and remain profitable may decrease the value of our company and may impair our ability to raise capital, maintain our manufacturing operations, proceed with our planned research and development efforts or expand our business. A decline in the value of our company may cause you to lose all or part of your investment.

Our limited operating history may make it difficult to evaluate our business to date and assess our future viability.

We have no meaningful operations upon which to evaluate our business and predictions about our future success or viability may not be as accurate as they could be if we had a longer operating history or a history of successfully developing and commercializing active pharmaceutical ingredients based on psychedelics. Accordingly, we are subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and lack of revenue. The limited operating history may also make it difficult for investors to evaluate our prospects for success. There is no assurance that we will be successful, and our likelihood of success must be considered in light of our early stage of operations.

We may not be able to achieve or maintain profitability and may incur losses in the future. In addition, we are expected to increase our capital investments as we implement initiatives to grow our business. If our revenues do not increase to offset these expected increases, we may not generate positive cash flow. There is no assurance that future revenues will be sufficient to generate the funds required to continue operations without external funding. We may encounter unforeseen expenses, difficulties, complications, delays and other known or unknown factors in achieving our business objectives, including with respect to our technology and products. We will eventually need to transition from a company with a development focus to a company capable of supporting commercial activities. We may not be successful in such a transition. Our limited operating history makes it more difficult for us to assess and plan for such unforeseen events.

We expect our financial condition and operating results to continue to fluctuate significantly from quarter to quarter and year to year due to a variety of factors, many of which are beyond our control. Accordingly, you should not rely upon the results of any quarterly or annual periods as indications of future operating performance.

We may require substantial additional funding to finance our operations, and a failure to obtain this necessary funding when needed on acceptable terms, or at all, could force us to delay, limit, reduce or terminate our manufacturing and commercialization efforts or other operations.

As of December 31, 2023, we had cash and cash equivalents of approximately $0.2 million. We may need to raise additional capital, which cannot be assured. Moreover, our operating plans may change as a result of many factors currently unknown to us, and we may need to seek additional funds sooner than planned. In addition, we may seek additional capital due to favourable market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans.

Our future capital requirements depend on many factors, including, but not limited to:

- the scope, progress, results and costs of researching and developing our products;
- the effect of developments with respect to the regulatory and competitive landscapes for psychedelics- and other psychotropics-based products and medicines;
- the number and scope of products or technologies we decide to pursue;
- the cost of commercialization activities, including marketing, sales and distribution costs;
- our ability to achieve revenue growth;
- our ability to establish and maintain strategic collaborations, licensing or other arrangements and the financial terms of any such agreements that we may enter into;
- whether we determine to acquire or invest in complementary businesses or assets;
- the expenses needed to attract and retain skilled personnel;
- our need to implement additional internal systems and infrastructure, including financial and reporting systems associated with becoming a public company in the United States;
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing our intellectual property portfolio; and
- the continued impact of the COVID-19 pandemic on global social, political and economic conditions.

Until we can generate sufficient revenue to finance our cash requirements, which we may never do, we expect to finance our future cash needs through a combination of equity offerings, debt offerings or financings, collaborations, strategic alliances or marketing, distribution or licensing arrangements with third parties. The various ways we could raise additional capital carry potential risks. To the extent that we raise additional capital by issuing equity securities, our existing stockholders may experience substantial dilution. Any preferred equity securities issued also would likely provide for rights, preferences or privileges senior to those of holders of our Common Shares. If we raise funds by issuing debt securities, those debt securities would have rights, preferences and privileges senior to those of holders of our Common Shares. Debt financing and preferred equity financing, if available, may also involve agreements that include covenants restricting our ability to take specific actions, such as incurring additional debt, selling or licensing our assets, making product acquisitions, making capital expenditures, or declaring dividends. If we raise additional funds through collaborations, strategic alliances or marketing, distribution or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates, or grant licenses on terms that may not be favourable to us.

Our ability to raise additional funds will depend on financial, economic and market conditions and other factors, over which we may have no or limited control. Adequate additional funds may not be available when we need them, on terms that are acceptable to us, or at all. In addition, heightened regulatory scrutiny could have a negative impact on our ability to raise capital. If adequate funds are not available to us on a timely basis or on attractive terms, we may be required to reduce our workforce, delay, limit, reduce or terminate our research and development activities and commercialization efforts, or grant rights to develop and market products or technologies that we would otherwise develop and market ourselves. In addition, attempting to secure additional financing may divert the time and attention of our management from daily activities and distract from our research and development efforts.

We have issued promissory notes or other debt securities, and otherwise incurred substantial debt, which may adversely affect our financial condition and thus negatively impact the value of our shareholders' investment in us.

The Company had entered into a credit facility pursuant to which we could borrow up to $5.0 million. The credit facility matured on November 5, 2023 and was not renewed. No amounts had been borrowed under the credit facility.

Our outstanding indebtedness and any future indebtedness we may incur will result in increased fixed payment obligations. It could also result in certain restrictive covenants, such as limitations on our ability to incur additional debt, limitations on our ability to acquire or license intellectual property rights and other operating restrictions that could adversely impact our ability to conduct our business and may result in liens being placed on our assets and intellectual property. If we were to default on such indebtedness, we could lose such assets and intellectual property. The incurrence of debt could have a variety of other negative effects, including:

- default and foreclosure on our assets if our operating revenues are insufficient to repay our debt obligations;
- acceleration of our obligations to repay the indebtedness even if we make all principal and interest payments when due if we breach certain covenants that require the maintenance of certain financial ratios or reserves without a waiver or renegotiation of that covenant;
- our immediate payment of all principal and accrued interest, if any, if the debt security is payable on demand;
- our inability to obtain necessary additional financing if the debt security contains covenants restricting our ability to obtain such financing while the debt security is outstanding;
- our inability to pay dividends on our Common Shares;
- using a substantial portion of our cash flow to pay principal and interest on our debt, which will reduce the funds available for dividends on our ordinary shares if declared, expenses, capital expenditures, acquisitions and other general corporate purposes;
- limitations on our flexibility in planning for and reacting to changes in our business and industry;
- increased vulnerability to adverse changes in general economic, industry and competitive conditions and adverse changes in government regulation; and
- limitations on our ability to borrow additional amounts for expenses, capital expenditures, acquisitions, debt service requirements, execution of our strategy and other purposes and other disadvantages compared to our competitors who have less debt.

In order to satisfy our current and future debt service obligations, we will be required to raise funds from external sources. We may be unable to arrange for additional financing to pay the amounts due under our existing debt. Funds from external sources may not be available on acceptable terms, if at all. Our failure to satisfy our current and future debt obligations could adversely affect our business, financial condition and results of operations.

Risks Related to Our Reliance on Third Parties

We face significant risks related to key third-party relationships.

