LOBE SCIENCES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended August 31, 2021 and 2020

(Expressed in Canadian dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Lobe Sciences Ltd.

Opinion

We have audited the consolidated financial statements of Lobe Sciences Ltd. and its subsidiaries (the "Company") which comprise the consolidated statements of financial position as at August 31, 2021 and 2020, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

Emphasis of Matter – Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the accompanying consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Joseph Bonvillain.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
December 23, 2021

LOBE SCIENCES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

	Notes		**August 31, 2021**		August 31, 2020
ASSETS					
Current					
Cash		**$**	**1,141,839**	$	172,107
Receivables	7		**195,707**		621,206
Prepaid expenses and deposits	8		**282,902**		377,123
Common shares	9		**952,910**		-
Preferred shares	9		**5,331,292**		-
Warrants	10		**200,926**		-
Dividend receivable	9		**1,563,310**		-
			9,668,886		1,170,436
Preferred shares	9		**1,362,145**		-
Promissory note receivable	11		**65,409**		-
Investment in Krysalis	12		**961,508**		-
Intangible assets	13		**40,000**		11,085,773
Deposit	14		**-**		78,252
Lease, net of amortization	14		**-**		571,421
Deferred acquisition cost	15		**-**		65,210
Total assets		**$**	**12,097,948**	$	12,971,092
LIABILITIES					
Current					
Accounts payable and accrued liabilities	21	**$**	**804,701**	$	595,066
Current lease liability	16		**-**		181,817
			804,701		776,883
Lease liability	16		**-**		120,203
Total liabilities			**804,701**		897,086
EQUITY					
Share capital	17(c)		**24,841,218**		18,524,509
Shares to be issued	21		**115,000**		13,500
Reserves	17(h)		**5,059,203**		2,355,630
Accumulated other comprehensive loss			**(247,999)**		(3,870)
Deficit			**(18,474,175)**		(8,815,763)
Total equity			**11,293,247**		12,074,006
Total liabilities and equity		**$**	**12,097,948**	$	12,971,092

Nature of operations (Note 1)
Events after the reporting period (Note 22)

These consolidated financial statements were approved and authorized for issue by the Board of Directors on December 23, 2021.

They are signed on the Company's behalf by:

"Signed" — Jonathan Gilbert, Director

"Signed" — Michael Petter, Director

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

LOBE SCIENCES LTD.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ended August 31, 2021 and 2020

(Expressed in Canadian dollars, except share numbers)

	Notes		2021		2020
Operating expenses					
General and administrative		**$**	**123,009**	$	77,931
Insurance			**148,547**		103,345
Advertising			**1,704,029**		936,698
Rent expense	14		**8,024**		18,000
Research			**1,371,796**		-
Bad debt expense	15		**62,040**		913,035
Professional fees	21		**603,133**		335,509
Consulting fees	21		**1,110,506**		216,838
Management fees	21		**325,557**		275,691
Share-based compensation	17,21		**921,598**		744,140
			6,378,239		3,621,187
Loss before other items			**(6,378,239)**		(3,621,187)
Other items					
Foreign exchange loss			**107,613**		19,138
Dividend income	9		**(1,563,310)**		-
Other income	11		**(2,293)**		(22,717)
Loss on change in fair value of short-term investments	9		**1,045,315**		-
Loss on change in fair value of Preferred Shares	9		**7,401,013**		-
Loss on change in fair value of Warrants	10		**461,815**		-
Share of loss on Krysalis	12		**92,053**		-
Consideration in excess of net assets acquired	6		**2,594,023**		-
Impairment of intangible assets	13		**7,345,387**		-
(Gain) loss on debt settlement	17(c)		**(15,375)**		64,731
			17,466,241		61,152
Loss before income taxes			**(23,844,480)**		(3,682,339)
Current income tax recovery	4		**1,023,688**		-
Loss from continuing operations		**$**	**(22,820,792)**	$	(3,682,339)
Income from discontinued operations, net of tax	4		**13,162,380**		246,266
Net loss			**(9,658,412)**		(3,436,073)
Other comprehensive loss					
Translation adjustment			**(244,129)**		(98,811)
Comprehensive loss		**$**	**(9,902,541)**	$	(3,534,884)
Net loss per share from continuing operations					
Basic and diluted		**$**	**(0.12)**	$	(0.05)
Net income per share from discontinued operations					
Basic		**$**	**0.07**	$	0.00
Diluted		**$**	**0.07**	$	0.00
Weighted average number of shares outstanding					
Basic			**194,961,923**		75,303,968
Diluted			**195,983,076**		75,303,968

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

LOBE SCIENCES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31, 2021 and 2020

(Expressed in Canadian dollars)

	Notes	2021	2020
Operating activities			
Net loss from continuing operations		$ **(22,820,792)**	$ (3,682,339)
Adjustments for non-cash items:			
Share-based compensation	17,21	**921,598**	744,140
Bad debt expense	14	**62,040**	913,035
Unrealized foreign exchange gain		**(128,758)**	(28,020)
Dividend income	9	**(1,563,310)**	-
Interest income	11	**(2,293)**	(22,717)
Loss on change in fair value of common shares	9	**1,045,315**	-
Loss on change in fair value of Preferred Shares	9	**7,401,013**	-
Loss on change in fair value of Warrants	10	**461,815**	-
Share of loss on Krysalis	12	**92,053**	-
Consideration in excess of net assets acquired	6	**2,594,023**	-
Impairment of intangible assets	13	**7,345,387**	-
(Gain) loss on settlement of accounts payable	17	**(15,375)**	64,731
Current income tax recovery	4	**(1,023,688)**	-
Shares to be issued - consulting expense	21	**115,000**	-
Changes in non-cash working capital items:			
Receivables		**(143,192)**	107,633
Prepaid expenses and deposits		**86,795**	14,134
Accounts payable and accrued liabilities		**241,577**	204,477
Net cash used in operating activities of continuing operations		**(5,330,792)**	(1,684,926)
Net cash provided by operating activities of discontinued operations	4	**293,434**	462,509
Investing Activities			
Cash on sale of assets, net	4	**1,649,249**	198,740
Investment in Krysalis	12	**(445,406)**	-
Acquisition of Vitamind	13	**(137,023)**	-
Net cash provided by investing activities		**1,066,820**	198,740
Financing activities			
Common shares issued for cash – private placement	17(c)	**5,173,734**	585,000
Common shares issued for cash – exercise of stock options	17(c)	**30,000**	-
Common shares issued for cash – exercise of warrants	17(c)	**-**	293,000
Shares to be issued	17(c)	-	13,500
Share issue costs	17(c)	**(198,330)**	(10,122)
Repayment of lease liability	16	**(87,815)**	(162,645)
Net cash provided by financing activities		**4,917,589**	718,733
Effect of exchange rate changes on cash		**22,681**	(35,726)
Increase (decrease) in cash		**969,732**	(340,670)
Cash, beginning of year		**172,107**	512,777
Cash, end of year		$ **1,141,839**	$ 172,107

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

LOBE SCIENCES LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended August 31, 2021 and 2020

(Expressed in Canadian dollars, except share numbers)

	Note	Number of shares	Share capital	Shares to be issued	Reserves	Accumulated other comprehensive income (loss)	Deficit	Total equity
Balance, August 31, 2019		**67,844,199**	**$ 9,866,773**	**$ -**	**$ 1,611,490**	**$ 94,941**	**$ (5,379,690)**	**$ 6,193,514**
Shares issued – private placement		11,700,000	585,000	-	-	-	-	585,000
Shares issued – acquisition of Eleusian Biosciences Corp.		63,201,058	7,584,127	-	-	-	-	7,584,127
Shares issued – exercise of warrants		2,930,000	293,000	-	-	-	-	293,000
Shares issued – debt settlement		2,007,692	205,731	-	-	-	-	205,731
Shares cancelled		(4,568,524)	-	-	-	-	-	-
Share issue costs		-	(10,122)	-	-	-	-	(10,122)
Subscriptions received		-	-	13,500	-	-	-	13,500
Share-based compensation		-	-	-	744,140	-	-	744,140
Comprehensive loss		-	-	-	-	(98,811)	(3,436,073)	(3,534,884)
Balance, August 31, 2020		**143,114,425**	**$ 18,524,509**	**$ 13,500**	**$ 2,355,630**	**$ (3,870)**	**$ (8,815,763)**	**$ 12,074,006**
Shares issued – private placement	17(c)	56,057,059	3,456,746	(13,500)	1,716,988	-	-	5,160,234
Shares issued – debt settlement	17(c)	562,500	23,632	-	4,493	-	-	28,125
Shares issued – exercise of options	17(c)	500,000	45,814	-	(15,814)	-	-	30,000
Shares issued – asset acquisition	13, 17(c)	18,900,000	2,457,000	-	-	-	-	2,457,000
Shares issued – joint venture	17(c)	5,500,000	577,500	-	-	-	-	577,500
Share issue costs	17(c)	-	(243,983)	-	45,653	-	-	(198,330)
Share purchase warrants		-	-	-	30,655	-	-	30,655
Share-based compensation	17	-	-	-	921,598	-	-	921,598
Shares to be issued - service agreement	21	-	-	115,000	-	-	-	115,000
Comprehensive loss		-	-	-	-	(244,129)	(9,658,412)	(9,902,541)
Balance, August 31, 2021		**224,633,984**	**$ 24,841,218**	**$ 115,000**	**$ 5,059,203**	**$ (247,999)**	**$ (18,474,175)**	**$ 11,293,247**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Lobe Sciences Ltd (the "Company") 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 Hastings 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 "LOBEF" on the OTC.

