

---

## LOBE SCIENCES LTD.

### Management Discussion & Analysis

---

#### For the three and six months ended February 28, 2021 and February 29, 2020

---

This management discussion and analysis (“MD&A”) of the financial condition and results of operations of Lobe Sciences Ltd. and its subsidiaries (“Lobe” or the “Company”), prepared as at April 23, 2021, is for the three and six months ended February 28, 2021 and February 29, 2020. This MD&A is a supplement to and should be read in conjunction with the Company’s unaudited condensed interim consolidated financial statements for the three and six months ended February 28, 2021 and February 29, 2020. The Company’s condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. All amounts presented herein are stated in Canadian dollars unless otherwise indicated. The first, second, third and fourth quarters of the Company’s fiscal years are referred to as “Q1”, “Q2”, “Q3” and “Q4”, respectively. The years ended August 31, 2020 and 2019, are also referred to as “fiscal 2020” and “fiscal 2019”, respectively.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 “Continuous Disclosure Obligations” of the Canadian Securities Administrators. Additional information regarding Lobe is available through the SEDAR website at [www.sedar.com](http://www.sedar.com)

#### **Forward Looking Information**

This MD&A contains “forward-looking statements” that involve risks and uncertainties. Such information, although considered to be reasonable by the Company’s management at the time of preparation, may prove to be inaccurate and actual results may differ materially from those anticipated in the statements made. This MD&A may contain forward-looking statements that reflect the Company’s current expectations and projections about its future results. When used in this MD&A, words such as “estimate”, “intend”, “expect”, “anticipate” and similar expressions are intended to identify forward-looking statements, which, by their very nature, are not guarantees of the Company’s future operational or financial performance, and are subject to risks and uncertainties and other factors that could cause the Company’s actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A or as of the date otherwise specifically indicated herein. Due to risks and uncertainties, including the risks and uncertainties identified above and elsewhere in this MD&A, actual events may differ materially from current expectations. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Such statements reflect management’s current views with respect to future events and are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic, competitive, political and social uncertainties and known or unknown risks and contingencies. Many factors could cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements. Please see the risk factors discussed under the heading “Risk Factors” in this MD&A.

There is a significant risk that such forward-looking statements will not prove to be accurate. Investors are cautioned not to place undue reliance on these forward-looking statements. No forward-looking statement is a guarantee of future results. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## **1. LOBE SCIENCES LTD.**

Lobe (formerly GreenStar Biosciences Corp.) was incorporated under the Business Corporations Act (British Columbia) on May 13, 2010. The head office, principal address and registered office of the Company are located at 1400 – 1199 West Hasting Street, Vancouver, B.C. V6E 3T5.

On May 30, 2019, the Company completed a reverse takeover with Green Star Biosciences Inc. The transaction was accounted for as a reverse acquisition (“RTO”). On May 30, 2019, the Company changed its name to GreenStar Biosciences Corp. and on November 16, 2020 the Company changed its name to Lobe Sciences Ltd. The Company’s common shares are listed under the symbol “LOBE” on the Canadian Securities Exchange and under the symbol “GTSIF” on the OTCQX. In connection with the name change, the Company has new CUSIP and ISIN numbers 53946V107 and CA53946V1076 respectively.

The Company is working to develop psychedelic compounds as therapeutics. Initially the company will develop psilocybin-based therapeutics in combination with N-acetylcysteine (“NAC”) for the treatment of mild traumatic brain injuries and post-traumatic stress disorder and devices for the efficient application of these medications. The Company also owns acquired brands, intellectual property and leases office and production premises to a cannabis processor and retailer which were subsequently disposed of on March 5, 2021.

## **2. HIGHLIGHTS**

### **Q2 2021 CONSOLIDATED FINANCIAL HIGHLIGHTS**

- On February 22, 2021, the Company signed a definitive binding asset purchase agreement (the “Agreement”) with Ionic Brands Corp (“Ionic”) (CSE: IONC) with respect to the sale to Ionic of certain assets relating to Washington-based Cowlitz County Cannabis Cultivators LLC (“Cowlitz”) including license and rental income receivable, Intellectual Property Purchase Agreement, lease deposit and Lease Purchase Agreement (the “Cowlitz Disposal Group”) with a carrying amount of \$4,428,997 for total consideration of approximately \$32,000,000. On March 5, 2021, the Company completed the sale to Ionic of the Cowlitz Disposal Group as per the Agreement. A significant component of the consideration is 100,406,701 Series E Nonvoting Preferred Shares (the “Consideration Preferred Shares”) at a deemed price of \$0.30 per Consideration Preferred Share. The Consideration Preferred Shares are convertible on a one-for-one basis into Ionic common shares. The Consideration Preferred Shares are subject to vesting conditions whereby the Consideration Preferred Shares will be restricted from trading and released in five equal instalments on October 5, 2021, January 5, 2022; April 5, 2022, June 5, 2022, and September 5, 2022. The ultimate consideration on sale of the Ionic shares will vary based upon the Ionic share price as quoted on the Canadian Securities Exchange.
- Net loss from continuing operations of \$2,573,243 or \$0.02 per share, compared to net loss from continuing operations of \$1,140,557 or \$0.02 per share for Q2 2020. The increase is due to additional spend on advertising for the rebranding of the Company, research for the development of the provisional patents and consulting fees due to severance payments to the former CEO.
- Cash used in operating activities of continuing operations was \$1,767,930, compared to \$343,505 for Q2 2020. The increase is due to additional spend on advertising for the rebranding of the Company, research for the development of the provisional patents and consulting fees due to severance payments to the former CEO.