We plan to enter into agreements with third parties with respect to our operations. Such relationships could present unforeseen obstacles or costs and may involve risks that could adversely affect us, including significant amounts of management time that may be diverted from operations in order to pursue and maintain such relationships. There can be no assurance that such third parties will achieve the expected benefits or that we will be able to consummate any future relationships on satisfactory terms, or at all. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations. Any violation of any applicable laws and regulations, such as the CDSA and CSA, or of similar legislation in the jurisdictions in which it operates, could result in such third parties to suspend or withdraw their services. The termination or cancellation of any such agreements or the failure of our business and/or the other parties to these arrangements to fulfill their obligations could have a material adverse effect on our business, financial condition and results of operations. In addition, disagreements between us and any of third parties could lead to delays or time consuming and expensive legal proceedings, which could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Intellectual Property

Failure to obtain or register intellectual property rights used or proposed to be used in our business could result in a material adverse impact on our business.

If we are unable to register or, if registered, maintain effective patent rights for certain of our psychedelics-based products and proprietary cultivation and refinement methods, we may not be able to effectively compete in the market. If we are not able to protect our proprietary information and know-how, such proprietary information may be used by others to compete against us. We may not be able to identify infringements of our patents (if and when granted), and, accordingly, the enforcement of our intellectual property rights may be difficult. Once such infringements are identified, enforcement could be costly and time consuming. Third party claims of intellectual property infringement, whether or not reasonable, may prevent or delay our development and commercialization efforts.

Our success will depend in part upon our ability to protect our intellectual property and proprietary technologies and upon the nature and scope of the intellectual property protection we receive. The ability to compete effectively and to achieve partnerships will depend on our ability to develop and maintain proprietary aspects of our products and methods and to operate without infringing on the proprietary rights of others. The presence of such proprietary rights of others could severely limit our ability to develop and commercialize our products and methods and to conduct our existing research into psychedelics cultivation, extraction and purification, and could require financial resources to defend litigation, which may be in excess of our ability to raise such funds. There is no assurance that our patent applications submitted, if any, or those that we intend to acquire will be approved in a form that will be sufficient to protect our proprietary products and technology and gain or keep any competitive advantage that we may have or, once approved, will be upheld in any post-grant proceedings brought by any third parties.

The patent positions of biotechnology companies can be highly uncertain and involve complex legal, scientific and factual questions for which important legal principles remain unresolved. Patents that may be issued to us may be challenged, invalidated or circumvented. To the extent our intellectual property offers inadequate protection, or is found to be invalid or unenforceable, we will be exposed to a greater risk of direct competition. If our intellectual property does not provide adequate protection against our competitors, our competitive position could be adversely affected, as could our business, financial condition and results of operations. Both the patent application process and the process of managing patent disputes can be time consuming and expensive, and the laws of some foreign countries may not protect our intellectual property rights to the same extent as do the laws of Canada and the United States. We will be able to protect our intellectual property from unauthorized use by third parties only to the extent that our proprietary technologies, key products, and any future products are covered by valid and enforceable intellectual property rights, including patents, or are effectively maintained as trade secrets, and provided we have the funds to enforce our rights, if necessary.

Changes in patent law and its interpretation could diminish the value of potential patents in general, thereby impairing our ability to protect our product candidates.

We may become dependent on intellectual property rights. Obtaining and enforcing patents in our industry involves technological and legal complexity, and obtaining and enforcing these potential patents is costly, time consuming and inherently uncertain. The U.S. Supreme Court has ruled on several patent cases in recent years, either narrowing the scope of patent protection available in certain circumstances or weakening the rights of patent owners in certain situations. In addition to increasing uncertainty with regard to our ability to obtain patents in the future, this combination of events has created uncertainty with respect to the value of patents, once obtained. Depending on decisions by the U.S. Congress, the federal courts, and the United States Patent and Trademark Office the laws and regulations governing patents could change in unpredictable ways that could weaken our ability to obtain new patents or to enforce existing patents.

Litigation regarding patents, patent applications, and other proprietary rights may be expensive, time consuming and cause delays in the development of our proprietary products and methods.

To protect our competitive position, we may from time to time need to resort to litigation in order to enforce or defend any patents or other intellectual property rights owned by or licensed to us, or to determine or challenge the scope or validity of patents or other intellectual property rights of third parties. Enforcement of intellectual property rights is difficult, unpredictable and expensive, and many of our adversaries in these proceedings may have the ability to dedicate substantially greater resources to prosecuting these legal actions than we can. We may fail in enforcing our rights, in which case our competitors and other third parties may be permitted to use our proprietary products and methods without payment to us.

In addition, litigation involving our patents carries the risk that one or more of our patents will be subject to an adverse court ruling. Such an adverse court ruling could allow third parties to commercialize our proprietary products and methods, and then compete directly with us, without payment to us. Proceedings involving our patents or patent applications or those of others could result in adverse decisions regarding:

- the patentability of our inventions relating to our products and methods; and

- the enforceability, validity, or scope of protection offered by our patents relating to our products and methods.

If we were to initiate legal proceedings against a third party to enforce a patent covering one of our investigational therapies, the defendant could counterclaim that our patent is invalid or unenforceable. In patent litigation in the United States or in Europe, defendant counterclaims alleging invalidity or unenforceability are commonplace. A claim for a validity challenge may be based on failure to meet any of several statutory requirements, for example, lack of novelty, obviousness or non-enablement. A claim for unenforceability assertion could be an allegation that someone connected with prosecution of the patent withheld relevant information from the USPTO or made a misleading statement, during prosecution. Third parties may also raise challenges to the validity of our patent claims before administrative bodies in the United States or abroad, even outside the context of litigation. Such mechanisms include re-examination, post-grant review, *inter partes* review, interference proceedings, derivation proceedings, and equivalent proceedings in foreign jurisdictions (i.e., opposition proceedings). Such proceedings could result in the revocation of, cancellation of, or amendment to our patents in such a way that they no longer cover our proprietary products or methods. The outcome following legal assertions of invalidity and unenforceability during patent litigation or other proceedings is unpredictable. With respect to the validity question, for example, we cannot be certain that there is no invalidating prior art, of which we and the patent examiner were unaware during prosecution. If a defendant or third party were to prevail on a legal assertion of invalidity or unenforceability, we would lose at least part, and perhaps all, of the patent protection on our products or methods. Such a loss of patent protection could have a material adverse impact on our business, financial condition, results of operations and prospects.

If we are unable to avoid infringing the patent rights of others, we may be required to seek a license, defend an infringement action, or challenge the validity of the patents in court. Regardless of the outcome, patent litigation is costly and time consuming. In some cases, we may not have sufficient resources to bring these actions to a successful conclusion. In addition, if we do not obtain a license, develop or obtain non-infringing technology, fail to defend an infringement action successfully or have infringed patents declared invalid, we may:

- incur substantial monetary damages;
- encounter significant delays in bringing our key products and services to market; and
- be precluded from participating in the manufacture, use or sale of our key products or methods requiring licenses.

Even if we are successful in these proceedings, we may incur substantial costs and divert management time and attention in pursuing these proceedings, which could have a material adverse effect on our business.

Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.