The Company's business plan is to develop psychedelic compounds as therapeutics. Initially the Company will develop psilocybin-based therapeutics in combination with N-acetylcysteine for the treatment of mild traumatic brain injuries and post-traumatic stress disorder and devices for the efficient application of these medications. The Company had owned acquired brands, intellectual property and leases office and production premises to a cannabis processor and retailer which were disposed of on March 5, 2021 (Note 4).

Going concern

During the year ended August 31, 2021, the Company incurred a net loss of $9,658,412. As at August 31, 2021, the Company has an accumulated deficit of $18,474,175. These factors form a material uncertainty that may raise significant doubt regarding the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon the Company's ability to raise sufficient financing to acquire or develop a profitable business. The Company intends on financing its future development activities and operations from the sale of equity securities.

COVID-19

During the year ended August 31, 2020, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through to 2021 due to the restrictions put in place by Canada, the United States, state and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by the United States and other countries to fight the virus.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These audited consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

2. BASIS OF PRESENTATION (continued)

(b) Basis of measurement

The consolidated financial statements have been prepared using the historical cost basis, except for certain financial assets and liabilities which are measured at fair value, as specified by IFRS for each type of asset, liability, income and expense as set out in the accounting policies below.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, except as otherwise noted. The functional currency of the Company is the Canadian dollar. See "Basis of Consolidation" for the functional currency of the Company's subsidiaries. References to United States dollar are "USD".

(d) Basis of consolidation

These consolidated financial statements include the financial statements of the Company and entities controlled by the Company. Control exists where the parent entity has power over the investee and is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

All inter-company balances, transactions, revenues and expenses have been eliminated on consolidation. These consolidated financial statements incorporate the accounts of the Company and the following subsidiaries:

Name of Subsidiary	Country of Incorporation	Percentage Ownership	Functional Currency
Green Star Biosciences Inc. (1)	Canada	100%	USD
Green Star Washington LLC (2)	United States	100%	USD
Green Star Biosciences Packing LLC (3)	United States	100%	USD
Eleusian Biosciences Corp (4)	Canada	100%	CAD

(1) Green Star Biosciences Inc. was amalgamated with Lobe Sciences Ltd. on September 1, 2021.

(2) Green Star Washington LLC ("Washington") was dissolved on March 17, 2021. Prior to dissolution, Washington was inactive and therefore the dissolution will have a nominal impact on the consolidated financial results.

(3) Green Star Biosciences Packing LLC ("Packing") was dissolved on March 8, 2021. Packing was inactive and therefore the dissolution will have a nominal impact on the consolidated financial results.

(4) Acquired on July 27, 2020 (Note 5).

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Significant estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make estimates based on assumptions about future events that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively in the period in which the estimate is revised.

Areas that require significant estimates and assumptions as the basis for determining the stated amounts include, but are not limited to, the following:

i. Functional currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the respective entity operates. Such determination involves certain judgements to identify the primary economic environment. The Company reconsiders the functional currency of its subsidiaries if there is a change in events and/or conditions which determine the primary economic environment.

ii. Useful lives of long-lived assets

Management reviews its estimate of the useful life of long-lived assets annually and accounts for any changes in estimates prospectively. Prior to disposal, the Company applied judgment in determining the useful lives of the right of use assets for purposes of assessing the shorter of the useful life or lease term. The useful lives of intangible asset are not yet in use or in the stage of a final patent has been determined to be indefinite and they are not yet subject to amortization.

iii. 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. Judgments and estimates are required in determining the indicators of impairment and the estimates required to measure an impairment, if any.

iv. Expected credit losses

In calculating the expected credit loss on financial instruments, management is required to make a number of judgments including the probability of possible outcomes with regards to credit loss, the discount rate to use for time value of money and whether the financial instrument's credit risk has increased significantly since initial recognition.

v. Equity-settled share-based payments

Share-based payments are measured at fair value. Options and warrants are measured using the Black-Scholes option pricing model based on estimated fair values of all share-based awards at the measurement date and are expensed to the consolidated statement of loss and comprehensive loss over each award's vesting period. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

vi. Current and deferred income taxes

The Company's provision for income taxes is estimated based on the annual effective tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The current and deferred components of income taxes are estimated based on forecasted movements in temporary differences. Changes to the annual effective tax rate and differences between the actual and expected effective tax rate and between actual and forecasted movements in temporary differences will result in adjustments to the Company's provision for income taxes in the period changes are made and/or differences are identified.

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Forecasted cash flows from operations are based on contractual revenues and expenses and planned expenses, which are internally developed and reviewed by management.

Weight is attached to tax planning opportunities that are within the Company's control, and are feasible and implementable without significant obstacles.

The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence.

vii. Leases as a result of adopting IFRS 16

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

viii. Business combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition.

c) Foreign currency translation

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency ("foreign currencies") are translated at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at that date. Exchange gains and losses are recognized on a net basis in on the consolidated statement of loss and comprehensive loss for the year.

d) Cash

Cash is comprised of cash at banks and on hand.

e) Intangible assets

Intangible assets are recognized as assets in accordance with IAS 38 - *Intangible Assets*, where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be determined reliably. Intangible assets acquired are initially recognized at cost of purchase and are subsequently carried at cost less accumulated amortization, if applicable, and accumulated impairment losses. The useful lives of intangible asset are assessed as either finite or indefinite. Intangible assets included provisional patents identified as part of the Acquisition (Note 5). The initial acquisition cost is based on the fair value of the consideration paid.

Upon sale or abandonment of any intangible asset, the cost and related accumulated depreciation and impairment losses are written off and any gains or losses thereon are recognized in profit or loss for the period.

f) Depreciation and amortization

Depreciation and amortization is provided using the straight-line basis over the following terms:

Right of use assets	3 years

Depreciation commences on the date the asset is available for use. An asset's residual value, useful life and amortization method are reviewed at each financial year end and adjusted if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment. Gains and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount of the equipment and are recognized in consolidated statement of loss and comprehensive loss.

g) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets, or disposal groups, are generally measured as the lower of their carrying amount and fair value less costs to sell.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Investment in joint venture

A joint venture is a joint arrangement whereby the parties having joint control of the arrangement and have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The investment in joint venture is initially recognized at cost. The carrying amount of the investment is increased or decreased by the Company's share of the joint ventures net profit or loss after the acquisition date. Dividends distributed to the Company decreases the carrying amount of the investment.

i) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Constructive obligations are obligations that derive from the Company's actions where:

- by an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and,
- as a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Provisions are reviewed at the end of each reporting period and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Provisions are reduced by actual expenditures for which the provision was originally recognized. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The accretion of the discount is charged to the consolidated statement of loss and comprehensive loss.

j) Share-based payments

Certain employees and directors of the Company receive a portion of their remuneration in the form of share options. The fair value of the share options, determined at the date of the grant, is charged to the consolidated statement of loss and comprehensive loss, with an offsetting credit to reserves, over the vesting period. If and when the share options are exercised, the applicable original amounts of reserves are transferred to issued capital.

The fair value of a share-based payment is determined at the date of the grant. The estimated fair value of share options is measured using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of subjective assumptions, including the expected term of the option and share price volatility. The expected term of options granted is determined based on historical data on the average hold period before exercise, expiry or cancellation. Expected volatility is estimated with reference to the historical volatility of the share price of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

These estimates involve inherent uncertainties and the application of management's judgement. The costs of share-based payments are recognized over the vesting period of the option. The total amount recognized as an expense is adjusted to reflect the number of options expected to vest at each reporting date. At each reporting date prior to vesting, the cumulative compensation expense representing the extent to which the vesting period has passed and management's best estimate of the share options that are ultimately expected to vest is computed. The movement in cumulative expense is recognized on the consolidated statement of loss and comprehensive loss with a corresponding entry to reserves.

Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined that the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received.

