LOBE SCIENCES LTD.

Management Discussion & Analysis

For the three months ended November 30, 2021 and 2020

This management discussion and analysis ("MD&A") of the financial condition and results of operations of Lobe Sciences Ltd. and its subsidiaries ("Lobe" or the "Company"), prepared as at January 28, 2021, is for the three months ended November 30, 2021 and 2020. This MD&A is a supplement to and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three months ended November 30, 2021 and 2020. The Company's condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") applicable to the preparation of interim financial statements including International Accounting Standard 34 - *Interim Financial Reporting*. All amounts presented herein are stated in Canadian dollars unless otherwise indicated. The first, second, third and fourth quarters of the Company's fiscal years are referred to as "Q1", "Q2", "Q3" and "Q4", respectively. The years ended August 31, 2022 and 2021, are also referred to as "fiscal 2022" and "fiscal 2021", respectively.

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

Forward Looking Information

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

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

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

1. LOBE SCIENCES LTD.

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

On May 30, 2019, the Company completed a reverse takeover with Green Star Biosciences Inc. The transaction was accounted for as a reverse acquisition. 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 OTCQB.

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

2. HIGHLIGHTS

Q1 2022 CONSOLIDATED FINANCIAL HIGHLIGHTS

- Net loss from continuing operations of $4,574,516 or $0.02 per share for Q1 2022, compared to net loss from continuing operations of $1,276,718 or $0.01 per share for Q1 2021. The increase in net loss is related to non-cash fair value changes on the consideration received from the sale of Cowlitz County Cannabis Cultivation, Inc. ("Cowlitz").
- Net income from discontinued operations of $nil for Q1 2022, compared to net income from discontinued operations of $31,526 or $0.00 per share for Q1 2021. The decrease is the result of the disposal of Cowlitz.

NOVEMBER 30, 2021 COMPARED TO AUGUST 31, 2021 CONSOLIDATED BALANCE SHEET HIGHLIGHTS

- Cash was $1,443,904, compared to $1,141,839 at August 31, 2021, an increase of 26%.
- Total assets were $7,974,548, compared to $12,097,948 at August 31, 2021, a decrease of 34% due to non-cash fair value changes on the consideration received from the sale of Cowlitz.
- Working capital was $5,825,551, compared to $8,864,185 at August 31, 2021, a decrease of 34% due to non-cash fair value changes on the consideration received from the sale of Cowlitz.

3. 2021 BUSINESS DEVELOPMENT AND OVERVIEW

Lobe is working to develop effective psychedelic-based therapeutics for the treatment of mTBI and PTSD and devices for the efficient application of medications. The Company owned acquired brands, owns intellectual property, and leased office and production premises to a cannabis processor and retailer and had explored various other cannabis ventures. As at November 30, 2021, the Company has divested all cannabis related investments and will focus exclusively on psychedelic-based therapeutics.

Psychedelic-based therapeutics

Psychedelic-based therapeutics under development by the Company include the following:

Eleusian Biosciences Corp.

On July 27, 2020, the Company acquired a 100% interest in Eleusian, which provides the following to the Company:

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

Other than medicines that mask individual symptoms related to either condition, there are currently no effective or FDA approved drugs for the treatment of mTBi and PTSD. Eleusian, in collaboration with the University of Miami Miller School of Medicine under the guidance of Michael E. Hoffer, M.D, intends to prove that clinical and physiological outcomes in mTBi and PTSD are enhanced by administrating doses of psilocybin and NAC. It is believed that the combination therapy will elicit superior clinical results as measured by validated endpoints. The Company expects this combination to elicit clinical outcomes that are superior to psilocybin or NAC alone and will alleviate symptoms of mTBI and PTSD.

By alleviating one or more symptoms of mTBI with PTSD, it is meant to decrease severity of one or more of intrusive memories, nightmares, a sense of reliving the trauma, or psychological or physiological distress when reminded of the trauma, active avoidance of thoughts, feelings, or reminders of the trauma, inability to recall some aspect of the trauma, withdrawal from others, or emotional numbing, insomnia, irritability, difficulty concentrating, hypervigilance, or heightened startle response.