Periodic maintenance and annuity fees on any issued patent are due to be paid to the USPTO and foreign patent agencies in several stages over the lifetime of the patent. The USPTO and various foreign governmental patent agencies also require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. While an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Non-compliance events that could result in abandonment or lapse of a patent or patent application include failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. If we fail to maintain the patents and patent applications covering our proprietary products and methods, third parties, including our competitors might be able to enter the market with similar or identical products or methods, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be subject to claims by third parties asserting that our employees or we have misappropriated their intellectual property, or claiming ownership of what we regard as our own intellectual property.

Many of our consultants, advisors and employees, including our senior management, were previously employed at other biotechnology or pharmaceutical companies, including our competitors and potential competitors. Some of these individuals executed proprietary rights, non-disclosure and non-competition agreements in connection with such previous employment. Although we intend that our consultants, advisors and employees do not use proprietary information or know-how of their former employers while working for us, we may be subject to claims that we or these individuals have used or disclosed confidential information or intellectual property, including trade secrets or other proprietary information, of any such individual’s former employer. Litigation may be necessary to defend against these claims.

If we fail in prosecuting or defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel or sustain damages. Such intellectual property rights could be awarded to a third party, and we could be required to obtain a license from such third party to commercialize our therapies. Such a license may not be available on commercially reasonable terms or at all. Even if we successfully prosecute or defend against such claims, litigation could result in substantial costs and distract our management from its day-to-day activities.

In addition, while it is our policy to require our employees and contractors who may be involved in the conception or development of intellectual property to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who, in fact, conceives or develops intellectual property that we regard as our own. The assignment of intellectual property rights may not be self-executing, or the assignment agreements may be breached, and we may be forced to bring claims against third parties, or defend claims that they may bring against us, to determine the ownership of what we regard as our intellectual property. Such claims could have a material adverse effect on our business, financial condition and results of operations.

Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and protect other proprietary information.

We consider proprietary trade secrets, confidential know-how and unpatented know-how to be important to our business. We rely on trade secrets or confidential know-how to protect our technology, especially where patent protection is believed to be of limited value. However, trade secrets and confidential know-how are difficult to maintain as confidential.

To protect this type of information against disclosure or appropriation by third parties and our competitors, our policy is to require our employees, consultants, contractors and advisors to enter into confidentiality agreements with us. However, we cannot guarantee that we have entered into such agreements with each party that may have or have had access to our trade secrets or confidential know-how. Also, current or former employees, consultants, contractors and advisers may unintentionally or wilfully disclose our trade secrets and confidential know-how to our competitors and other third parties or breach such agreements, and we may not be able to obtain an adequate remedy for such breaches. Enforcing a claim that a third party obtained illegally and is using trade secrets or confidential know-how is difficult, expensive, time-consuming and unpredictable. The enforceability of confidentiality agreements may vary from jurisdiction to jurisdiction. Furthermore, if a competitor or other third party lawfully obtained or independently developed any of our trade secrets or confidential know-how, we would have no right to prevent such competitor or other third party from using that technology or information to compete with us, which could harm our competitive position. Additionally, if the steps taken to maintain our trade secrets are deemed inadequate, we may have insufficient recourse against third parties for misappropriating the trade secret. If any of our trade secrets were to be disclosed to or independently developed by a competitor or other third party, our competitive position would be materially and adversely harmed.

Failure to obtain or maintain trade secrets or confidential know-how trade protection could adversely affect our competitive position. Moreover, our competitors may independently develop substantially equivalent proprietary information and may even apply for patent protection in respect of the same. If successful in obtaining such patent protection, our competitors could limit our use of our trade secrets or confidential know-how.

If our trademarks and trade names are not adequately protected, then we may not be able to build name recognition in our markets of interest and our business may be adversely affected.

Our registered or unregistered trademarks or trade names may be challenged, infringed, circumvented or declared generic or determined to be infringing on other marks. We may not be able to protect our rights to these trademarks and trade names, which we need to build name recognition by potential partners or clients in our markets of interest. If we are unable to establish name recognition based on our trademarks and trade names, then we may not be able to compete effectively and our business may be adversely affected. If other entities use trademarks similar to ours in different jurisdictions, or have senior rights to ours, it could interfere with our use of our current trademarks throughout the world.

Our reliance on third parties requires us to share our trade secrets, which increases the possibility that a competitor will discover them.

Because we rely on third parties, we may share trade secrets with them. We seek to protect our proprietary technology in part by entering into confidentiality agreements and other similar agreements prior to disclosing proprietary information. These agreements typically restrict the ability to publish data potentially relating to our trade secrets. Our academic and clinical collaborators typically have rights to publish data, provided that we are notified in advance and may delay publication for a specified time in order to secure intellectual property rights arising from the collaboration. In other cases, publication rights are controlled exclusively by us, although in some cases we may share these rights with other parties. We may also conduct joint research and development programs which may require us to share trade secrets under the terms of research and development collaborations or similar agreements. Despite our efforts to protect our trade secrets, our competitors may discover our trade secrets, either through breach of these agreements, independent development or publication of information including our trade secrets in cases where we do not have proprietary or otherwise protected rights at the time of publication. A competitor's discovery of our trade secrets may impair its competitive position and could have a material adverse effect on our business and financial condition.

Risks Related to Tax Laws

Changes in tax laws could have a material adverse effect on our business.

There can be no assurance that the Canadian and U.S. federal income tax treatment of our business or an investment in us will not be modified, prospectively or retroactively, by legislative, judicial or administrative action, in a manner adverse to us or holders of common shares.

If we or one of our non-U.S. subsidiaries is a CFC, there could be materially adverse U.S. federal income tax consequences to certain U.S. Holders of our common shares.

Each "Ten Percent Shareholder" (as defined below) in a non-U.S. corporation that is classified as a controlled foreign corporation, or a CFC, for U.S. federal income tax purposes generally may be required to include in income for U.S. federal tax purposes some or all of such Ten Percent Shareholder's pro rata share of the CFC's income even if the CFC has made no distributions to its shareholders. In addition, a Ten Percent Shareholder that realizes gain from the sale or exchange of shares in a CFC may be required to classify a portion of such gain as dividend income rather than capital gain. A Ten Percent Shareholder in a CFC also has reporting obligations with respect to the ownership of the stock in the CFC. Failure to comply with these reporting obligations may subject a Ten Percent Shareholder to significant monetary penalties and may prevent the statute of limitations with respect to such Ten Percent Shareholder's U.S. federal income tax return for the year for which reporting was due from starting.

A non-U.S. corporation generally will be classified as a CFC for U.S. federal income tax purposes if Ten Percent Shareholders own, directly or indirectly, more than 50% of either the total combined voting power of all classes of stock of such corporation entitled to vote or of the total value of the stock of such corporation. A "Ten Percent Shareholder" is a United States person (as defined by the Code) who owns or is considered to own 10% or more of the total combined voting power of all classes of stock entitled to vote or 10% or more of the total value of all classes of stock of such corporation.

The determination of CFC status is complex and includes attribution rules, the application of which is not entirely certain. We cannot provide any assurances that we will assist holders of our common shares in determining whether we or any of our non-U.S. subsidiaries are treated as a CFC or whether any holder of the common shares is treated as a Ten Percent Shareholder with respect to any such CFC or furnish to any Ten Percent Shareholders information that may be necessary to comply with the aforementioned reporting and tax payment obligations.