No expense is recognized for share options that do not ultimately vest. Charges for share options that are forfeited before vesting are reversed from reserves and credited to the consolidated statement of loss and comprehensive loss. For those share options that expire unexercised after vesting, the recorded value remains in reserves.

k) Share purchase warrants

Share purchase warrants are classified as equity under the principles of IAS 32 - *Financial Instruments: Presentation* as the exercise price of the share purchase warrant is fixed in Canadian dollars and the functional currency of the Company is the Canadian dollar.

The share purchase warrants are recognized at fair value using the Black-Scholes option pricing model or the listed trading price at the date of issue and as vesting occurs. Share purchase warrants are initially recorded into equity reserves and future changes in fair value are not recognized.

Upon exercise of the share purchase warrants, the initial value allocated to equity reserves in reversed and the residual of the cash proceeds over the initial fair value is recorded as to issued capital. On expiry, the equity reserve is reclassified from the warrant reserve to contributed surplus.

l) Deferred Share Units and Restricted Share Units

A Deferred Share Unit ("DSU") Plan was established for directors in 2021. In addition, a Restricted Share Unit ("RSU") Plan was established for directors and officers of the Company. The DSU's and RSU's vest equally over a four-year period and are cash settled. The cost of the DSU's and RSU's is measured at fair value based on the closing price of the Company's common shares preceding the day the DSU's and RSU's are granted The fair value of the DSU's and RSU's, determined at the date of the grant, is charged to the consolidated statement of loss and comprehensive loss, with an offsetting credit to reserves, over the vesting period. On settlement date, the applicable original amounts of reserves are transferred to issued capital.

No expense is recognized for DSU's and RSU's that do not ultimately vest. Charges for DSU's and RSU's that are forfeited before vesting are reversed from reserves and credited to the consolidated statement of loss and comprehensive loss. For those share options that expire unexercised after vesting, the recorded value remains in reserves.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Issued capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity. Share issue costs incurred in advance of share subscriptions are recorded as non-current deferred assets. Share issue costs related to uncompleted share subscriptions are expensed in the period they are incurred.

The Company records proceeds from share issuances net of issue costs and any tax effects. Common shares issued for non-monetary consideration are recorded at the fair value of goods or services received or the fair value of the common shares issued if it is determined that the fair value of the goods or services cannot be reliably measured. The fair market value of the common shares issued is based upon the trading price of the Company's shares on the Canadian Securities Exchange on the date the goods or services are received or the date of share issuance, whichever is more appropriate.

n) Financial instruments

<u>Classification of financial assets</u>

Amortized cost:

Financial assets that meet the following conditions are measured subsequently at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. Interest income is recognized using the effective interest method.

The Company has classified cash at amortized cost.

Fair value through other comprehensive income ("FVTOCI"):

Financial assets that meet the following conditions are measured at FVTOCI:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and,
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company does not currently hold any financial instruments designated as FVTOCI.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity instruments designated as FVTOCI:

On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other OCI. The cumulative gain or loss is not reclassified to the consolidated statement of loss and comprehensive loss on disposal of the equity instrument, instead, it is transferred to deficit.

The Company does not currently hold any equity instruments designated as FVTOCI.

Financial assets measured subsequently at fair value through profit or loss ("FVTPL"):

By default, all other financial assets are measured subsequently at FVTPL. The valuation methodology and significant assumptions for the Preferred Shares in disclosed in Note 9 and Warrants in disclosed in Note 10.

The Company, at initial recognition, may also irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Financial assets measured at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized on the consolidated statement of loss and comprehensive loss to the extent they are not part of a designated hedging relationship.

o) Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized on the consolidated statement of loss and comprehensive loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Classification of financial liabilities

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading or designated as at FVTPL, are measured at amortized cost using effective interest method. The Company's financial liabilities measured at amortized cost are trade and other liabilities. The Company currently does not hold any financial liabilities at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Financial instruments designated as hedging instruments

The Company does not currently apply nor have a past practice of applying hedge accounting to financial instruments.

q) Impairment of financial assets

The expected loss model ("ECL") applies to financial assets measured at amortized cost, contract assets and debt investments measured at FVOCI. The ECL model applies to the Company's promissory note receivable (Note 9) and deferred acquisition cost (Note 12).

To assess credit losses, the Company considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions and forecasts that affect the expected collectability of future cash flows of the instrument.

In applying this forward-looking approach, the Company separates instruments into the below categories:

1. financial instruments that have not deteriorated significantly since initial recognition or that have low credit risk;
2. financial instruments that have deteriorated significantly since initial recognition and whose credit loss is not low; or
3. financial instruments that have objective evidence of impairment at the reporting date.

12-month expected credit losses are recognized for the first category while 'lifetime expected credit losses' are recognized for the second category.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

Financial assets, other than those at FVTPL and amortized cost, are assessed for indicators of impairment at each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

r) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is determined as the higher of fair value less costs of disposal and the asset's value in use. Fair value is determined with reference to discounted estimated future cash flow analysis or to recent transactions involving dispositions of similar properties. In assessing value in use, the estimated future cash flows are discounted to their present value.

The pre-tax discount rate applied to the estimated future cash flows measured on a value in use basis reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

If the carrying amount of an asset or cash generating unit (“CGU”) exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized as a charge to profit or loss. Non-financial assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed.

Where an impairment, other than goodwill impairment, subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of depletion and depreciation) had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of impairment is recognized as a gain in the statement of loss or comprehensive loss. Goodwill impairment losses are not reversed.

s) Taxes

i. Current tax expense

Current tax is the expected tax payable or receivable on the taxable earnings or loss for the period.

Current tax for each taxable entity in the Company is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the reporting date and includes adjustments to tax payable or recoverable in respect of previous periods.

ii. Deferred tax expense

Deferred tax is accounted for using the balance sheet liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their respective tax bases.

Deferred tax liabilities are recognized for all taxable temporary differences except where the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting earnings nor taxable earnings or loss.

Deferred tax assets are recognized for all deductible temporary differences, carry forwards of unused tax losses and tax credits, to the extent that it is probable that taxable earnings will be available against which the deductible temporary differences, and the carry forward of unused tax losses can be utilized, except where the deferred tax asset related to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting earnings nor taxable earnings or loss.

The carrying amounts of deferred tax assets are reviewed at each reporting date and are adjusted to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be utilized. To the extent that an asset not previously recognized fulfills the criteria for recognition, a deferred tax asset is recorded.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax is measured on an undiscounted basis using the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates and tax laws enacted or substantially enacted at the reporting date. Current and deferred tax relating to items recognized directly in equity are recognized in equity and not in earnings or loss.

t) Income (loss) per share

Basic earnings (loss) per share ("EPS") is calculated by dividing the income (loss) and comprehensive income (loss) of the Company by the basic weighted average number of common shares outstanding during the period.

For purposes of calculating diluted EPS, the proceeds from the potential exercise of dilutive share options and share purchase warrants with exercise prices that are below the average market price of the underlying shares are assumed to be used in purchasing the Company's common shares at their average market price for the period.

Share options and share purchase warrants are included in the calculation of diluted EPS only to the extent that the market price of the common shares exceeds the exercise price of the share options or share purchase warrants except where such conversion would be anti-dilutive.

u) Research and development expenditures

Research expenditures are expensed in the period incurred. Product development expenditures are expensed in the period incurred unless the expenditures meet specific criteria related to technical, market and financial feasibility for deferral and amortization. The Company's policy is to amortize deferred product development expenditures over the expected future life of the product. Any costs incurred to establish and maintain patents for intellectual property developed internally are expensed in the period incurred. No product development expenditures have been deferred to date.

v) Revenue recognition

Revenue is recognized when the Company satisfies its performance obligations. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The specific performance obligations described below must also be met before revenue is recognized. Payments received from customers in advance of meeting the performance obligations are recorded as deferred revenue.

License royalties

The Company accounts for sales-based royalties, charged on a per unit basis, in exchange for the license to use its intellectual property. Licensing revenue is recognized when the sale of licensed products occurs and in accordance with the terms of its licensing agreements which is the point in time when the Company satisfies its performance obligation.

Leases

The Company accounts for the leases of premises with its tenants as operating leases in accordance with the substance of the lease agreements. Lease revenue includes all amounts earned from tenants related to lease agreements including property tax and operating cost recoveries. Revenue from leases is recognized over time based upon the periodic rent amounts due under the terms of the sublease agreement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

x) Discontinued operations

A discontinued operation is a component of the Company that either has been abandoned, disposed of, or is classified as held for sale, and: (i) represents a separate major line of business or geographical area of operation; (ii) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operation; or (iii) is a subsidiary acquired exclusively with a view to resell. A component of the Company comprises an operation and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company.