### **FEBRUARY 28, 2021 COMPARED TO AUGUST 31, 2020 CONSOLIDATED BALANCE SHEET HIGHLIGHTS**

- Cash was \$1,798,909, compared to \$172,107 at August 31, 2020, an increase of 800%
- Total assets were \$14,131,077, compared to \$12,971,092 at August 31, 2020, an increase of 10%
- Working capital was \$1,908,178, compared to \$393,553 at August 31, 2020, an increase of 375%.

### 3. 2021 BUSINESS DEVELOPMENT AND OVERVIEW

Lobe is working to develop effective psychedelic-based therapeutics for the treatment of mild traumatic brain injuries and post-traumatic stress disorder and devices for the efficient application of medications. The Company owns acquired brands, owns intellectual property, and leases office and production premises to a cannabis processor and retailer.

#### **Cowlitz County Cannabis Cultivation, Inc.**

The Company owns the property leases and brands of Cowlitz, a licensed cannabis producer and processor located in Washington State. Cowlitz is a leading producer, marketer, and vendor in the Washington State recreational cannabis market. Known for sourcing high-quality cannabis sold at affordable prices to a broad and established consumer base, Cowlitz's portfolio of branded products is available at approximately 90 cannabis retailers throughout Washington State. Cowlitz is one of the top five tier 2 producers and processors of cannabis in Washington and is the one of the largest independent buyers of dried flower, producing approximately 200,000 pre-rolls monthly. Currently, Cowlitz produces flower, dabs, pre-rolls, a full spectrum of cannabinoid powder, and infused joints under brand categories: "Dab Dudes" – affordably priced vape cartridges, BHO waxes and crystalline, "Hi Guys" – the 'working man's weed', including flower, joints, "Dabsquatch" – affordable priced waxes, and BHO, and "Cowlitz Gold" – premium flower, joints, BHO, and vape cartridges.

Cowlitz holds a Washington State marijuana processor license as granted by the Washington State Liquor and Cannabis Board which licenses Cowlitz to process, dry, cure, package, and label useable marijuana, marijuana concentrates, and marijuana-infused products for sale at wholesale to marijuana processors and marijuana retailers in the State of Washington.

The principal operations of the Company are located in Washington State and therefore highly regulated under regimes in the United States. Washington State regulations require that every individual with an ownership or equity interest, with a right to receive a percentage of gross or net profits, or who exercises control over a licensed marijuana operator must apply for licensing with the Washington State Liquor and Cannabis Board be approved. This requires applicants to be a Washington State resident. As such, regulations surrounding the Company are subject to change.

On November 30, 2020, the Company received and signed a non-binding letter of intent with IONIC Brands Corp. ("Ionic") (CSE:IONC) for the proposed sale to Ionic of certain assets held by the Company related to Cowlitz. The assets being sold to Ionic may include, but are not limited to, the assignment of all property leases relating exclusively to Cowlitz's business, the assignment of Lobe's option agreement to acquire all of the outstanding shares of Cowlitz, and the assignment of other contracts and rights related exclusively to Cowlitz including service contracts and equipment leases (the "Assets").

On February 22, 2021, the Company signed an Agreement with Ionic (CSE: IONC) with respect to the sale to Ionic of the Cowlitz Disposal Group with a carrying amount of \$4,317,361 for total consideration of approximately \$32,000,000. On March 5, 2021, the Company completed the sale to Ionic of the Cowlitz Disposal Group as per the Agreement. In exchange for the Cowlitz Disposal Group, the Company received the following compensation:

- 100,406,701 Series E Nonvoting Preferred Shares (the "Consideration Preferred Shares") at a deemed price of \$0.30 per Consideration Preferred Share. The Consideration Preferred Shares are convertible on a one-for-one basis into Ionic common shares. The Consideration Preferred Shares are subject to vesting conditions whereby the Consideration Preferred Shares will be restricted from trading and released in five equal instalments on October 5, 2021, January 5, 2022; April 5, 2022, June 5, 2022, and September 5, 2022;
- Common share purchase warrants to purchase up to 4,000,000 Ionic common shares ("Consideration Warrants"), where each Consideration Warrant entitles the holder thereof to acquire one Ionic common share at \$0.30 per share for a period of five years from the date of issuance;

- A cash payment of \$1,750,000 in cash; and
- A secured promissory note of \$63,070 (USD\$50,000), maturing two years from the date of issue and carrying an annual interest rate of 7% interest.

Subsequent to March 5, 2021, the Company will have no continued involvement with Cowlitz.