U.S. Holders should consult their tax advisors with respect to the potential adverse U.S. tax consequences of becoming a Ten Percent Shareholder in a CFC.

Our U.S. shareholders may suffer adverse tax consequences if we are characterized as a PFIC.

The rules governing passive foreign investment companies, or PFICs, can have adverse effects on U.S. Holders (as defined under "Material U.S. Federal Income Tax Considerations for U.S. Holders") for U.S. federal income tax purposes. Generally, if, for any taxable year, at least 75% of our gross income is passive income (such as interest income), or at least 50% of the gross value of our assets (determined on the basis of a weighted quarterly average) is attributable to assets that produce passive income or are held for the production of passive income (including cash), we would be characterized as a PFIC for U.S. federal income tax purposes. The determination of whether we are a PFIC, which must be made annually after the close of each taxable year, depends on the particular facts and circumstances and may also be affected by the application of the PFIC rules, which are subject to differing interpretations. Our status as a PFIC will depend on the composition of our income and the composition and value of our assets (including goodwill and other intangible assets), which will be affected by how, and how quickly, we spend any cash that is raised in any financing transaction. Moreover, our ability to earn specific types of income that will be treated as non-passive for purposes of the PFIC rules is uncertain with respect to future years. Based upon the current and expected composition of our income and assets, we believe that we were a PFIC for the taxable year ended June 30, 2022 and could be treated as a PFIC for the current taxable year. The determination of whether we are a PFIC is a fact-intensive determination made on an annual basis applying principles and methodologies that in some circumstances are unclear and subject to varying interpretation. Accordingly, we cannot provide any assurances regarding our PFIC status for any current or future taxable years.

If we are a PFIC, a U.S. Holder would be subject to adverse U.S. federal income tax consequences, such as ineligibility for certain preferred tax rates on capital gains or on actual or deemed dividends, interest charges on certain taxes treated as deferred, and additional reporting requirements under U.S. federal income tax laws and regulations. A U.S. Holder may in certain circumstances mitigate adverse tax consequences of the PFIC rules by filing an election to treat the PFIC as a qualified electing fund, or QEF, or, if shares of the PFIC are "marketable stock" for purposes of the PFIC rules, by making a mark-to-market election with respect to the shares of the PFIC. However, U.S. Holders should be aware that there can be no assurance that we will satisfy the record keeping requirements that apply to a QEF, or that we will supply U.S. Holders with information that such U.S. Holders require to report under the QEF election rules, in the event that we are a PFIC and a U.S. Holder wishes to make a QEF election. Thus, U.S. Holders may not be able to make a QEF election with respect to their common shares. For more information, see the discussion below under "Material U.S. Federal Income Tax Considerations for U.S. Holders — PFIC Rules." You are urged to consult your tax advisors regarding the potential consequences to you if we were or were to become a PFIC, including the availability, and advisability, of, and procedure for making, any elections which may in certain circumstances mitigate the adverse tax consequences of the PFIC rules.

Tax authorities may disagree with our positions and conclusions regarding certain tax positions, resulting in unanticipated costs, taxes or non-realization of expected benefits.

A tax authority may disagree with tax positions that we have taken, which could result in increased tax liabilities. For example, the Canadian tax authority, the IRS or another tax authority could challenge our allocation of income by tax jurisdiction and the amounts paid between our affiliated companies pursuant to an intercompany arrangement or a transfer pricing policy, including amounts paid with respect to our intellectual property development. Similarly, a tax authority could assert that we are subject to tax in a jurisdiction where we believe we have not established a taxable connection, often referred to as a "permanent establishment" under international tax treaties, and such an assertion, if successful, could increase our expected tax liability in one or more jurisdictions. A tax authority may take the position that material income tax liabilities, interest and penalties are payable by us, in which case, we expect that we might contest such assessment. Contesting such an assessment may be lengthy and costly and if we were unsuccessful in disputing the assessment, the implications could increase our anticipated effective tax rate, where applicable.

We are subject to certain tax risks and treatments that could negatively impact our results of operations.

We may operate in the United States or through a U.S. subsidiary. If we or our subsidiaries are subject to U.S. corporate income tax, Section 280E of the Internal Revenue Code of 1986, as amended, or the Code, generally prohibits taxpayers from deducting or claiming tax credits with respect to expenses paid or incurred in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of Schedule I and II of the CSA) which is prohibited by U.S. federal law or the law of any state in which such trade or business is conducted. The application of Code section 280E generally causes such businesses to pay higher effective U.S. federal tax rates than similar businesses in other industries. Although the U.S. Internal Revenue Service, or IRS, issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very narrowly and the bulk of operating costs and general administrative costs are not permitted to be deducted. There is no guarantee that any federal court will issue an interpretation of Section 280E favorable to psilocybin and psilocin businesses.

Risks Related to Ownership of Our Common Shares

We may experience extreme stock price volatility unrelated to our actual or expected operating performance, financial condition or prospects, making it difficult for prospective investors to assess the rapidly changing value of our ordinary shares.

Recently, there have been instances of extreme stock price run-ups followed by rapid price declines and strong stock price volatility with a number of recent initial public offerings, especially among companies with relatively smaller public floats. As a relatively small-capitalization company with relatively small public float, we may experience greater stock price volatility, extreme price run-ups, lower trading volume and less liquidity than large-capitalization companies. In particular, our common shares may be subject to rapid and substantial price volatility, low volumes of trades and large spreads in bid and ask prices. Such volatility, including any stock-run up, may be unrelated to our actual or expected operating performance, financial condition or prospects, making it difficult for prospective investors to assess the rapidly changing value of our common shares.

In addition, if the trading volumes of our common shares are low, persons buying or selling in relatively small quantities may easily influence prices of our common shares. This low volume of trades could also cause the price of our common shares to fluctuate greatly, with large percentage changes in price occurring in any trading day session. Holders of our common shares may also not be able to readily liquidate their investment or may be forced to sell at depressed prices due to low volume trading. Broad market fluctuations and general economic and political conditions may also adversely affect the market price of our common shares. As a result of this volatility, investors may experience losses on their investment in our common shares. A decline in the market price of our common shares also could adversely affect our ability to issue additional shares of common shares or other securities and our ability to obtain additional financing in the future. No assurance can be given that an active market in our common shares will develop or be sustained. If an active market does not develop, holders of our common shares may be unable to readily sell the shares they hold or may not be able to sell their shares at all.

The market price of our common shares may be volatile or may decline regardless of our operating performance.

The market price of our common shares may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our revenue and other operating results;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- actions of securities analysts who initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- announcements by us or our competitors of significant services or features, technical innovations, acquisitions, strategic partnerships, joint ventures, or capital commitments;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- lawsuits threatened or filed against us; and
- other events or factors, including those resulting from war or incidents of terrorism, or responses to these events.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. Stock prices of many companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, shareholders have filed securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business, and adversely affect our business.

The prices at which the common shares will trade cannot be predicted.