4. SALE OF COWLITZ DISPOSAL GROUP

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 (Note 7), Intellectual Property Purchase Agreement (“IPPA”) (Note 13), lease deposit (Note 14) and Lease Purchase Agreement (Note 14). Management has determined that the assets and associated lease liability (Note 16) represent a disposal group (the “Cowlitz Disposal Group”). The assets and liabilities associated with the Cowlitz Disposal Group were disposed of on March 5, 2021.

In exchange for the Cowlitz Disposal Group, the Company received the following compensation:

- 100,406,705 Series E Nonvoting Preferred Shares (the “Preferred Shares”). The Preferred Shares are convertible on a one-for-one basis into Ionic common shares but cannot be converted for a period of four years if that results in the Company holding 10% or more of the common shares of Ionic. The Preferred Shares are subject to trading restrictions whereby the Preferred Shares or converted Ionic common shares will be restricted from trading and released as follows: 20% on October 5, 2021, January 5, 2022, April 5, 2022, June 5, 2022, and September 5, 2022. Each Preferred Share carries an annual, cumulative, preferential dividend on the issue price per share equal to 13% of the initial amount of the Preferred Shares ($0.30), accrued daily and with the first payment due January 1, 2022, for a period of two years from the date of issuance. The dividend may be settled in cash or Ionic common shares at the option of Ionic;
- Common share purchase warrants to purchase up to 4,000,000 Ionic common shares (“Warrants”), where each 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; 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%.

(Expressed in Canadian dollars, except where noted)

4. SALE OF COWLITZ DISPOSAL GROUP (continued)

The sale of the Cowlitz Disposal Group resulted in a gain of $13,132,743. The determination of the gain and summary of assets and liabilities disposed is summarized below:

Consideration received	Notes		
100,406,701 Series E Nonvoting Preferred Shares	9	$	17,582,307
4,000,000 common share purchase warrants	10		662,741
Cash			1,750,000
Promissory note receivable (USD$50,000)	11		63,340
		$	**20,058,388**
Assets disposed			
License and rental income receivable	7	$	556,925
Deposit	14		76,008
Intellectual Property Purchase Agreement	13		3,493,808
Lease	14		204,825
Right of use	14		187,531
		$	**4,519,097**
Liabilities disposed			
Lease liability	16		(207,522)
Total net assets disposed		**$**	**4,311,575**
Legal fees			100,750
Finder’s fee	9		1,489,632
Gain on sale		**$**	**14,156,431**
Current income tax expense			(1,023,688)
Gain on sale, net of tax		**$**	**13,132,743**

The finder’s fee represents 8,638,751 of the Series E Nonvoting Preferred Shares which were transferred to the finders on March 5, 2021 which were valued using the Black-Scholes option pricing on model due to the vesting terms and lack of marketability at the current market price of an Ionic common shares which the Preferred Shares can be converted into. The following assumptions were used in the Black-Scholes option pricing model:

Date	Expected Life (years)	Unit Price ($)	Expected Volatility	Risk-Free Rate	Dividend Yield	Fair Value
March 5, 2021	0.58 – 1.50	0.2350	125.0%	0.24%	0.00%	$ 1,489,632

On March 5, 2021, the Company recorded initial current income tax of $1,023,688 related to the Preferred Shares. During the year ended August 31, 2021, the Company recorded a reduction of $1,023,688 in the current income tax liability related to existing tax loss carryforwards from continuing operations which were previously unrecognized. The current income tax liability as at August 31, 2021 was $nil.

(Expressed in Canadian dollars, except where noted)

4. SALE OF COWLITZ DISPOSAL GROUP (continued)

Pursuant to the sale of the Cowlitz Disposal Group, the Company recognized the net income (loss) and cash flows associated with these assets and liabilities as discontinued operations. The net income (loss) associated with the discontinued operations for the years ended August 31, 2021, and 2020 are summarized below:

	Notes		2021		2020
Revenues					
License royalties	13	$	**104,306**	$	431,046
Lease	14		**218,515**		453,791
			322,821		884,837
Operating expenses					
Rent expense	14		**9,724**		43,281
Interest expense	16		**13,211**		43,048
Amortization	13		**102,825**		215,900
Depreciation	14		**166,402**		345,581
			292,162		647,810
Other items					
Gain on sale, net of tax			**(13,132,743)**		-
Foreign exchange loss			**1,022**		8,761
Net income from discontinued operations		$	**13,162,380**	$	246,266

The cash flows associated with the discontinued operations for the nine months ended August 31, 2021, and 2020 are summarized below:

		August 31, 2021		August 31, 2020
Operating activities				
Net income from discontinued operations	$	**13,162,380**	$	246,266
Adjustments for non-cash items:				
Amortization		**102,825**		215,900
Depreciation		**166,402**		345,581
Gain on sale, net of tax		**(13,132,743)**		-
Changes in non-cash working capital items:				
Receivables		**(5,430)**		(345,238)
Net cash provided by discontinued operations	$	**293,434**		462,509

5. INVESTMENT IN ELEUSIAN BIOSCIENCES CORP.

On July 27, 2020, the Company acquired a 100% interest in Eleusian Biosciences Corp. (“Eleusian”). Eleusian is a research and development Company partnered with a multidisciplinary team of scientists and physicians at the University of Miami and are working to develop effective psilocybin-based therapeutics for the treatment of mild traumatic brain injuries and post-traumatic stress disorder.

(Expressed in Canadian dollars, except where noted)

5. INVESTMENT IN ELEUSIAN BIOSCIENCES CORP. (continued)

As Eleusian did not qualify as a business according to the definition in IFRS 3, the acquisition has been accounted as a purchase of an asset with the fair value of the common shares issued by Lobe based on the fair value of the common shares on the closing date of the acquisition as follows:

Purchase price:		
60,200,056 acquisition common shares	$	7,224,007
3,001,002 finders' common shares		360,120
Legal fees		40,000
Total consideration	**$**	**7,624,127**
Net assets acquired:		
Cash	$	192,849
Accounts receivable		47,558
Prepaid expenses		18,333
Intellectual property (Note 13)		7,385,387
Accounts payable		(20,000)
Total net assets acquired	**$**	**7,624,127**

6. INVESTMENT IN VITAMIND

On May 3, 2021, the Company entered into an asset purchase agreement ("APA") to acquire the Vitamind brand and line of products and all intellectual property rights therein, including the exclusive use of the Vitamind tradename and trademark, and all associated branding and marketing materials; access to the Vendor's supply and distribution network and ongoing commercial assistance with such relationships. Purchase consideration consisted of 17,500,000 common shares of the Company ("Consideration Shares") of which 13,125,000 of the Consideration Shares are subject to escrow conditions ("Escrow Shares"), such that the Escrow Shares will be released in further increments of 4,375,000 common shares upon the Company achieving certain performance milestones with the Vendor's cooperation. 1,400,000 common shares of the Company as a finder's fee, a cash payment of $100,000 and legal costs of $36,973.

The following table summarizes the consideration:

Fair value of 4,375,000 Consideration Shares	$	568,750
Fair value of 13,125,000 Escrow Shares		1,706,250
Fair value of 1,400,000 finders' shares		182,000
Cash		100,000
Legal fees		37,023
Total consideration	**$**	**2,594,023**

This intellectual property is not ready for its intended use and future cash flows remain uncertain.

Management has expensed the consideration in excess of the net assets acquired equal to $2,594,023.

(Expressed in Canadian dollars, except where noted)

7. TRADE AND OTHER RECEIVABLES

		August 31, 2021		August 31, 2020
License and rental income	**$**	**-**	$	615,406
Sales tax receivable		**195,707**		52,515
Allowance for doubtful accounts		**-**		(46,715)
	$	**195,707**	$	621,206

On March 5, 2021, the Company disposed of $556,925 in license and rental income receivable pursuant to the sale of the Cowlitz Disposal Group (Note 4).

Sales tax receivable is comprised of Goods and Services Tax receivable from the Canadian government.

8. PREPAID EXPENSES AND DEPOSITS

		August 31, 2021		August 31, 2020
Advertising	**$**	**33,333**	$	333,984
Insurance		**77,332**		7,833
Deposits		**166,481**		-
Rent		**-**		8,425
Other		**5,756**		26,881
	$	**282,902**	$	377,123

9. PREFERRED AND COMMON SHARES

(a) Preferred Shares

Pursuant to the sale of the Cowlitz Disposal Group, the Company received 100,406,705 Preferred Shares, from which 8,638,751 were paid as finder's fee. The Preferred Shares are convertible on a one-for-one basis into Ionic common shares but cannot be converted for a period of four years if that results in the Company holding 10% or more of the common shares of Ionic. The Preferred Shares are subject to trading restrictions whereby the Preferred Shares or converted Ionic common shares will be restricted from trading and released as follows: 20% of the total Preferred Shares on October 5, 2021, January 5, 2022, April 5, 2022, June 5, 2022, and September 5, 2022.