### **Eleusian Biosciences Corp.**

On July 27, 2020, the Company acquired a 100% interest in Eleusian Biosciences Corp. (“Eleusian”) (the “Transaction”). The Transaction provides the following to the Company:

- Brings seasoned pharmaceutical leader and executive Maghsoud Dariani, Eleusian’s Chief Science Officer to the Company to join the Company’s executive team as Chief Science Officer.
- Expands the Company’s portfolio of brands in the life sciences space, opening access to the emerging psychedelic medicine sector.
- Provides development opportunities with brain health and mental wellness – pre-clinical studies in progress to lead to IND submission.
- Expands intellectual property portfolio with five provisional patent applications filed by Eleusian in the United States.

The Company, through a pre-clinical study conducted by the University of Miami, intends to demonstrate that the outcomes and clinical symptoms of the post-concussion syndrome (“PTSD”) are improved in animal models. It is believed that the timely administration of psilocybin plus NAC may provide superior clinical results as measured by objective outcomes. We expect this combination to elicit clinical outcomes that are superior to Psilocybin or NAC alone. The study commenced in January 2021 and is ongoing.

On December 3, 2020, the Company announced that it has engaged VisionWorks Engineering of San Diego, CA to commence engineering work to complete and test a proof-of-concept prototype of its nasal mist device. This is a major milestone towards the ultimate goal for development of effective delivery methods and commercialization. The Company holds several provisional patent applications including for a nasal mist device entitled "Device and Method for the Treatment of Traumatic Brain Injuries and Post-Traumatic Stress Disorder". This device includes a nasal delivery system for administration of pharmaceutical agents such as a psilocybin-derived agent and/or NAC at preselected dosages and times. The device design allows for the precise control and delivery of medicines through the nasal cavity for faster and more efficient uptake of psychedelics and other medicines that target the brain. The prototype was completed on February 18, 2021.

### **Progressive Herbs, Inc.**

On February 1, 2019, the Company executed a joint venture agreement with Progressive Herbs, Inc. (“Progressive”) an Illinois-based agricultural technology company (the “Progressive JV Agreement”). Progressive and its affiliate, Aggressively Organic, Inc., are the owners of a proprietary technology for a sustainable, easy-to-use, inexpensive, productive growing system known as Micro Dendritic Pods™ (the “Progressive IP”). Pursuant to the Progressive JV Agreement, Progressive and the Company have formed a limited liability joint venture corporation, Capri PHGS, LLC (“Capri”), for the purposes of producing, processing, marketing and distributing cannabis, hemp, medicinal and bio pharmaceutical products for consumption worldwide utilizing the Progressive IP.

Management no longer anticipates involvement with the Progressive JV Agreement and has dissolved Capri. Discussions regarding the repayment of the promissory note are ongoing. While management intends to exhaust every effort to collect the outstanding principal and accrued interest, including but not limited to litigation, uncertainty exists surrounding ultimate collection. The Company provided an allowance for credit losses of \$725,220 with respect to the promissory note during the year ended August 31, 2020.

## Delta One Consultants LLC

On February 26, 2019, prior to the RTO, Green Star Biosciences Inc. entered into a non-binding letter of intent (“LOI”) for a Partnership Agreement with Delta One Consultants LLC (“Delta1”) whereby the Company is seeking to secure a 51% ownership interest in the Inkster, Michigan (“Inkster”) indoor grow facility. Inkster consists of a 20,800 square foot facility, with access/ownership to up to five (5) class C grow licenses, each license representing the ability to grow in perpetuity 1,500 individual cannabis plants.

In connection with the LOI, the Company paid \$205,140 (USD\$150,000) to Delta1. The Company no longer anticipates completion of the acquisition of a 51% interest in the Inkster Michigan facility and has determined that there is significant doubt regarding the ability of the Company to collect the \$139,930 (USD\$100,000) deposit which is refundable per the LOI. As such, management has recorded an allowance of credit loss of \$139,930 (USD\$100,000). Management anticipates recovery of the remaining \$68,935 (USD\$50,000) deposit; however, the timing of receipt remains uncertain and as such has continued to classify as a non-current asset on the statement of financial position.

#### 4. SUMMARY OF QUARTERLY RESULTS

	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Net loss from continuing operations	(2,573,243)	(1,276,718)	(1,459,849)	(377,962)
Net loss (income) from discontinued operations	(1,889)	31,526	24,253	59,961
Comprehensive loss	(2,674,216)	(1,271,767)	(1,723,048)	(167,473)
Basic and diluted net loss per share	\$(0.02)	\$(0.01)	\$(0.02)	\$(0.00)
Number of weighted average shares	169,459,942	143,114,425	96,496,378	66,651,210

  

	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Net loss from continuing operations	(1,140,557)	176,924	(971,537)	1,027,518
Net loss (income) from discontinued operations	141,355	(683,274)	28,286	37,888
Comprehensive (loss) income	(943,591)	(700,772)	(1,056,864)	1,192,980
Basic and diluted (loss) income per share	(0.01)	(0.01)	(0.02)	0.03
Number of weighted average shares	68,556,287	68,556,287	47,143,302	47,143,302

Number of weighted average shares decreased in Q3 2020 as compared to Q2 2020 as a result of the Company cancelling 4,568,524 common shares pursuant to a share cancellation agreement with prior management.