Securities will not necessarily trade at values determined by reference to the underlying value of our business. The market price of the common shares could be subject to significant fluctuations in response to a variety of factors, including the following: actual or anticipated fluctuations in our quarterly results of operations; recommendations by securities research analysts; changes in the economic performance or market valuations of companies in the industry in which we operate; additions or departures by our executive officers and other key personnel; significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving our business or our competitors; operating and share price performance of other companies that investors deem comparable to us; fluctuations caused by COVID-19; and news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in our industry or target markets.

The securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the common shares. In addition, the market prices for securities of biopharmaceutical companies, in particular, have historically been volatile. Factors such as industry related developments, the results of product development and commercialization, changes in government regulations, developments concerning proprietary rights, the timing of costs for manufacturing, pre-clinical studies and clinical trials, the reporting of adverse safety events involving our products and public rumors about such events and changes in the market prices of the securities of our competitors may further influence the volatility in the trading price of the common shares.

The issuance of securities could result in significant dilution in the equity interest of existing shareholders and adversely affect the marketplace of the securities.

The issuance of common shares or other securities convertible into common shares could result in significant dilution in the equity interest of existing shareholders and adversely affect the market price of the common shares. In addition, in the future, we may issue additional common shares or securities convertible into common shares, which may dilute existing shareholders. Our Articles of Incorporation (“Articles”) permit the issuance of an unlimited number of common shares and shareholders will have no pre-emptive rights in connection with such further issuances.

The market price of the common shares could decline as a result of future issuances, including issuance of shares issued in connection with strategic alliances, or sales by our existing holders of common shares, or the perception that these sales could occur. Sales by shareholders might also make it more difficult for us to sell equity securities at a time and price that it deems appropriate, which could reduce our ability to raise capital and have an adverse effect on our business.

We have a material weakness in our internal control over financing reporting. If we fail to establish and maintain proper and effective internal control over financial reporting, our operating results and our ability to operate our business could be harmed.

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. Due to accounting resource constraints, we currently have a material weakness in our internal control over financial reporting. Our control environment is currently oriented primarily towards business risks, rather than financial reporting risks. We have not formally implemented risk assessment or monitoring controls, and information and communication controls and certain review controls are not considered to be operating effectively. Resource constraints have also resulted in insufficient segregation of duties in certain areas.

Implementing any appropriate changes to our internal controls may distract our officers and employees, entail substantial costs to modify our existing processes, and take significant time to complete. These changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and harm our business. In our efforts to maintain proper and effective internal control over financial reporting, we may discover additional significant deficiencies or material weaknesses in our internal control over financial reporting, which we may not successfully remediate on a timely basis or at all. Any failure to remediate any significant deficiencies or material weaknesses identified by us or to implement required new or improved controls, or difficulties encountered in their implementation, could cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements. If we identify one or more material weaknesses in the future, it could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements, which may harm the market price of our shares.

Future sales and issuances of our common shares or rights to purchase common shares, including pursuant to our 2021 Equity Incentive Plan, or our 2021 Plan, could result in additional dilution of the percentage ownership of our shareholders and could cause our share price to fall.

We expect that significant additional capital will be needed in the future to continue our planned operations, including expanded research and development activities, and costs associated with operating as a public company. To raise capital, we may sell common shares, convertible securities or other equity securities in one or more transactions at prices and in a manner we determine from time to time. If we sell common shares, convertible securities or other equity securities, investors may be materially diluted by subsequent sales. Such sales may also result in material dilution to our existing shareholders, and new investors could gain rights, preferences, and privileges senior to the holders of our common shares.

Pursuant to the 2021 Plan our management is authorized to grant share purchase options, restricted stock units or stock appreciation rights to our employees, directors and consultants up to an amount of 1,642,861 common shares.

We do not intend to pay dividends on our common shares, so any returns will be limited to the value of our common shares.

We currently anticipate that we will retain future earnings for the development, operation, expansion and continued investment into our business and do not anticipate declaring or paying any cash dividends for the foreseeable future. In addition, we may enter into agreements that prohibit us from paying cash dividends without prior written consent from our contracting parties, or which other terms prohibiting or limiting the amount of dividends that may be declared or paid on our common shares. Any return to shareholders will therefore be limited to the appreciation of their common shares, which may never occur.

Our principal shareholders and management own a significant percentage of our shares and will be able to exert significant influence over matters subject to shareholder approval.

Based on the number of shares outstanding as of February 13, 2024, our executive officers, directors and director nominees, and 5% shareholders beneficially own approximately 21.89% of our common shares. Therefore, these shareholders will have the ability to influence us through this ownership position. These shareholders may be able to determine all matters requiring shareholder approval. For example, these shareholders may be able to control elections of directors, amendments of our organizational documents or approval of any merger, sale of assets or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common shares that you may feel are in your best interest as one of our shareholders.

We are an emerging growth company and a smaller reporting company, and we cannot be certain if the reduced reporting requirements applicable to emerging growth companies and smaller reporting companies will make our common shares less attractive to investors.

We are an emerging growth company, as defined in the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002 reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding nonbinding advisory votes on executive compensation and shareholder approval of any golden parachute payments not previously approved, and an exemption from compliance with the requirement of the Public Accounting Oversight Board regarding the communication of critical audit matters in the auditor's report on the financial statements. We could be an emerging growth company for up to five years following the year in which we complete our initial public offering, although circumstances could cause us to lose that status earlier. We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the date of the closing of our initial public offering, (b) in which we have total annual gross revenue of at least $1.235 billion or (c) in which we are deemed to be a large accelerated filer, which requires the market value of our common shares that are held by non-affiliates to exceed $700.0 million as of the prior June 30th, and (2) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period.

Further, even after we no longer qualify as an emerging growth company, we may still qualify as a "smaller reporting company," which would allow us to take advantage of many of the same exemptions from disclosure requirements, including reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. In addition, if we are a smaller reporting company with less than $100.0 million in annual revenue, we would not be required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, or Section 404.

We cannot predict if investors will find our common shares less attractive because we may rely on these exemptions. If some investors find our common shares less attractive as a result, there may be a less active trading market for our common shares and our share price may be more volatile.

Sales of a substantial number of our common shares by our existing shareholders in the public market could cause our share price to fall.

The lock-up agreements pertaining to the IPO expired in August. If our existing shareholders sell, or indicate an intention to sell, substantial amounts of our common shares in the public market, the trading price of our common shares could decline.

If our estimates or judgments relating to our critical accounting policies prove to be incorrect or financial reporting standards or interpretations change, our results of operations could be adversely affected.

The preparation of financial statements in conformity with generally accepted accounting principles in the United States, or U.S. GAAP, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience, known trends and events, and various other factors that we believe to be reasonable under the circumstances, as provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates." The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include share-based payments, provision for income taxes and useful lives of property, plant and equipment and intangibles. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors, resulting in a decline in the trading price of our common shares.

Additionally, we regularly monitor our compliance with applicable financial reporting standards and review new pronouncements and drafts thereof that are relevant to us. As a result of new standards, changes to existing standards and changes in their interpretation, we might be required to change our accounting policies, alter our operational policies, and implement new or enhance existing systems so that they reflect new or amended financial reporting standards, or we may be required to restate our published financial statements. Such changes to existing standards or changes in their interpretation may have an adverse effect on our reputation, business, financial position, and profit.

Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accumulated and communicated to management, recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements or insufficient disclosures due to error or fraud may occur and not be detected.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our share price and trading volume could decline.

The trading market for our common shares will depend in part on the research and reports that securities or industry analysts publish about us or our business. Securities and industry analysts do not currently, and may never, publish research on our company. If no securities or industry analysts commence coverage of our company, the trading price for our common shares would likely be negatively impacted. In the event securities or industry analysts initiate coverage, if one or more of the analysts who cover us downgrades our common shares or publishes inaccurate or unfavorable research about our business, our share price may decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our shares could decrease, which might cause our share price and trading volume to decline.

Risks Related to Investment in a Canadian Company

We are governed by the corporate laws of Canada which in some cases have a different effect on shareholders than the corporate laws of the United States.

We are governed by the *Business Corporations Act* (British Columbia), or BCBCA, and other relevant federal and municipal laws, which may affect the rights of shareholders differently than those of a company governed by the laws of a U.S. jurisdiction, and may, together with our charter documents, have the effect of delaying, deferring or discouraging another party from acquiring control of our company by means of a tender offer, a proxy contest or otherwise, or may affect the price an acquiring party would be willing to offer in such an instance. The material differences between the BCBCA and Delaware General Corporation Law, or DGCL, that may have the greatest such effect include, but are not limited to, the following: (i) for certain corporate transactions (such as mergers and amalgamations or amendments to our Articles) the BCBCA generally requires the voting threshold to be a special resolution approved by 66 2/3% of shareholders, or as set out in the Articles, as applicable, whereas DGCL generally only requires a majority vote; and (ii) under the BCBCA a holder of 5% or more of our common shares can requisition a special meeting of shareholders, whereas such right does not exist under the DGCL. We cannot predict whether investors will find our company and our common shares less attractive because we are governed by foreign laws.

Our Articles and certain Canadian legislation contain provisions that may have the effect of delaying, preventing or making undesirable an acquisition of all or a significant portion of our shares or assets or preventing a change in control.

Certain provisions of our Articles and certain provisions under the BCBCA, together or separately, could discourage, delay or prevent a merger, acquisition or other change in control of us that shareholders may consider favorable, including transactions in which they might otherwise receive a premium for their common shares. These provisions include the establishment of a staggered board of directors, which divides the board into three groups, with directors in each group serving a three-year term. The existence of a staggered board can make it more difficult for shareholders to replace or remove incumbent members of our board of directors. As such, these provisions could also limit the price that investors might be willing to pay in the future for our common shares, thereby depressing the market price of our common shares. In addition, because our board of directors is responsible for appointing the members of our management team, these provisions may frustrate or prevent any attempts by our shareholders to replace or remove our current management by making it more difficult for shareholders to replace members of our board of directors. Among other things, these provisions include the following:

- shareholders cannot amend our Articles unless such amendment is approved by shareholders holding at least 66 2/3% of the shares entitled to vote on such approval;

- our board of directors may, without shareholder approval, issue preferred shares in one or more series having any terms, conditions, rights, preferences and privileges as the board of directors may determine; and

- shareholders must give advance notice to nominate directors or to submit proposals for consideration at shareholders' meetings.

A non-Canadian must file an application for review with the Minister responsible for the *Investment Canada Act* and obtain approval of the Minister prior to acquiring control of a "Canadian business" within the meaning of the *Investment Canada Act*, where prescribed financial thresholds are exceeded. A reviewable acquisition may not proceed unless the Minister is satisfied that the investment is likely to be of net benefit to Canada. If the applicable financial thresholds were exceeded such that a net benefit to Canada review would be required, this could prevent or delay a change of control and may eliminate or limit strategic opportunities for shareholders to sell their common shares. Furthermore, limitations on the ability to acquire and hold our common shares may be imposed by the *Competition Act* (Canada). This legislation has a pre-merger notification regime and mandatory waiting period that applies to certain types of transactions that meet specified financial thresholds, and permits the Commissioner of Competition to review any acquisition or establishment, directly or indirectly, including through the acquisition of shares, of control over or of a significant interest in us.

Our Articles designate specific courts in Canada and the United States as the exclusive forum for certain litigation that may be initiated by our shareholders, which could limit our shareholders' ability to obtain a favorable judicial forum for disputes with us.

Pursuant to our Articles, unless we consent in writing to the selection of an alternative forum, the courts of the Province of British Columbia and the appellate courts therefrom shall, to the fullest extent permitted by law, be the sole and exclusive forum for: (a) any derivative action or proceeding brought on our behalf; (b) any action or proceeding asserting a claim of breach of fiduciary duty owed by any director, officer or other employee of ours to us; (c) any action or proceeding asserting a claim arising out of any provision of the BCBCA or our Articles (as either may be amended from time to time); or (d) any action or proceeding asserting a claim or otherwise related to our affairs, or the Canadian Forum Provision. The Canadian Forum Provision will not apply to any causes of action arising under the Securities Act or the Exchange Act. In addition, our Articles provide that unless we consent in writing to the selection of an alternative forum, the United States District Court for the District of Delaware shall be the sole and exclusive forum for resolving any complaint filed in the United States asserting a cause of action arising under the Securities Act, or the U.S. Federal Forum Provision. In addition, our Articles provide that any person or entity purchasing or otherwise acquiring any interest in our common shares is deemed to have notice of and consented to the Canadian Forum Provision and the U.S. Federal Forum Provision; provided, however, that shareholders cannot and will not be deemed to have waived our compliance with the U.S. federal securities laws and the rules and regulations thereunder.

The Canadian Forum Provision and the U.S. Federal Forum Provision in our Articles may impose additional litigation costs on shareholders in pursuing any such claims. Additionally, the forum selection clauses in our amended Articles may limit our shareholders' ability to bring a claim in a judicial forum that they find favorable for disputes with us or our directors, officers or employees, which may discourage the filing of lawsuits against us and our directors, officers and employees, even though an action, if successful, might benefit our shareholders. In addition, while the Delaware Supreme Court ruled in March 2020 that federal forum selection provisions purporting to require claims under the Securities Act be brought in federal court are "facially valid" under Delaware law, there is uncertainty as to whether other courts, including courts in Canada and other courts within the United States, will enforce our U.S. Federal Forum Provision. If the U.S. Federal Forum Provision is found to be unenforceable, we may incur additional costs associated with resolving such matters. The U.S. Federal Forum Provision may also impose additional litigation costs on shareholders who assert that the provision is not enforceable or invalid. The courts of the Province of British Columbia and the United States District Court for the District of Delaware may also reach different judgments or results than would other courts, including courts where a shareholder considering an action may be located or would otherwise choose to bring the action, and such judgments may be more or less favorable to us than our shareholders.

Because we are a Canadian company, it may be difficult to serve legal process or enforce judgments against us.