A continuity of the Preferred Shares is as follows:

	Number of Shares		August 31, 2021		August 31, 2020
Balance, beginning of year	**-**	**$**	**-**	$	-
Addition (Note 4)	**100,406,705**		**17,582,307**		-
Finders' fee (Note 4)	**(8,638,751)**		**(1,489,632)**		-
Conversion to Common Shares	**(10,030,629)**		**(1,998,225)**		
Change in fair value of Preferred Shares	**-**		**(7,401,013)**		-
Balance, end of year	**81,737,325**		**6,693,437**		-
Less: Non-current portion	**(18,353,591)**		**1,362,145**		-
Current portion of Preferred Shares	**63,383,734**	**$**	**5,331,292**	$	-

(Expressed in Canadian dollars, except where noted)

9. PREFERRED AND COMMON SHARES (continued)

The Preferred Shares are measured at fair value through profit and loss. Fair value of the Preferred Shares was calculated using the Black-Scholes option pricing model which were valued using the Black-Scholes option pricing on model due to the vesting terms and lack of marketability at the current market price of an Ionic common shares which the Preferred Shares can be converted into. The Company used the following assumptions for the Black-Scholes option pricing on the respective revaluation dates:

Date	Expected Life (years)	Unit Price ($)	Expected Volatility	Risk-Free Rate	Dividend Yield		Fair Value
March 5, 2021	0.58 – 1.50	0.2350	125.0%	0.24%	0.00%	$	14,094,451
August 31, 2021	0.10 – 1.01	0.0950	105.0%	0.24%	0.00%	$	6,693,438

Each Preferred Share carries a 13% annual, cumulative, preferential dividend on the deemed issue price per share of $0.30, accrued daily and with the first payment due January 1, 2022 or on conversion, for a period of two years from the date of issuance. The dividend may be settled in cash or Ionic common shares at the option of Ionic. If settled in common shares, the Company will receive common shares equal to the amount payable divided by the closing price of Ionic common shares as of the dividend date. A continuity of the dividend receivable is as follows:

		August 31, 2021		August 31, 2020
Balance, beginning of year	**$**	-	$	-
Addition		1,563,310		-
Balance, end of year	**$**	**1,563,310**	**$**	**-**

(b) Common Shares

The Company converted 10,030,629 Preferred Shares into common shares on March 5, 2021 which were valued at $1,998,225 using the Black-Scholes option pricing model (see Note 4) and recorded as common shares on the consolidation balance sheet. At the year end the Company held these common shares and recorded a loss of $1,045,315 on these shares due to the decline in market price to $0.095 at August 31, 2021.

10. WARRANTS

Pursuant to the sale of the Cowlitz Disposal Group, the Company received Warrants to purchase up to 4,000,000 Ionic Warrants, where each 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. The Warrants are measured at fair value through profit and loss. A continuity of the warrants is as follows:

		August 31, 2021		August 31, 2020
Balance, beginning of year	**$**	**-**	$	-
Addition		**662,741**		-
Change in fair value of Warrants		**(461,815)**		-
Balance, end of year	**$**	**200,926**	$	**-**

(Expressed in Canadian dollars, except where noted)

10. WARRANTS (continued)

Fair value of the Warrants is based on the following assumptions for the Black-Scholes option pricing on the respective revaluation dates:

Date	Expected Life (years)	Unit Price ($)	Expected Volatility	Risk-Free Rate	Dividend Yield		Fair Value
March 5, 2021	5.0	0.2350	100.0%	0.24%	0.00%	$	662,741
August 31, 2021	4.5	0.0950	100.0%	0.24%	0.00%	$	200,926

11. PROMISSORY NOTES RECEIVABLE

Balance as at August 31, 2021, represents a secured promissory note of $63,340 (USD$50,000) related to the sale of the Cowlitz Disposal Group. The promissory note matures on March 5, 2023, and accrues interest at a rate of 7% per annum.

		August 31, 2021		August 31, 2020
Balance, beginning of year	**$**	**-**	**$**	**-**
Addition		**63,340**		**-**
Interest income		**2,293**		**-**
Unrealized Foreign exchange loss		**(224)**		**-**
Balance, end of year	**$**	**65,409**	**$**	**-**

12. INVESTMENT IN KRYSALIS

On April 26, 2021, the Company entered into an agreement with Virtual Psychedelics Incorporated ("VPI") with respect to the joint design, development and commercialization of a new psychedelic/virtual experience pod. The activity will be conducted through Krysalis which is an entity jointly controlled 50% by each of the Company and VPI.

As the Company and VPI have joint control of Krysalis the acquisition has been accounted as an investment in joint venture in accordance with IAS 28 – *Investments in Associates and Joint Ventures*, and as such, the Company has used the equity method to account for its investment.

The initial investment was comprised of the following:

5,000,000 common shares of the Company (1)	$	**525,500**
500,000 common shares of the Company (1)		**52,500**
600,000 share purchase warrants (2)		**30,655**
Legal fees		**123,012**
Cash contribution		**322,394**
	$	**1,053,561**

(1) The Company issued 5,000,000 common shares of the Company with a fair market value of $0.105 per common share, 500,000 common shares of the Company with a fair market value of $0.105 per common share as a finder's fee.

(2) On June 9, 2021, the Company issued 600,000 share purchase warrants in relation to Krysalis. The warrants have an exercise price of $0.20 and expire on June 9, 2023. A fair value of $30,655 was assigned to the warrant issued using the Black-Scholes valuation model (average volatility 100%, expected life 2.00 years, risk free rate 0.32%).

(Expressed in Canadian dollars, except where noted)

12. INVESTMENT IN KRYSALIS (continued)

The investment has been recorded using the cost method as follows:

		August 31, 2021		August 31, 2020
Balance, beginning of year	**$**	**-**	$	-
Initial investment		**1,053,561**		-
Company's share of loss during the year		**(92,053)**		-
Balance, end of year	**$**	**961,508**	$	**-**

13. INTANGIBLE ASSETS

		August 31, 2021		August 31, 2020
Cost				
Balance, beginning of year	**$**	**11,558,827**	$	4,261,570
Additions		**-**		7,385,387
Disposal		**(4,054,511)**		-
Impairment		**(7,345,387)**		
Unrealized foreign exchange loss		**(118,929)**		(88,130)
Balance, end of year	**$**	**40,000**	$	11,558,827
Accumulated depreciation				
Balance, beginning of year		**473,054**	$	269,331
Amortization		**102,825**		215,900
Disposal		**(560,703)**		-
Unrealized foreign exchange loss		**(15,176)**		(12,177)
Balance, end of year	**$**	**-**	$	473,054
Carrying amount	**$**	**40,000**	$	11,085,773

Intellectual Property

On July 27, 2020, the Company acquired a 100% interest in Eleusian. Purchase consideration of $7,385,387 was assigned to intellectual property. This intellectual property is not ready for its intended use; therefore, no amortization was recorded during the year ended August 31, 2021. Management acquired the intellectual property to partner with a multidisciplinary team of scientists and physicians at the University of Miami and are working to develop effective psilocybin-based therapeutics for the treatment of mild traumatic brain injuries and post-traumatic stress disorder and believed the amounts paid for the licenses would be recovered from future operations. The Company has only recently started its research and development activities and has limited history on which to base future outcomes from operations including cash flows. Psychedelics is considered to be an emerging industry and does not yet have a sufficiently established observable legal market for the sale of therapeutics in which the Company could sell treatments it intends to develop. There had also been a decline in the Company's market capitalization and declines in values for lifescience companies involved in creating psychedelic medicines. These factors formed indicators of impairment.

(Expressed in Canadian dollars, except where noted)

13. INTANGIBLE ASSETS (continued)

Due to the uncertainty in the timing and amount of future cash flows from operations and unobservable market values for comparable intellectual property, the Company has written down its licenses to the estimated replacement value of $40,000. During the year ended August 31, 2021, the Company recorded impairment of intangible assets in the amount of $7,345,387 (2020 – $nil). The Company will continue to develop these provisional patent applications and revisit the recoverable amount at each reporting period.

Intellectual Property Purchase Agreement

On May 17, 2018, the Company entered into an IPPA with Cowlitz whereby the Company purchased the right to various brands and trademarks ("Licensed Products"). Further, the Company obtained the right to sell these Licensed Products at any time. Initial consideration was $4,136,100 (USD$3,000,000). On October 10, 2018, the Company amended the IPPA to include additional Licensed Products for additional consideration of $275,740 (USD$200,000).

On October 10, 2018, the Company amended the IPPA. The License Agreement granted Cowlitz a perpetual, irrevocable, non-exclusive, non-assignable, non-sublicensable right and license to use, manufacture, have manufactured and sell the

Licensed Products in Washington State. Pursuant to the terms of the License Agreement, Cowlitz will pay the Company a monthly license fee based on unit sales.