Comprehensive income of \$1,192,680 for Q3 2019 was a result of the reverse takeover (“RTO”) whereby the Company recorded a gain on the derecognition of derivative liability of \$8,647,744 which was partially offset by listing expense of \$1,726,550 and a change in fair value of derivative liability of \$5,188,200. Prior to the RTO, the Company’s functional currency was the USD. As the Performance Warrants are exercisable in the Canadian dollar, the Performance Warrants were accounted for as a derivative liability. Pursuant to the RTO, the Company changed its functional currency from USD to Canadian dollars (consistent with the exercise currency) and as such, the Performance Warrants were no longer considered derivative liabilities.

## 5. COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED FEBRUARY 28, 2021 AND FEBRUARY 29, 2020

<i>For the three months ended</i>		Q2 2021		Q2 2020
General and administrative	\$	21,947	\$	14,446
Insurance		22,352		25,478
Advertising		849,528		452,532
Rent		3,524		4,500
Research		566,770		-
Professional fees		140,445		97,261
Consulting fees		348,855		10,295
Management fees		57,384		66,683
Share-based compensation		493,478		471,659
Foreign exchange		64,460		7,234
Other income		-		(9,531)
Loss on debt settlement		4,500		-
Net loss from continuing operations		2,573,243		1,140,557
Net loss (income) from discontinued operations	\$	1,889	\$	(141,355)

### General and administration

During Q2 2021, the Company incurred general and administration expenses of \$21,947, compared to \$14,446 during Q2 2020. Management continues to review all discretionary spend.

### Insurance

During Q2 2021, the Company incurred insurance expenses of \$22,352, compared to \$25,478 during Q2 2020. The expense relates to a director and officers insurance policy.

### Advertising

During Q2 2021, the Company incurred advertising expenses of \$849,528, compared to \$452,532 during Q2 2020. The increase is due to expenses related to the rebranding of the Company.

### Rent

During Q2 2021, the Company incurred rent expense of \$3,524, compared to \$4,500 during Q2 2020. The expense relates to office space which was vacated during Q2 2021. The Company has no further obligation with respect to the premises.

### Research

During Q2 2021, the Company incurred research expense of \$566,770, compared to \$nil during Q2 2020. The increase relates to a preclinical study in collaboration with the University of Miami Miller School of Medicine.

### Professional fees

During Q2 2021, the Company incurred professional fees of \$140,445, compared to \$97,261 during Q2 2020. The increase is attributable to legal fees incurred in relation to general corporate matters and rebranding of the Company.

### Consulting fees

During Q2 2021, the Company incurred consulting fees of \$348,855, compared to \$10,295 during Q2 2020. The increase is attributable to a consulting agreement with the Executive Chairman, severance payment to the former CEO and monthly consulting fee for the new CEO.

**Management fees**

During Q2 2021, the Company incurred management fees of \$57,384 compared to \$66,683 during Q2 2020. The expense remains consistent as compared to prior period.

**Share-based compensation**

During Q2 2021, the Company incurred share-based compensation of \$493,478, compared to share-based compensation of \$471,659 during Q2 2020. The Company uses the Black-Scholes valuation model for options granted at fair value of shares issued to officers, management, and consultants. The increase is the result of stock options being granted to key management personnel during the quarter.

**Foreign exchange**

During Q2 2021, the Company incurred foreign exchange loss of \$64,460, compared to foreign exchange loss of \$7,234 during Q2 2020. The amount will fluctuate from period to period with movements in the CAD to USD foreign exchange rates. The loss is due to variances in the value of the CAD relative to the USD in Q2 2021 as compared to Q2 2020.

**Other income**

During Q2 2021, the Company earned other income of \$nil, compared to \$9,531 during Q2 2020. The amount recorded in Q2 2020 represents \$9,531 in interest income on the promissory note receivable with Progressive which was advanced on February 4, 2019. The Company provided an allowance for credit losses with respect to the promissory note during the year ended August 31, 2020 and discussions regarding the repayment of the promissory note are ongoing. The Company is no longer accruing interest income on the promissory note.

**Loss on debt settlement**

During Q2 2021, the Company recorded a loss on debt settlement of \$4,500, compared to \$nil during Q2 2020. The amount resulted from an adjustment to the previously recognized gain on debt settlement resulting from the issuance of 562,500 units as settlement of trade payables in the amount of \$45,000.

**Net income from discontinued operations**

During Q2 2021, the Company recorded loss from discontinued operations of \$1,889, compared to income from discontinued operations of \$141,355 during Q2 2020. The balance relates to rental and license revenues from Cowlitz which was partially offset by rent expense, amortization and depreciation. The balance decreased as compared to Q2 2020 as Q2 2020 included a non-recurring one-time annual adjustment of \$118,655 (USD\$89,423) to reconcile calendar 2019 license royalties with Cowlitz.

**COMPARISON OF RESULTS FOR THE SIX MONTHS ENDED FEBRUARY 28, 2021 AND FEBRUARY 29, 2020**

<i>For the six months ended</i>	<b>YTD 2021</b>	<b>YTD 2020</b>
General and administrative	\$ 54,893	\$ 40,448
Insurance	45,709	66,867
Advertising	1,452,764	695,250
Rent	8,024	9,000
Research	731,842	-
Professional fees	261,581	170,981
Consulting fees	570,112	55,302
Management fees	96,801	128,604
Share-based compensation	571,038	682,318
Foreign exchange	72,572	18,475
Other income	-	(22,717)
Gain on debt settlement	(15,375)	-
Net loss from continuing operations	<b>3,849,961</b>	1,844,528
Net income from discontinued operations	\$ (29,637)	\$ (162,052)

**General and administration**

During YTD 2021, the Company incurred general and administration expenses of \$54,893, compared to \$40,448 during YTD 2020. Management continues to review all discretionary spend.