We are incorporated and maintain operations in Canada. In addition, while certain of our directors and officers reside in the United States, many of them reside outside of the United States. Accordingly, service of process upon us may be difficult to obtain within the United States. Furthermore, because substantially all of our assets are located outside the United States, any judgment obtained in the United States against us, including one predicated on the civil liability provisions of the U.S. federal securities laws, may not be collectible within the United States. Therefore, it may not be possible to enforce those actions against us.

In addition, it may be difficult to assert U.S. securities law claims in original actions instituted in Canada. Canadian courts may refuse to hear a claim based on an alleged violation of U.S. securities laws against us or these persons on the grounds that Canada is not the most appropriate forum in which to bring such a claim. Even if a Canadian court agrees to hear a claim, it may determine that Canadian law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Canadian law. Furthermore, it may not be possible to subject foreign persons or entities to the jurisdiction of the courts in Canada. Similarly, to the extent that our assets are located in Canada, investors may have difficulty collecting from us any judgments obtained in the U.S. courts and predicated on the civil liability provisions of U.S. securities provisions.

We may be adversely affected by fluctuations in the U.S. dollar relative to the Canadian dollar.

Our revenues and expenses are expected to be primarily denominated in U.S. dollars, and therefore may be exposed to significant currency exchange fluctuations. The Canadian dollar relative to the U.S. dollar or other foreign currencies is subject to fluctuations. Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar may have a material adverse effect on our business, financial condition or results of operations. We may, in the future, establish a program to hedge a portion of our foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if we develop a hedging program, there can be no assurance that it will effectively mitigate currency risks. Failure to adequately manage foreign exchange risk could therefore have a material adverse effect on our business, financial condition or results of operations.

General Risks

We may expand our business through the acquisition of companies or businesses or by entering into collaborations, each of which could disrupt our business and harm our financial condition

We may in the future seek to expand our capabilities by acquiring one or more companies or businesses or entering into collaborations. Acquisitions and collaborations involve numerous risks, including, but not limited to: substantial cash expenditures; technology development risks; potentially dilutive issuances of equity securities; incurrence of debt and contingent liabilities, some of which may be difficult or impossible to identify at the time of acquisition; difficulties in assimilating the operations of the acquired companies; potential disputes regarding contingent consideration; diverting our management's attention away from other business concerns; entering markets in which we have limited or no direct experience; and potential loss of our key employees or key employees of the acquired companies or businesses.

Our management has experience in making acquisitions and entering collaborations; however, we cannot provide assurance that any acquisition or collaboration will result in short-term or long-term benefits to us. We may incorrectly judge the value or worth of an acquired company or business. In addition, our future success would depend in part on our ability to manage the rapid growth associated with some of these acquisitions and collaborations. We cannot provide assurance that we would be able to successfully combine our business with that of acquired businesses or manage a collaboration. Furthermore, the development or expansion of our business may require a substantial capital investment by us.

We may be negatively impacted by challenging global economic conditions.

Our business, financial condition, results of operations and cash flow may be negatively impacted by challenging global economic conditions.

A global economic slowdown would cause disruptions and extreme volatility in global financial markets, increased rates of default and bankruptcy and declining consumer and business confidence, which can lead to decreased levels of consumer spending. These macroeconomic developments could negatively impact our business, which depends on the general economic environment. As a result, we may not be able to maintain our existing clients or attract new clients, or we may be forced to reduce the price of our products. We are unable to predict the likelihood of the occurrence, duration or severity of such disruptions in the credit and financial markets or adverse global economic conditions. Any general or market-specific economic downturn could have a material adverse effect on our business, financial condition and results of operations.

Additionally, the United States has imposed and may impose additional quotas, duties, tariffs, retaliatory or trade protection measures or other restrictions or regulations and may adversely adjust prevailing quota, duty or tariff levels, which can affect both the materials that we use to package our products and the sale of finished products. Measures to reduce the impact of tariff increases or trade restrictions, including geographical diversification of our sources of supply, adjustments in packaging design and fabrication or increased prices, could increase our costs, delay our time to market and/or decrease sales. Other governmental action related to tariffs or international trade agreements has the potential to adversely impact demand for our products and our costs, customers, suppliers and global economic conditions and cause higher volatility in financial markets. While we actively review existing and proposed measures to seek to assess the impact of them on our business, changes in tariff rates, import duties and other new or augmented trade restrictions could have a number of negative impacts on our business, including higher prices and reduced demand for our products and higher input costs.

Our future growth and ability to compete effectively depends on retaining our key personnel and recruiting additional qualified personnel, and on the key personnel employed by our collaborative partners.

Our success depends upon the continued contributions of our key management, scientific and technical personnel, many of whom have been instrumental for us and have substantial experience with our therapies and related technologies. These key management individuals include the members of our board of directors and certain executive officers. We do not currently maintain any key person insurance.

The loss of key managers and senior scientists could delay our research and development activities. In addition, our ability to compete in the highly competitive biotechnology industry depends upon our ability to attract and retain highly qualified management, scientific and medical personnel. Many other companies and academic institutions that we compete against for qualified personnel have greater financial and other resources, different risk profiles and a longer history in the industry than we do. Therefore, we might not be able to attract or retain these key persons on conditions that are economically acceptable. Moreover, some qualified prospective employees may choose not to work for us due to negative perceptions regarding the therapeutic use of psychedelic substances or other objections to the therapeutic use of a controlled substance. Furthermore, we will need to recruit new managers and qualified scientific personnel to develop our business if we expand into fields that will require additional skills. Our inability to attract and retain these key persons could prevent us from achieving our objectives and implementing our business strategy, which could have a material adverse effect on our business and prospects.

We expect to experience significant growth in the number of our employees and the scope of our operations, particularly in the area of research and development. To manage our anticipated future growth, we must continue to implement and improve our managerial, operational and financial systems, expand our facilities and continue to recruit and train additional qualified personnel. Due to our limited financial resources, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel. The expansion of our operations may lead to significant costs and may divert our management and business development resources. Any inability to manage growth could delay the execution of our business plans or disrupt our operations.

We may be subject to growth-related risks including pressure on our internal systems and controls.

Our ability to manage our growth effectively will require us to continue to implement and improve our operational and financial systems and to expand, train and manage our employee base. Our inability to deal with this growth could have a material adverse impact on our business, operations and prospects. We may experience growth in the number of our employees and the scope of our operating and financial systems, resulting in increased responsibilities for our personnel, the hiring of additional personnel and, in general, higher levels of operating expenses. In order to manage our future growth effectively, we will also need to continue to implement and improve our operational, financial and management information systems and to hire, train, motivate, manage and retain our employees. There can be no assurance that we will be able to manage such growth effectively, that our management, personnel or systems will be adequate to support our operations or that we will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth.

Security breaches, loss of data and other disruptions could compromise sensitive information related to our business or prevent us from accessing critical information and expose us to liability, which could adversely affect our business and our reputation.