During the year ended August 31, 2021, the Company recognized $104,306 (USD$80,071) (August 31, 2020 - $431,046 (USD$315,733) in licensing royalties earned pursuant to the License Agreement.

On March 5, 2021, the Company disposed of $3,493,808 in intellectual property pursuant to the sale of the Cowlitz Disposal Group (Note 4). Amounts relating to the Cowlitz intellectual property are presented as discontinued operations.

14. LEASE

On May 17, 2018, the Company entered into a Lease Purchase Agreement with the landlord of the premises of Cowlitz under which the Company paid $689,350 (USD$500,000) to purchase the rights to the lease and paid an additional $76,110 (USD$60,000) as a lease deposit. The purchase price of the lease rights is being amortized over the term of the lease which expires on June 30, 2022.

		August 31, 2021		August 31, 2020
Balance, beginning of year	**$**	**571,421**	$	457,178
Adoption of IFRS 16		**-**		485,279
Depreciation		**(166,402)**		(345,581)
Disposal		**(392,356)**		-
Unrealized foreign exchange loss		**(12,663)**		(25,455)
Balance, end of year	**$**	**-**	$	571,421

During the year ended August 31, 2021, the Company recognized $218,515 (USD$168,627) (August 31, 2020 - $453,791 (USD$337,253) in lease revenues earned pursuant to the Lease Purchase Agreement.

(Expressed in Canadian dollars, except where noted)

14. LEASE (continued)

During the year ended August 31, 2021, the company recognized rent expense of $8,024 (year ended August 31, 2020 - $18,000) related a short-term lease for office space and variable common area costs.

On March 5, 2021, the Company disposed of $392,356 in lease rights pursuant to the sale of the Cowlitz Disposal Group (Note 4) comprised of $204,825 related to the Lease Purchase Agreement and $187,531 related to the right of use asset. In addition, the Company disposed of the $76,008 (USD$60,000) lease deposit

15. DEFERRED ACQUISITION COST

On February 26, 2019, Green Star Biosciences Inc. entered into a non-binding letter of intent ("LOI") for a Partnership Agreement with Delta One Consultants LLC ("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, 2021, the Company recorded a bad debt expense of $62,040 (USD$50,000) (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.

16. LEASE LIABILITY

		August 31, 2021		August 31, 2020
Balance, beginning of year	**$**	**302,020**	$	-
Adoption of IFRS 16		**-**		485,279
Repayment of lease obligation		**(101,026)**		(205,693)
Interest expense		**13,211**		43,048
Disposal		**(207,522)**		-
Unrealized foreign exchange loss		**(6,683)**		(20,614)
Balance, end of year		**-**		302,020
Less: Non-current portion		**-**		120,203
Current portion of lease liability	**$**	**-**	$	181,817

On March 5, 2021, the Company disposed of $207,522 in lease liabilities pursuant to the sale of the Cowlitz Disposal Group (Note 4).

17. SHARE CAPITAL

(a) Authorized

The Company is authorized to issue an unlimited number of common shares with no par value.

17. SHARE CAPITAL (continued)

(b) Escrow shares

The Company has shares subject to trading restrictions and escrow which are released in tranches through 2020. As at August 31, 2021, 13,125,000 common shares were subject to these escrow restrictions (August 31, 2020 - 53,761,614).

(c) Issued

The Company has the following common share transactions during the year ended August 31, 2021:

- On September 18, 2020, the Company issued 10,396,852 units pursuant to a non-brokered private placement at $0.08 per unit for gross proceeds of $831,748 Each Unit consists of one common share and one-half of one common share purchase warrant (each whole warrant a "Warrant"). Each Warrant entitles the subscriber to acquire one additional Share at a price of $0.20 per Warrant until March 31, 2022. A fair value of $37,574 was assigned to the warrants issued using the Black-Scholes valuation model (average volatility 100%, expected life 1.53 years, risk free rate 0.24%).

- On October 2, 2020, the Company issued 562,500 units. Each unit consists of one common share and one-half of one common share purchase warrant (each whole warrant a "Warrant"). The common shares had a fair value of $0.05 per common share for total fair value consideration of $28,125 as settlement of trade payables in the amount of $45,000. The transaction resulted in a gain on debt settlement of $16,875. Each Warrant entitles the subscriber to acquire one additional Share at a price of $0.20 per Warrant until March 22, 2022. A fair value of $4,493 was assigned to the warrants issued using the Black-Scholes valuation model (average volatility 100%, expected life 1.48 years, risk free rate 0.23%).

- On October 2, 2020, the Company issued 11,201,732 units pursuant to a non-brokered private placement at $0.08 per unit for gross proceeds of $896,139. Each Unit consists of one common share and one-half of one common share purchase warrant (each whole warrant a "Warrant").Each Warrant entitles the subscriber to acquire one additional Share at a price of $0.20 per Warrant until March 31, 2022. A fair value of $78,600 was assigned to the warrants issued using the Black-Scholes valuation model (average volatility 100%, expected life 1.49 years, risk free rate 0.22%). The Company paid aggregate finders' fees of $120,973 and issued 1,620,498 finders' warrants ("Finders Warrants") in connection with the Offering. Each Finders Warrant is exercisable into one Share at an exercise price of $0.20 until October 2, 2023. A fair value of $45,653 was assigned to the Finders Warrants issued using the Black-Scholes valuation model (average volatility 100%, expected life 3.00 years, risk free rate 0.22%).

- On December 23, 2020, the Company issued 23,271,000 units pursuant to the first tranche closing of a non-brokered private placement at $0.10 per unit for gross proceeds of $2,327,100. Each Unit consists of one common share and one common share purchase warrant (each whole warrant a "Warrant"). Each Warrant entitles the subscriber to acquire one additional Share at a price of $0.25 per Warrant until December 22, 2022. A fair value of $1,103,600 was assigned to the warrants issued using the Black-Scholes valuation model (average volatility 100%, expected life 2.00 years, risk free rate 0.22%).

17. SHARE CAPITAL (continued)

- On January 5, 2021, the Company issued 11,187,475 units pursuant to the second and final tranche closing of a non-brokered private placement at $0.10 per unit for gross proceeds of $1,118,747. Each Unit consists of one common share and one common share purchase warrant (each warrant a "Warrant"). Each Warrant entitles the subscriber to acquire one additional Share at a price of $0.25 per Warrant until January 5, 2023. A fair value of $497,214 was assigned to the warrants issued using the Black-Scholes valuation model (average volatility 100%, expected life 2.00 years, risk free rate 0.19%).

- On April 20, 2021, pursuant to a share purchase option exercise, the Company issued 500,000 common shares for $0.06 per common share. Total proceeds were $30,000.

- On May 3, 2021, pursuant to an APA, the Company issued a total of 17,500,000 common shares and 1,400,000 common shares as a finder's fee. On May 3, 2021, the Company released 4,375,000 of the Consideration Shares and the 1,400,000 common shares associated with the finders' fees. The remaining 13,125,000 Escrow Shares will be released in further increments of 4,375,000 common shares upon the Company achieving certain performance milestones with the Vendor's cooperation (Note 6).

- On May 21, 2021, pursuant to the joint venture agreement, the Company issued 5,500,000 common shares with a fair value of $0.105 per common share for total consideration of $557,500 (Note 12).

The Company has the following common share transactions during the year ended August 31, 2020:

- On September 11, 2019, the Company issued 330,000 common shares upon the exercise of warrants at a price of $0.10 per common share for gross proceeds of $33,000.

- On November 29, 2019, the Company issued 1,200,000 common shares upon the exercise of warrants at a price of $0.10 per common share for gross proceeds of $120,000.

- On January 27, 2020, the Company issued 507,692 common shares at a fair value of $0.095 per common share for total fair value consideration of $48,231 as settlement of trade payables in the amount of $66,000. The transaction resulted in a gain on debt settlement of $17,769.

- On February 5, 2020, the Company issued 600,000 common shares upon the exercise of warrants at a price of $0.10 per common share for gross proceeds of $60,000.

- On February 6, 2020, the Company issued 350,000 common shares upon the exercise of warrants at a price of $0.10 per common share for gross proceeds of $35,000.

- On February 7, 2020, the Company issued 450,000 common shares upon the exercise of warrants at a price of $0.10 per common share for gross proceeds of $45,000.

- On February 17, 2020, the Company reacquired and cancelled 4,568,524 common shares for no consideration pursuant to a share cancellation agreement.

(Expressed in Canadian dollars, except where noted)

17. SHARE CAPITAL (continued)

- On July 22, 2020, the Company issued 1,500,000 common shares at a fair value of $0.105 per common share for total fair value consideration of $157,500 as settlement of trade payables in the amount of $75,000. The transaction resulted in a loss on debt settlement of $82,500.