**Insurance**

During YTD 2021, the Company incurred insurance expenses of \$45,709, compared to \$ 66,867 during YTD 2020. The expense relates to a director and officers insurance policy.

**Advertising**

During YTD 2021, the Company incurred advertising expenses of \$1,452,764, compared to \$695,250 during YTD 2020. The increase is due to expenses related to the rebranding of the Company.

**Rent**

During YTD 2021, the Company incurred rent expense of \$8,024, compared to \$9,000 during YTD 2020. The expense relates to office space which was vacated during Q2 2021. The Company has no further obligation with respect to the premises.

**Research**

During YTD 2021, the Company incurred research expense of \$731,842, compared to \$nil during YTD 2020. The increase relates to a preclinical study in collaboration with the University of Miami Miller School of Medicine.

**Professional fees**

During YTD 2021, the Company incurred professional fees of \$261,581, compared to \$170,981 during YTD 2020. The increase is attributable to legal fees incurred in relation to general corporate matters and rebranding of the Company.

**Consulting fees**

During YTD 2021, the Company incurred consulting fees of \$570,112, compared to \$55,302 during YTD 2020. The increase is attributable to a consulting agreement with the Executive Chairman, severance payment to the former CEO and monthly consulting fee for the new CEO.



**Management fees**

During YTD 2021, the Company incurred management fees of \$96,801 compared to \$128,604 during YTD 2020. The expense remains consistent as compared to prior period.

**Share-based compensation**

During YTD 2021, the Company incurred share-based compensation of \$571,038, compared to share-based compensation of \$682,318 during YTD 2020. The Company uses the Black-Scholes valuation model for options granted at fair value of shares issued to officers, management, and consultants. The decrease is the result of less stock options being granted to key management personnel during YTD 2021 as compared to YTD 2020.

**Foreign exchange**

During YTD 2021, the Company incurred foreign exchange loss of \$72,572, compared to foreign exchange loss of \$18,475 during YTD 2020. The amount will fluctuate from period to period with movements in the CAD to USD foreign exchange rates. The loss is due to variances in the value of the CAD relative to the USD in YTD 2021 as compared to YTD 2020.

**Other income**

During YTD 2021, the Company earned other income of \$nil, compared to \$22,717 during YTD 2020. The amount recorded in YTD 2020 represents \$22,217 in interest income on the promissory note receivable with Progressive which was advanced on February 4, 2019. The Company provided an allowance for credit losses with respect to the promissory note during the year ended August 31, 2020 and discussions regarding the repayment of the promissory note are ongoing. The Company is no longer accruing interest income on the promissory note.

**Gain on debt settlement**

During YTD 2021, the Company recorded a gain on debt of \$15,375, compared to \$nil during YTD 2020. The amount resulted from the issuance of 562,500 units as settlement of trade payables in the amount of \$45,000 resulting in a gain on debt settlement of \$12,375. In addition, the Company recorded a \$3,000 gain as a result of the renegotiation of an invoice with a vendor.

**Net income from discontinued operations**

During YTD 2021, the Company recorded income from discontinued operations of \$29,637, compared to \$162,052 during YTD 2020. The balance relates to rental and license revenues from Cowlitz which was partially offset by rent expense, amortization and depreciation. The balance decreased as compared to YTD 2020 as YTD 2020 included a non-recurring one-time annual adjustment of \$118,655 (USD\$89,423) to reconcile calendar 2019 license royalties with Cowlitz.

**6. LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES****6.1 Liquidity**

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with its financial liabilities and other contractual obligations. The Company's strategy for managing liquidity is based on achieving positive cash flows from operations to internally fund operating and capital requirements.

Factors that may affect the Company's liquidity are continuously monitored. These factors include the units sold by Cowlitz, patent application costs, research and development costs to develop the Company's patents, 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.

In the event that the Company is adversely affected by any of these factors and, as a result, the operating cash flows are not sufficient to meet the Company's working capital requirements there is no guarantee that the Company would

be able to raise additional capital on acceptable terms to fund a potential cash shortfall. Consequently, the Company is subject to liquidity risk.

The Company will need to procure additional financing in order to fund its ongoing operation. The Company intends to obtain such financing through equity financing, and there can be no assurance that the Company can raise the required capital it needs to build and expand as expected, nor that the capital markets will fund the business of the Company. Without this additional financing, the Company may be unable to achieve positive cash flow and earnings as quickly as anticipated, these uncertainties cast a significant doubt about the Company's ability to continue as a going concern.