In the ordinary course of our business, we generate and store sensitive data, including research data, intellectual property and proprietary business information owned or controlled by ourselves or our employees, partners and other parties. We manage and maintain our applications and data utilizing a combination of on-site systems and cloud-based data centers. We utilize external security and infrastructure vendors to manage parts of our data centers. These applications and data encompass a wide variety of business-critical information, including research and development information, commercial information and business and financial information. We face a number of risks relative to protecting this critical information, including loss of access risk, inappropriate use or disclosure, accidental exposure, unauthorized access, inappropriate modification and the risk of our being unable to adequately monitor and audit and modify our controls over our critical information. This risk extends to the third-party vendors and subcontractors we use to manage this sensitive data or otherwise process it on our behalf. Further, to the extent our employees are working at home during the COVID-19 pandemic, additional risks may arise as a result of depending on the networking and security put into place by the employees. The secure processing, storage, maintenance and transmission of this critical information are vital to our operations and business strategy, and we devote significant resources to protecting such information. Although we take reasonable measures to protect sensitive data from unauthorized access, use or disclosure, no security measures can be perfect and our information technology and infrastructure may be vulnerable to attacks by hackers or infections by viruses or other malware or breached due to employee erroneous actions or inactions by our employees or contractors, malfeasance or other malicious or inadvertent disruptions. Any such breach or interruption could compromise our networks and the information stored there could be accessed by unauthorized parties, publicly disclosed, lost or stolen. Any such access, breach, or other loss of information could result in legal claims or proceedings. Unauthorized access, loss or dissemination could also disrupt our operations and damage our reputation, any of which could adversely affect our business.

Additionally, we do not currently maintain cybersecurity insurance coverage. Even if we were to obtain such coverage, we cannot be certain that such coverage will be adequate for data security liabilities actually incurred, will cover any indemnification claims against us relating to any incident, will continue to be available to us on economically reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could adversely affect our reputation, business, financial condition and results of operations.

In certain circumstances, our reputation could be damaged.

Damage to our reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views regarding us and our activities, whether true or not. Although we believe that we operate in a manner that is respectful to all stakeholders and that we take care in protecting our image and reputation, we do not ultimately have direct control over how we are perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to our overall ability to advance our projects, thereby having a material adverse impact on financial performance, financial condition, cash flows and growth prospects.

We use biological and hazardous materials that require considerable expertise and expense for handling, storage and disposal and may result in claims against us.

We work with materials, including chemicals, biological agents and compounds that could be hazardous to human health and safety or the environment. Our operations also produce hazardous and biological waste products. Federal, provincial, state and local laws and regulations govern the use, generation, manufacture, storage, handling and disposal of these materials and wastes. We are subject to periodic inspections by Canadian provincial and federal authorities to ensure compliance with applicable laws. Compliance with applicable environmental laws and regulations is expensive, and current or future environmental laws and regulations may restrict our operations. If we do not comply with applicable regulations, we may be subject to fines and penalties.

In addition, we cannot eliminate the risk of accidental injury or contamination from these materials or wastes, which could cause an interruption of our commercialization efforts, research and development programs and business operations, as well as environmental damage resulting in costly clean-up and liabilities under applicable laws and regulations. In the event of contamination or injury, we could be liable for damages or penalized with fines in an amount exceeding our resources and our operations could be suspended or otherwise adversely affected. Furthermore, environmental laws and regulations are complex, change frequently and have tended to become more stringent. We cannot predict the impact of such changes and cannot be certain of our future compliance.

We will incur increased costs as a result of operating as a public company, and our management will be required to devote substantial time to new compliance initiatives and corporate governance practices.

As a public company will incur significant legal, accounting, and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley, the Dodd-Frank Wall Street Reform, and Consumer Protection Act, the listing requirements of Nasdaq, and other applicable securities rules and regulations impose various requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and corporate governance practices. We will have to hire additional accounting, finance, and other personnel in connection with our efforts to comply with the requirements of being a public company and our management and other personnel devote a substantial amount of time towards maintaining compliance with these requirements. These requirements will increase our legal and financial compliance costs and make some activities more time-consuming and costly. These rules and regulations are often subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices.

In addition, Sarbanes-Oxley, as well as rules subsequently adopted by the SEC and Nasdaq to implement provisions of Sarbanes-Oxley, impose significant requirements on public companies, including requiring establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. Further, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the SEC has adopted additional rules and regulations in these areas, such as mandatory “say on pay” voting requirements that are applicable to us. Stockholder activism, the current political environment, and the current high level of government intervention and regulatory reform may lead to substantial new regulations and disclosure obligations, which may lead to additional compliance costs and impact the manner in which we operate our business in ways we cannot currently anticipate.

If these requirements divert the attention of our management and personnel from other business concerns, they could have a material adverse effect on our business, financial condition, and results of operations. The increased costs could impact our results of operations and may require us to reduce costs in other areas of our business or increase the prices of our products or services. For example, these rules and regulations make it more difficult and more expensive for us to obtain director and officer liability insurance. We cannot predict or estimate the amount or timing of additional costs we may incur to respond to these requirements. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our Board of Directors, our board committees, or as executive officers.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Recent Sales of Unregistered Securities

During the six months ended December 31, 2023, the Company issued and cancelled the shares of common stock listed below pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended, afforded by Section 4(a)(2) thereof for the sale of securities not involving a public offering:

On July 4, 2023, the Company issued 100,000 common shares and made a cash payment of $226,586 (CAD$300,000) pursuant to a mutual settlement and release agreement.

On July 5, 2023, the Company cancelled 104,167 common shares which had previously been issued pursuant to a donation to the Austin Community Foundation.

On August 1, 2023, the Company issued 187,500 common shares to the former Chief Executive Officer with respect to the settlement of an award equal to the quotient obtained by dividing (x) $750,000 by (y) the closing price of the Company’s common shares on the closing date of the IPO.

Repurchase of Shares of Company Equity Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.1	Form of Note	8-K	001-41616	4.1	12/18/2023	
4.2	Form of Warrant	8-K	001-41616	4.2	12/18/2023	
10.1	Form of Securities Purchase Agreement	8-K	001-41616	10.1	12/18/2023	
10.2	Form of Security and Pledge Agreement	8-K	001-41616	10.2	12/18/2023	
31.1*	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2*	Certification of Principal Financial and Accounting Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101).					X

* This certification is being furnished solely to accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing of the registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		Lucy Scientific Discovery Inc.
Date: February 13, 2024	By:	/s/ Richard Nanula
		Richard Nanula President and Chief Executive Officer (Principal Executive Officer)
Date: February 13, 2024	By:	/s/ Brian Zasitko
		Brian Zasitko Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Richard Nanula, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lucy Scientific Discovery Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 13, 2024

By: /s/ Richard Nanula
Richard Nanula
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Brian Zasitko, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lucy Scientific Discovery Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 13, 2024

By: /s/ Brian Zasitko
Brian Zasitko
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Lucy Scientific Discovery Inc. (the "Company") on Form 10-Q for the quarterly period ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Nanula, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 13, 2024

By: /s/ Richard Nanula
Richard Nanula
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Lucy Scientific Discovery Inc. (the "Company") on Form 10-Q for the quarterly period ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian Zasitko, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 13, 2024

By: /s/ Brian Zasitko
Brian Zasitko
Chief Financial Officer
(Principal Financial Officer)