- July 27, 2020, the Company issued 63,201,058 common shares pursuant to the acquisition of Eleusian (Note 4).

(d) Share purchase warrants

A summary of share purchase warrant activity is as follows:

	Number of Warrants	Weighted Average Exercise Price ($)
Balance, August 31, 2019	40,202,064	0.21
Exercised	(2,930,000)	0.10
Expired	(36,004,196)	0.20
Balance, August 31, 2020	1,267,868	0.73
Issued	47,759,515	0.24
Expired	(1,267,868)	0.73
Balance, August 31, 2021	**47,759,515**	**0.24**

The share purchase warrants outstanding and exercisable at August 31, 2021 and August 31, 2020 have the following expiry date and exercise prices:

Expiry Date	**Exercise Price**	**August 31, 2021**	August 31, 2020
January 1, 2021	$0.35	-	66,419
January 4, 2021	$0.75	-	488,706
March 25, 2021	$0.75	-	192,714
May 15, 2021	$0.75	-	164,474
May 22, 2021	$0.75	-	355,555
March 22, 2022	$0.20	281,250	-
March 31, 2022	$0.20	10,799,292	-
December 22, 2022	$0.25	23,271,000	-
January 5, 2023	$0.25	11,187,475	-
June 9, 2023	$0.20	600,000	-
October 2, 2023	$0.20	1,620,498	-
Total		**47,159,515**	1,267,868
Weighted average remaining contractual life of warrants outstanding at year end		**3.01 years**	0.53 years

(e) Performance warrants

On May 18, 2018, the Company issued 4,655,992 non-transferable performance warrants (“Performance Warrant”). Each Performance Warrant is exercisable into one common share of the Company at an exercise price of $0.35.

(Expressed in Canadian dollars, except where noted)

17. SHARE CAPITAL (continued)

Prior to the RTO, the Company's function 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.

The following table summarizes performance warrants outstanding as at August 31, 2021:

Grant Date	**Expiry Date**	**Number of Performance Warrants**	**Number of Exercisable Performance Warrants**	**Weighted Average Exercise Price**	**Weighted Average Remaining Years**
May 18, 2018	May 18, 2026	4,655,992	4,655,992	$0.35	4.71
Total		**4,655,922**	**4,655,992**	**$0.35**	**4.71**

The Company recognized share-based compensation expense of $164,004 during the year ended August 31, 2021 (year ended August 31, 2020 - $164,004) with respect to the Performance Warrants.

(f) Share purchase options

A summary of share purchase options is as follows:

	Number of Share Purchase Options	**Weighted Average Exercise Price**
Balance, August 31, 2019	5,963,500	$ 0.21
Granted	5,978,836	$ 0.10
Expired	(350,000)	$ 0.18
Cancelled	(4,923,500)	$ 0.20
Balance, August 31, 2020	6,668,836	$ 0.12
Granted	12,845,000	$0.14
Expired	(250,000)	$0.10
Exercised	(500,000)	$0.06
Balance, August 31, 2021	**18,763,836**	**$0.14**

As at August 31, 2021 there were 15,588,836 (August 31, 2020 - 5,490,265) share purchase options vested and exercisable at an average exercise price of $0.14 (August 31, 2020 - $0.12).

(Expressed in Canadian dollars, except where noted)

17. SHARE CAPITAL (continued)

The following table summarizes the share purchase options outstanding as at August 31, 2021 and August 31, 2020:

Expiry Date	Exercise Price	August 31, 2021	August 31, 2020
September 6, 2021	$0.200	150,000	150,000
February 24, 2022	$0.060	-	500,000
September 12, 2022	$0.080	300,000	-
February 12, 2023	$0.170	225,000	-
February 23, 2023	$0.230	200,000	-
June 15, 2023	$0.130	100,000	-
May 19, 2023	$0.140	200,000	200,000
August 31, 2023	$0.100	100,000	-
October 19, 2023	$0.100	1,150,000	-
January 15, 2024	$0.150	7,400,000	-
June 28, 2024	$0.250	550,000	550,000
July 29, 2024	$0.200	500,000	500,000
August 30, 2024	$0.115	150,000	150,000
January 16, 2025	$0.140	350,000	350,000
February 6, 2025	$0.085	3,378,836	3,378,836
June 15, 2025	$0.130	2,080,000	-
August 12, 2025	$0.100	750,000	-
August 31, 2025	$0.100	290,000	-
May 30, 2028	$0.200	890,000	890,000
Total		**18,763,836**	6,668,836
Weighted average remaining contractual life of warrants outstanding at year end		**2.98 years**	4.29 years

The Company recognized share-based compensation expense of $699,833 during the year ended August 31, 2021 (2020 - $580,136) with respect to the share purchase options.

The Company granted 12,845,000 options during the year ended August 31, 2021, (2020 - 5,978,836) with a weighted average fair value at grant date of $0.06 (2020 - $0.07) per stock option. The fair value of stock options was calculated using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	2021	2020
Risk-free rate	**0.43%**	1.43%
Expected life of options	**3.21 years**	4.41 years
Annualized volatility	**100%**	100%
Dividend rate	**0%**	0%

(Expressed in Canadian dollars, except where noted)

17. SHARE CAPITAL (continued)

(g) Restricted Share Unit plan and Deferred Share Unit plan

On May 28, 2021, the Company adopted a Restricted Share Unit plan (the “RSU Plan”) and a Deferred Share Unit plan (the “DSU Plan”). In addition, the Company increased the cumulative available incentive awards to be issued under the share purchase plan, the RSU Plan and the DSU Plan to 15% of the aggregate issued and outstanding common shares of the Company.

A summary of RSU options is as follows:

	Number of RSU Options	Weighted Average Exercise Price
Balance, August 31, 2019 and 2020	-	-
Granted	4,500,000	0.12
Balance, August 31, 2021	**4,500,000**	**0.12**
RSUs outstanding and exercisable	**-**	**-**

The following table summarizes the RSU options outstanding as at August 31, 2021 and August 31, 2020:

Grant Date	Exercise Price	RSU outstanding at August 31, 2021	Last vesting	RSU vested and issued at August 31, 2020
15-Jun-21	$0.12	**4,500,000**	30-Jun-25	**-**
Total		**4,500,000**		**-**
Weighted average remaining contractual life of RSUs outstanding at year end				**3.84 years**

The Company recognized share-based compensation expense of $55,303 during the year ended August 31, 2021 (year ended August 31, 2020 - $nil) with respect to the RSU Options. Over their vesting terms the Company will record compensation expense $241,042 for fiscal 2022, $127,115 for fiscal 2023, $67,481 for fiscal 2024 and $26,559 for fiscal 2025.

A summary of DSU options is as follows:

	Number of DSU Options	Weighted Average Exercise Price
Balance, August 31, 2019 and 2020	-	-
Granted	300,000	0.10
Balance, August 31, 2021	**300,000**	**0.10**
DSUs outstanding and exercisable	**-**	**-**

(Expressed in Canadian dollars, except where noted)

17. SHARE CAPITAL (continued)

The following table summarizes the DSU options outstanding as at August 31, 2021 and August 31, 2020:

Grant Date	Exercise Price	DSU outstanding at August 31, 2021	Last vesting	DSU vested and issued at August 31, 2020
15-Jun-21	$0.12	**200,000**	30-Jun-25	**-**
31-Aug-21	$0.07	**100,000**	31-Aug-25	**-**
Total		**300,000**		**-**
Weighted average remaining contractual life of DSUs outstanding at year end				**3.89 years**

The Company recognized share-based compensation expense of $2,458 during the year ended August 31, 2021 (year ended August 31, 2020 - $nil) with respect to the DSU Options. Over their vesting terms the Company will record compensation expense $14,358 for fiscal 2022, $7,545 for fiscal 2023, $4,022 for fiscal 2024 and $1,618 for fiscal 2025.