At February 28, 2021, the Company had working capital of \$1,908,178, as follows:

<i>As at</i>	<b>February 28, 2021</b>		August 31, 2020	
Cash	\$	<b>1,798,136</b>	\$	172,107
Receivables		<b>153,234</b>		621,206
Prepaid expenses and deposits		<b>205,784</b>		377,123
Total current assets		<b>2,157,154</b>		1,170,436
Accounts payable and accrued liabilities		<b>248,976</b>		595,066
Current lease liability		-		181,817
Total current liabilities		<b>248,976</b>		776,883
Working capital	\$	<b>1,908,178</b>	\$	393,553

## 6.2. Cash Flows

Review of cash flow for the three months ended Q2 2021 compared to Q2 2020:

<i>Net cash provided by (used in)</i>	<b>Q2 2021</b>		Q2 2020	
Operating activities of continuing operations	\$	<b>(1,767,930)</b>	\$	(343,505)
Operating activities of discontinued operations		<b>94,401</b>		133,266
Financing activities		<b>3,339,596</b>		101,514
Effect of exchange rate changes on cash		<b>24,978</b>		(2,939)
Cash, beginning		<b>107,091</b>		270,542
Cash, end	\$	<b>1,798,136</b>	\$	158,878

Cash used in operating activities of continuing operations during Q2 2021 was \$1,767,930, compared to cash used in operating activities of continuing operations of \$343,505 during Q2 2020. The decrease in cash used in operating activities is attributable to the following:

- Net loss from continuing operations of \$2,573,243 compared to net loss from continuing operations of \$1,140,557 due primarily to an increase in advertising, research and consulting expenses which was partially offset by a decrease in share-based compensation. Included in net loss are non-cash items of \$447,483 for the three months ended February 28, 2021 as compared to \$459,922 for the three months ended February 29, 2020.
- Movements in receivables decreased cash by \$30,202 compared to decreasing cash by \$57,475 for the three months ended February 29, 2020.
- Movements in prepaid expenses increased cash by \$286,212 compared to increasing cash by \$360,870 for the three months ended February 29, 2020.

- Movements in accounts payable and accrued liabilities increased cash by \$101,820 compared to increasing cash by \$33,375 for the three months ended February 29, 2020.

Cash provided by operating activities of discontinued operations for the three months ended February 28, 2021 was \$94,401 as compared to \$133,266 during the three months ended February 29, 2020. The balance relates to rental and license revenues from Cowlitz which was partially offset by rent expense.

Cash provided in financing activities for the three months ended February 28, 2021 was \$3,339,596 as compared to cash provided by financing activities of \$101,514 during the three months ended February 29, 2020. Cash provided by financing activities during the three months ended February 28, 2021 was the result of funds raised through private placements which was partially offset by the repayment of lease liability. Cash provided by financing activities during the three months ended February 29, 2020 was the result of funds raised through the exercise of warrants which was partially offset by the repayment of the lease liability.

Review of cash flow for the six months ended February 28, 2021 compared to February 29, 2020:

<i>Net cash provided by (used in)</i>	<b>YTD 2021</b>		YTD 2020	
Operating activities of continuing operations	\$	<b>(3,548,381)</b>	\$	(859,898)
Operating activities of discontinued operations		<b>289,189</b>		290,852
Financing activities		<b>4,859,300</b>		216,845
Effect of exchange rate changes on cash		<b>25,921</b>		(1,698)
Cash, beginning		<b>172,107</b>		512,777
Cash, end	\$	<b>1,798,136</b>	\$	158,878

Cash used in operating activities of continuing operations during YTD 2021 was \$3,548,381, compared to cash used in operating activities of continuing operations of \$859,858 during YTD 2020. The decrease in cash used in operating activities is attributable to the following:

- Net loss from continuing operations of \$3,849,961 compared to net loss from continuing operations of \$1,844,528 due primarily to an increase in advertising, research and consulting expenses which was partially offset by a decrease in share-based compensation. Included in net loss are non-cash items of \$538,777 for the six months ended February 28, 2021 as compared to \$652,129 for the six months ended February 29, 2020.
- Movements in receivables decreased cash by \$100,719 compared to increasing cash by \$35,252 for the six months ended February 29, 2020.
- Movements in prepaid expenses increased cash by \$164,442 compared to increasing cash by \$359,104 for the six months ended February 29, 2020.
- Movements in accounts payables and accrued liabilities decreased cash by \$300,920 compared to decreasing cash by \$61,855 for the six months ended February 29, 2020.

Cash provided by operating activities of discontinued operations for the six months ended February 28, 2021 was \$289,189 as compared to \$290,852 during the six months ended February 29, 2020. The balance relates to rental and license revenues from Cowlitz which was partially offset by rent expense and has remained consistent year over year.

Cash provided in financing activities for the six months ended February 28, 2021 was \$4,859,300 as compared to cash provided by financing activities of \$216,845 during the six months ended February 29, 2020. Cash provided by financing activities during the six months ended February 28, 2021 was the result of funds raised through private placements which was partially offset by the repayment of lease liability and share issuance costs. Cash provided by financing activities during the six months ended February 29, 2020 was the result of funds raised through the exercise of warrants which was partially offset by the repayment of the lease liability.

### 6.3 Capital Resources

The capital of the Company consists of consolidated equity, net of cash.