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

On September 28, 2021, the Company announced interim data from its pre-clinical research study conducted by the University of Miami. The rodents treated with the combination of psilocybin and NAC performed statistically significantly better ($P < 0.000005$) than the rodents treated with monotherapy with psilocybin, NAC or placebo. Rodent models have been essential for revealing the normal and pathological processes that influence learning and memory. The University of Miami team has extensive experience and expertise in running these and other important models. In a standard model of normal behavior that assess the amount of time that rodents exhibit exploratory activity, rodents who underwent trauma and were treated with the combination therapy spent significantly more time exploring than they did with single agents or vehicle alone. The rodents treated with the combination of psilocybin and NAC performed statistically significantly better ($P < 0.000005$) than the rodents treated with monotherapy with psilocybin, NAC or placebo. The interim data from our preclinical studies validates our therapeutic hypothesis that NAC plus psilocybin would provide superior efficacy over either agent used alone. NAC remains the only compound that has successfully completed a human phase 1 equivalent trial in a population of individuals who had acute mTBI.

Dr. Hoffer's team has made significant in-roads studying psychedelic medicine and NAC specifically as it relates to mTBI and PTSD. Given there are currently no approved medicinal treatments for mTBI and PTSD, we feel this data is supportive of our plans to advance into future human clinical trials which we hope will eventually lead to approved therapeutics for these unmet needs.

The study was delayed due to a significant shortage of psilocybin in North America. Despite the shortages, the University of Miami team was able to deliver this interim data; however, the shortage has impacted the timing of the next planned studies. We have responded to this supply shortage by working to identify a manufacturing company who will supply high purity cGMP psilocybin to the University of Miami so that the remaining studies can be completed.

Despite the results of the preclinical study, 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 three months ended November 30, 2021, the Company recorded impairment of intangible assets in the amount of $nil (2020 - $nil).

On September 1, 2020, Eleusian added another provisional patent application to the overall existing intellectual property portfolio of the Company. The provisional patent application entitled "Facial Worn Device for Administration of Pharmaceutical Agents in Combination with Virtual and Augmented Reality Simulations" was filed with the United States Patent and Trademark Office for a facial worn device combining virtual reality ("VR") glasses for delivery of programmed virtual and augmented reality simulations. This device includes a nasal delivery system for administration of pharmaceutical agents and/or fragrances at preselected dosages and times. Uses include methods and kits for alleviating unwanted memories and emotions lined with PTSD or mTBI with PTSD. During the three months ended November 30, 2021, the Company decided not to pursue patent rights in this subject matter in order to focus its efforts on the development of its remaining provisional patents.

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

Krysalis

On April 26, 2021, the Company entered into an agreement with Virtual Psychedelics Incorporated ("VPI") certain industry-leading pioneers, including Hollywood director Brett Leonard and researcher and USC professor Dr. Skip Rizzo, with respect to the joint design, development and commercialization of a new psychedelic/virtual experience ("VX") pod (the "KrysalisTM Pod"). The KrysalisTM Pod will be designed to be powered by a custom tech stack incorporating advanced display technology and state-of-the-art bio-monitoring with the goal of improving psychedelic therapy by optimizing set, setting and the overall experience for clinical and other uses. The KrysalisTM Pod will be designed as a headset-free, virtual experience that uses multi-sensory stimulation to create an application that can offer treatment options for cognitive, psychological, motor and functional impairments across a wide range of clinical health conditions.

The joint venture will be operated under a company to be owned 50% by Lobe and 50% by VPI called Krysalis VX Corp. ("Krysalis VX"). Lobe will contribute USD$250,000 in cash as well as issue 5,000,000 common shares of the Company. The Lobe shares will be sold (subject to applicable hold periods and certain agreed restrictions on sale) in order to generate cash to fund Krysalis VX initial business expenditures. Lobe has also committed to providing USD$1,500,000 to Krysalis VX pursuant to a secured line of credit, which will only be drawn when the initial funding contributions are expended and after Krysalis VX has detailed plans to file provisional patents relating to the business. In connection with the agreement, each of the four VPI Principals will be granted 150,000 non-transferable common share purchase warrants of Lobe, exercisable for a period of two years from the date of issuance at a price of $0.20 per share. Lobe also issued 500,000 common shares to certain finders in connection with the transaction, at a deemed price of $0.20 per share. All Lobe securities issued or issuable will be subject to a statutory hold period of four months and a day from the date of issuance and, as applicable, resale restrictions required under U.S. securities laws.
On October 6, 2021, the Company announced that Krysalis VX appointed an advisory team. This advisory team will assist Krysalis VX through its first iteration of the Krysalis Pod. This advisory team will be pivotal in defining aesthetic and pragmatic attributes of Krysalis VX's treatment-oriented technology.