(h) Reserves

The following is a summary of changes in reserves:

	Share Purchase Options	RSU options	DSU options	Performance Warrants	Share Purchase Warrants	Contributed Surplus	Total
Balance, August 31, 2019	$ 847,376	$ -	$ -	$ 208,675	$ -	$ 555,439	$ 1,611,490
Share-based payments	580,136	-	-	-	-	-	580,136
Performance Warrants	-	-	-	164,004	-	-	164,004
Reclassified on cancellation and forfeiture of share purchase options	(608,523)	-	-	-	-	608,523	-
Balance, August 31, 2020	**818,989**	**-**	**-**	**372,679**	**-**	**1,163,962**	**2,355,630**
Share-based payments	699,833	55,303	2,458	-	-	-	757,594
Exercise of share purchase options	(15,814)	-	-	-	-	-	(15,814)
Reclassified on expiration of options	(4,301)	-	-	-	-	4,301	-
Share purchase warrants	-	-	-	-	1,797,789	-	1,797,789
Performance Warrants	-	-	-	164,004	-	-	164,004
Reclassified on cancellation of warrants	-	-	-	-	(77,718)	77,718	-
Balance, August 31, 2021	**$ 1,498,707**	**$ 55,303**	**$ 2,458**	**$ 536,683**	**$ 1,720,071**	**$ 1,245,981**	**$ 5,059,203**

(Expressed in Canadian dollars, except where noted)

18. INCOME TAXES

a) Rate reconciliation

Income tax expense differs from the amount that would result by applying the combined Canadian federal and provincial income tax rates to earnings before income taxes. The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 27% (2020 - 27%) to the effective tax rate is as follows:

		Year ended August 31,		
		2021		2020
Net loss before income taxes	**$**	**(9,658,412)**	$	(3,436,073)
Canadian statutory income tax rate		**27%**		27%
Expected income tax recovery at statutory rate	**$**	**(2,616,000)**	$	(928,000)
Permanent differences and other		**962,312**		301,000
True-up of prior period		**227,000**		-
Change in deferred income tax assets not recognized		**403,000**		627,000
Current income tax recovery	**$**	**(1,023,688)**	$	-

b) Unrecognized deferred tax assets and liabilities

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

		August 31, 2021		August 31, 2020
Non-capital loss carry forwards	**$**	**3,321,000**	$	1,644,000
Share issuance cost		**66,000**		4,000
Preferred Shares		**(1,423,000)**		-
Lease liability		**-**		(87,000)
Deferred income tax assets not recognized		**(1,964,000)**		(1,561,000)
Deferred income tax asset	**$**	**-**	$	-

c) Expiration of income tax loss carry forwards

As at August 31, 2021, the Company has approximately $12,000,000 of Canadian non-capital income tax losses (unrecognized) which will expire over 2031 through 2041.

19. FINANCIAL RISK MANAGEMENT

a) Fair value measurement of financial assets and liabilities

IFRS 13 – *Fair Value Measurement* establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted 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 fair value of cash is measured using Level 1 inputs. The carrying values of receivables and accounts payable and accrued liabilities approximate their respective fair values due to the short-term nature of these instruments.

The fair value of Preferred Shares and Warrants are measured using Level 2 inputs and are measured at fair value through profit or loss. The valuation methodology and significant assumptions for the Preferred Shares in disclosed in Note 9 and Warrants in disclosed in Note 10.

b) Risk management

The Company examines its various financial risks to which it is exposed and assesses the impact and likelihood of occurrence. The risks may include credit risk, currency risk, liquidity risk and interest rate risk. The Company's risk management program strives to evaluate the unpredictability of financial markets and its objective is to minimize the potential adverse effects of such risks on the Company's financial performance., where financially feasible to do so.

When deemed material, these risks may be monitored by the Company's finance group and they are regularly discussed with the Board of Directors.

i. Credit risk

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on its obligations under the contract. This includes amounts owed to the Company by these counterparties, less and amounts owed to the counterparty by the Company where a legal right of offset exists and also includes the fair values of contracts with individual counterparties which are recorded in the consolidated financial statements.

The Company's credit risk is predominantly related to cash balances held in financial institutions, trade receivables and promissory note receivable. The maximum exposure to the credit risk is equal to the carrying value of such financial assets. During the year ended August 31, 2021, the Company recorded expected credit losses of $nil (2020 - $48,105) with respect to the trade and other receivable, $nil (2020 - $725,220) with respect to the promissory note and $62,040 (2020 - $139,930) with respect to the deferred acquisition cost.

The objective of managing counterparty credit risk is to minimize potential losses in financial assets. The Company assesses the quality of its counterparties, taking into account their credit worthiness and reputation, past performance and other factors.

19. FINANCIAL RISK MANAGEMENT (continued)

Cash is only deposited with or held by major financial institutions where the Company conducts its business. In order to manage credit and liquidity risk, the Company invests only in highly rated investment grade instruments that have maturities of one year or less. Limits are also established based on the type of investment, the counterparty and the credit rating.

ii. Currency risk

Currency risk arises from transactions that are denominated in a foreign currency. The Company's functional currency is the Canadian dollar and the Company has exposure to foreign exchange risk from the United States dollars because the Company's subsidiaries are located and operated in the United States. The Company does not use derivative instruments to reduce its exposure to foreign exchange risk. The transactions in US dollars are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in this currency.

At August 31, 2021 US dollar amounts were converted at a rate of USD 1.00 to CAD 1.2617. A 10% increase or decrease in the US dollar relative to the Canadian dollar would result in a change of approximately $16,399 in the Company's net loss for the year.

iii. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements and its expansion plans.

As at August 31, 2021, the Company had a cash balance of $1,141,839 and current liabilities of $804,701. (August 31, 2020 - $172,107 and $776,883, respectively). The Company's current cash resources are more than sufficient to settle its current liabilities.

The following table summarizes the maturity profile of the Company's financial liabilities as at August 31, 2021:

		Total		Within 1 year		1 - 5 years	Greater than 5 years
Maturity analysis of financial liabilities							
Trade payables and other liabilities	$	804,701	$	804,701	$	-	-
Total	**$**	**804,701**	**$**	**804,701**	**$**	**-**	**-**

iv. Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's notes payable, secured loan payable, convertible notes payable and convertible debentures carry fixed interest rates and as such, the Company is not exposed to interest rate risk.

(Expressed in Canadian dollars, except where noted)

20. CAPITAL RISK MANAGEMENT

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of equity which is comprised of issued share capital, reserves, accumulated other comprehensive income and deficit. In the management of capital, the Company includes the components of equity, cash, receivables, trade payables and other liabilities, which are summarized below:

		August 31, 2021		August 31, 2020
Cash	**$**	**1,141,839**	$	172,107
Receivables		**195,707**		621,206
Less:				
Trade payables and other liabilities		**(804,701)**		(595,066)
Net capital		**532,845**		198,247
Add:				
Equity		**11,293,247**		12,074,006
Net capital and equity	**$**	**11,826,092**	$	12,272,253

The Company manages its capital structure and adjusts in light of economic conditions.

The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements as at August 31, 2021.

21. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having the authority and responsibility of planning, directing and executing the activities of the Company. The Company has determined that its key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

Key management personnel compensation for the years ended August 31, 2021 and 2020 were as follows:

		Year ended August 31,		
		2021		2020
Management fees	**$**	**-**	$	384,674
Consulting fees		**939,882**		5,500
Share-based payments		**347,914**		291,477
	$	**1,287,796**	$	681,651

Included in consulting fees is $115,000 related to 1,000,000 common shares with a fair value of $0.115 which are to be issued to the Chief Science Officer as per a consulting agreement dated June 1, 2021.

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

(Expressed in Canadian dollars, except where noted)

21. RELATED PARTY TRANSACTIONS (continued)

Other related party transactions for the three and nine months ended August 31, 2021 and 2020 were as follows:

	Year ended August 31,	
	2021	2020
Professional fees	**$ 116,319**	$ 84,624
	$ 116,319	$ 84,624

During the year ended August 31, 2021, the Company incurred $116,319 (2020 - $45,971) 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 year ended August 31, 2021, the Company incurred $nil (2020 - $38,653) 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 August 31, 2021 and 2020 were as follows:

	August 31, 2021	August 31, 2020
Trade payables and other liabilities	**$ 59,300**	$ 218,268
	$ 59,300	$ 218,268

As at August 31, 2021, included in trade payables and other liabilities is $24,919 (August 31, 2020 - $nil) payable to a Company owned by the Chief Executive Officer of the Company for consulting fees. The amount is unsecured, non-interest bearing and due on demand.

As at August 31, 2021, included in trade payables and other liabilities is $11,625 (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 August 31, 2021, included in trade payables and other liabilities is $22,756 (August 31, 2020 - $nil) payable to Directors for director fees. The amounts are unsecured, non-interest bearing and due on demand.

As at August 31, 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 August 31, 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 August 31, 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.

21. RELATED PARTY TRANSACTIONS (continued)

As at August 31, 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.

22. EVENTS AFTER THE REPORTING PERIOD

On September 1, 2021, the Company's subsidiary Green Star Biosciences Inc. was amalgamated with Lobe Sciences Ltd.

On September 6, 2021, 150,000 stock options with an exercise price of $0.20 expired unexercised.

On November 30, 2021, the Company issued 40,000 stock options with an exercise price of $0.08 and expiry of November 30, 2025. The options vested immediately.

On November 30, 2021, the Company issued 2,100,000 DSU's.

The Company converted 18,353,590 Series E Preferred Shares into Ionic common shares and received 3,252,307 dividend shares. The shares were sold for gross proceeds of $1,161,763. Transaction costs totalled $23,331 and the Company received $1,138,432.

On December 21, 2021, the Company cancelled 600,000 DSU's.