<i>As at</i>	<b>February 28, 2021</b>		August 31, 2020	
Equity	\$	<b>13,674,301</b>	\$	12,074,006
Less: cash		<b>(1,798,136)</b>		(172,107)
	\$	<b>11,876,165</b>	\$	11,901,899

The board of directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management policies on an annual basis. The Company's board of directors identifies and evaluates the Company's financial risks and is charged with the responsibility of establishing controls and procedures to ensure financial risks are mitigated.

The Company's objectives when managing capital are to pursue and complete the identification and evaluation of assets, properties, or businesses with a view to acquisition. The Company does not have any externally imposed capital requirements to which it is subject.

The Company manages the capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new common shares or adjust the amount of cash.

The Company's investment policy is to invest excess cash in investment instruments at high credit, quality financial institutions with terms to maturity selected with regards to the expected time of expenditures from continuing operations.

### 7. OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or arrangements with respect to any obligations under a variable interest equity arrangement.

### 8. RELATED PARTY DISCLOSURES

Key management personnel compensation for the three and six months ended February 28, 2021 and 2020 were as follows:

	Three months ended		Six months ended	
	<b>February 28,</b>	February 29,	<b>February 28,</b>	<b>February 29,</b>
	<b>2021</b>	2020	<b>2021</b>	<b>2020</b>
Management fees	\$ -	\$ 76,849	\$ -	\$ 136,321
Consulting fees	<b>364,251</b>	-	<b>470,098</b>	16,500
Share-based payments	<b>348,462</b>	361,118	<b>357,006</b>	361,118
	\$ <b>712,713</b>	\$ 437,967	\$ <b>827,104</b>	\$ 513,939

During the three and six months ended February 28, 2021, the Company incurred \$105,846 and \$207,353, respectively (three and six months ended February 29, 2020 - \$nil and \$17,426, respectively) in consulting fees to a Company owned by the former Chief Executive Officer. The consulting fees are included in consulting fees in the consolidated statement of comprehensive loss.

During the three and six months ended February 28, 2021, the Company incurred \$37,075 and \$37,075, respectively (2019 - \$nil and \$nil, respectively) in consulting fees to a firm owned by the Chief Executive Officer. The consulting fees are included in consulting fees in the consolidated statement of comprehensive loss.

During the three and six months ended February 28, 2021, the Company incurred \$214,670 and \$214,670, respectively (2019 - \$nil and \$nil, respectively) in consulting fees to a firm owned by a Director. The consulting fees are included in consulting fees in the consolidated statement of comprehensive loss.

During the three and six months ended February 28, 2021, the Company incurred \$6,660 and \$11,000, respectively (2019 - \$nil and \$nil, respectively) in consulting fees to the Chief Science Officer. The consulting fees are included in consulting fees in the consolidated statement of comprehensive loss.

During the three and six months ended February 28, 2021, the Company incurred \$nil and \$nil, respectively (2019 - \$76,849 and \$136,321, respectively) in management fees to a firm owned by the former president. The management fees are included in management fees in the consolidated statement of comprehensive loss.

Share-based payments are the fair value of options granted to key management personnel as at the grant date.

Other related party transactions for the three and six months ended February 28, 2021 and 2020 were as follows:

	Three months ended		Six months ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
Professional fees	\$ 38,880	\$ 16,635	\$ 64,813	\$ 53,158
	\$ 38,880	\$ 16,635	\$ 64,813	\$ 53,158

During the three and six months ended February 28, 2021, the Company incurred \$38,880 and \$64,813, respectively (three and six months ended February 29, 2020 - \$16,635 and \$16,635, respectively) in accounting costs to a firm related to the Chief Financial Officer. The accounting costs are included in professional fees in the consolidated statement of comprehensive loss.

During the three and six months ended February 28, 2021, the Company incurred \$nil and \$nil, respectively (2019 - \$nil and \$36,523, respectively) in accounting costs to a firm owned by the former Chief Financial Officer. The accounting costs are included in professional fees in the consolidated statement of comprehensive loss.

Due to related parties as at February 28, 2021 and August 31, 2020 were as follows:

	February 28, 2021	August 31, 2020
Trade payables and other liabilities	\$ 34,538	\$ 218,268
	\$ 34,538	\$ 218,268

As at February 28, 2021, included in trade payables and other liabilities is \$18,394 (August 31, 2020 - \$nil) payable to a Company owned by the Chief Executive Officer of the Company for management fees. The amount is unsecured, non-interest bearing and due on demand.

As at February 28, 2021, included in trade payables and other liabilities is \$16,144 (August 31, 2020 - \$5,381) payable to a Company related to the Chief Financial Officer for professional fees. The amount is unsecured, non-interest bearing and due on demand.

As at February 28, 2021, included in trade payables and other liabilities is \$nil (August 31, 2020 - \$14,453) payable to a Company owned by the former Chief Executive Officer of the Company for management fees. The amount is unsecured, non-interest bearing and due on demand.

As at February 28, 2021, included in trade payables and other liabilities is \$nil (August 31, 2020 - \$7,489) payable to a company owned by the former Chief Financial Officer for professional fees. The amount is unsecured, non-interest bearing and due on demand.

As at February 28, 2021, included in trade payables and other liabilities is \$nil (August 31, 2020 - \$14,883) payable to a consulting firm owned by the former Chief Operations Officer for consulting fees. The amount is unsecured, non-interest bearing and due on demand.