Vitamind

The Company, through Eleusian, acquired the consumer goods product line, "Vitamind", pursuant to an asset purchase agreement (the "Purchase Agreement") dated April 30, 2021 between Eleusian and a holding corporation which holds the rights to Vitamind (the "Vendor") (the "Transaction"). Vitamind is a brand of non-psychedelic functional mushroom products that includes three product lines which are specifically focused on boosting immune response and increasing mental clarity.

The Vitamind line of products are adaptogenic functional mushroom extract blends, which are specifically designed to promote wellness, including supporting immune response, and mental clarity, including improving memory function and reducing anxiety. The products include a blend of reishi, cordyceps, lion's mane, turkey tail, mesima, maitake, bacopa and/or shitake mushrooms. The Vitamind line currently consists of three product lines: 911 IMMUNITY, 911 IMMUNITEA, and LIFE HACK. The products include multiple delivery forms, including capsules, tea bags and powder, allowing for ease of consumption and convenience, catering to consumer preferences.

Pursuant to the terms of the Purchase Agreement, Eleusian acquired all of the Assets (as defined below) of the Vendor for aggregate consideration of $2.6 million. The consideration includes a cash payment of $100,000 and the issuance of 17,500,000 common shares of the Company (the "Consideration Shares"). On the closing date, the Company paid $100,000 in cash and released 25% of the Consideration Shares, the remainder of which are subject to release conditions, such that the remaining 13,125,000 Consideration Shares will be released in further 25% increments of 4,375,000 common shares upon the Company achieving certain performance milestones with the Vendor's cooperation. Management has expensed the consideration in excess of the net assets acquired equal to $2,594,023. Assets being acquired include: 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 (the "Assets").

Lobe also issued 1,400,000 common shares to a finder in connection with the Transaction, at a fair value of $0.13 per common share. All Lobe securities issued pursuant to the Transaction will be subject to a statutory hold period under Canadian securities laws of four months and a day from the date of issuance.

On May 14, 2021, the Company entered into a production and supply agreement (the “Agreement”) with HAVN Life Sciences Inc. (CSE: HAVN) ("HAVN"), a biotechnology company pursuing standardized extraction of psychoactive compounds and the development of natural healthcare products.

Management is evaluating the challenging functional mushroom marketplace as the cost to entry has substantially increased. Nonetheless, the supply chain has become very unpredictable, and costs have increased significantly.

Cannabis

The Company has divested its cannabis business. The Company will continue to passively maintain its interest in its cannabis business through its equity investment in Ionic which will be divested as trading restrictions are lifted; however, management's primary focus going forward is on its psychedelic therapy business.

Cowlitz County Cannabis Cultivation, Inc.

Between April and October 2018, the Company acquired certain intellectual property, a property lease and an option to purchase all of the issued and outstanding capital stock (collectively, the "Cowlitz Assets") in Cowlitz, a licensed cannabis producer and processor located in the state of Washington.

On February 22, 2021, the Company entered into an Asset Purchase Agreement (the "APA") with Ionic for the sale of the Cowlitz Assets for an aggregate purchase price of $26,000,000. Pursuant to the terms of the APA, the Company will receive: (i) $1.75 million in cash; (ii) 100,406,705 Series E non-voting preferred shares of Ionic (each, a "Preferred Share"); (iii) Common share purchase warrants to purchase up to 4,000,000 Ionic common shares exercisable into one common share of Ionic (each, an "Ionic Share") at a price of $0.30 for a period of 5 years from the date of issuance; and (v) a secured promissory note in the amount of USD$50,000, maturing two years from the date of issuance and carrying an annual interest rate of 7%, secured against the Cowlitz Assets.