As at February 28, 2021, included in trade payables and other liabilities is \$nil (August 31, 2020 - \$176,062) payable to a company owned by the former Chief Executive Officer for consulting fees. The amount is unsecured, non-interest bearing and due on demand.

## 9. OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company's authorized share capital consists of an unlimited number of common shares without par value. The Company had the following securities outstanding as at April 23, 2021.

Type of Security	Number Outstanding
Common Shares	200,233,984
Share Purchase Options	15,693,836
Agent Options	445,095
Performance Warrants	4,655,992
Share Purchase Warrants	47,679,544
<b>Fully Diluted</b>	<b>268,708,41</b>

## 10. CHANGES IN ACCOUNTING POLICIES

The accounting policies applied in the preparation of the Company's unaudited condensed interim consolidated financial statements for the three and six months ended February 28, 2021 and February 29, 2020 are consistent with those disclosed in Notes 2 and 3 of the Company's annual consolidated financial statements for the years ended August 31, 2020 and 2019.

## 11. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses. Although management uses historical experience and its best knowledge of the amount, events, or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods. These financial statements do not include any accounts that require significant estimates as the basis for determining the stated amounts.

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as the follows:

## **Share-based payments**

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

## **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. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law in the relevant jurisdiction. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision.

Management believes they 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, the Company recognizes 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 (the "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.

## **Going concern**

The Company's ability to execute its strategy by funding future working capital requirements requires judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, such as expectations of future events that are believed to be reasonable under the circumstances.

## **Functional currency**

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction dates. Foreign currency gains and losses on transactions or settlements are recognized in the statement of loss and comprehensive loss. The functional currency of Green Star Biosciences Inc.,

Green Star Washington LLC, and Green Star Biosciences Packing LLC is the United States dollar. Assets and liabilities are translated at the period end foreign exchange rate and revenue and expenses are translated at the average rate for the period.

The consolidated financial statements are translated into Canadian dollars with assets and liabilities translated at the current rate on the consolidated financial statements date and revenue and expense items translated at the average rates for the period. Translation adjustments are recorded as accumulated other comprehensive income (loss) in shareholders' equity.

### **Trade receivables**

The Company accounts for impairment of trade receivables by recording allowances for doubtful accounts on an individual basis, as its sole customer is Cowlitz. The assessment of whether a receivable is collectible involves the use of judgment and requires the use of assumptions about customer defaults that could change significantly. Judgment is required when we evaluate available information about a particular customer's financial situation to determine whether it is probable that a credit loss will occur, and the amount of such loss is reasonably estimable and thus an allowance for that specific account is necessary. Changes in our estimates about the allowance for doubtful accounts could materially impact reported assets and expenses, and our profit could be adversely affected if actual credit losses exceed our estimates.

### **Promissory note receivable**

The Company accounts for impairment of note receivables by recording allowances. The assessment of whether a note receivable is collectible involves the use of judgment and requires the use of assumptions about the financial situation of who the note was issued. Judgment is required when we evaluate available information about a particular customer's financial situation to determine whether it is probable that a credit loss will occur on the note receivable, and the amount of such loss is reasonably estimable and thus an allowance for that specific account is necessary. Changes in our estimates about the allowance for doubtful accounts could materially impact reported assets and expenses, and our profit could be adversely affected if actual credit losses exceed our estimates.

### **Deferred acquisition cost**

On February 26, 2019, Green Star Biosciences Inc. entered into a non-binding LOI for a Partnership Agreement with Delta1. The Company planned to partner with Delta1 to purchase an interest in an indoor cannabis grow operation. In connection with the Letter of Intent, the Company paid \$205,140 (USD \$150,000) to Delta1. Management had used judgement and determined that the amount paid to Delta1 met the definition of an asset and it was reasonably expected to complete the acquisition of a 51% interest in the Inkster, Michigan facility.

The Company continually reassesses its capital allocation and has determined that proceeding with Delta1 at the current time is not in the best interest of the Company. During the year ended August 31, 2020, the Company recorded a bad debt expense of \$139,930 (USD\$100,000) representing an allowance for credit losses on the initial advance.

### **Identifying whether a contract includes a lease**

IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset. The Company had to apply judgment on certain factors, including whether the supplier has substantive substitution rights, does the Company obtain substantially all of the economic benefits and who has the right to direct the use of that asset.



**Incremental borrowing rate**

When the Company recognizes a lease, the future lease payments are discounted using the Company's incremental borrowing rate. This significant estimate impacts the carrying amount of the lease liabilities and the interest expense recorded on the consolidated statement of loss and comprehensive loss.

**Estimate of lease term**

When the Company recognizes a lease, it assesses the lease term based on the conditions of the lease and determines whether it will extend the lease at the end of the lease contract or exercise an early termination option. As it is not reasonably certain that the extension or early termination options will be exercised, the Company determined that the term of its leases are the lesser of original lease term. This significant estimate could affect future results if the Company extends the lease or exercises an early termination option.

**12. RISKS AND UNCERTAINTIES**

For a detailed listing of the risk factors faced by the Company, please refer to the Company's MD&A for the year ended August 31, 2020.