Each Ionic Preferred Share is exchangeable into one Ionic Share on a one-for-one basis at any time at the Conversion Rate (as defined in the APA) 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, and carries an annual, cumulative, preferential dividend on the issue price per share equal to 13% for a period of two years from the date of issuance. The Ionic Preferred Shares are retractable, such that any outstanding Ionic Preferred Shares will automatically be converted into to Ionic Shares four years from the issuance date at the Conversion Rate, and any accrued and unpaid dividends will be settled in cash or Ionic common shares at the option of Ionic at the closing market price of the of the Ionic Shares on the CSE on the trading day preceding such conversion. If there is a change of control prior to the automatic conversion date, Ionic may elect to convert the Ionic Preferred Shares into Ionic Shares by providing notice to the Company via news release.

All Ionic Preferred Shares and Ionic Shares issued will be subject to contractual restrictions on transfer, pursuant to which they will be 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 equal to 13% of the Preferred Shares on the issue price per share of $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. Pursuant to the APA, the Company may not convert any Ionic Preferred Shares or exercise any warrants if such conversion or exercise, as the case may be, would result in the Company holding more than 9.99% of the issued and outstanding Ionic Shares at the time of such exercise or conversion. In connection with the APA, the Company dissolved its wholly-owned subsidiary, Green Star Biosciences Packing LLC and GreenStar Washington LLC. The transaction closed effective March 5, 2021 and the Company has no continuing involvement with Cowlitz.

4. SUMMARY OF QUARTERLY RESULTS

	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Net loss from continuing operations	**$(4,574,516)**	$(12,418,127)	$(6,585,685)	$(2,573,243)
Net income (loss) from discontinued operations	**-**	$(4,655,427)	$17,788,170	$(1,889)
Comprehensive income (loss)	**$(4,574,516)**	$(17,072,942)	$11,083,403	$(2,674,216)
Basic and diluted net income (loss) per share	**$(0.02)**	$(0.07)	$0.05	$(0.02)
Number of weighted average shares - Basic	**224,633,984**	230,608,984	206,306,810	169,459,942

	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Net loss from continuing operations	$(1,276,718)	$(1,446,349)	$(391,462)	$(1,140,557)
Net income from discontinued operations	$31,526	$10,753	$73,461	$141,355
Comprehensive loss	$(1,271,767)	$(1,723,048)	$(167,473)	$(943,591)
Basic and diluted loss per share	$(0.01)	$(0.02)	$(0.00)	$(0.01)
Number of weighted average shares - Basic	143,114,425	96,496,378	66,651,210	69,311,359

The Company reported net loss from continuing operations in Q1 2022 primarily related to a $3,584,148 loss from fair value changes on Preferred Shares and a $376,455 loss from fair value changes on common shares received as consideration for the sale of the Cowlitz Assets.

The Company reported net loss from continuing operations in Q4 2021 primarily related to a $518,417 loss from fair value changes on Preferred Shares and a $1,045,315 loss from fair value changes on common shares received as consideration for the sale of the Cowlitz Assets and an $7,345,337 impairment loss on Eleusian's intangible assets.

The Company reported comprehensive income in Q3 2021 primarily related to the sale of the Cowlitz Assets.

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

5. COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED NOVEMBER 30, 2021 AND 2020

	Q1 2022	Q1 2021
	$	$
General and administrative	**70,675**	32,946
Insurance	**82,452**	23,357
Advertising	**91,417**	603,236
Rent expense	**-**	4,500
Research	**323,537**	165,072
Professional fees	**61,689**	121,136
Consulting fees	**272,512**	221,257
Management fees	**90,717**	39,417
Share-based compensation	**149,539**	77,560
Foreign exchange loss	**27,980**	8,112
Dividend income	**(725,390)**	-
Other income	**(1,096)**	-
Loss on change in fair value of common shares	**376,455**	-
Loss on change in fair value of Preferred Shares	**3,584,148**	-
Loss on change in fair value of warrants	**143,820**	-
Share of loss on Krysalis	**26,061**	-
Gain on debt settlement	**-**	(19,875)
Net loss from continuing operations	**(4,574,516)**	(1,276,718)
Net income (loss) from discontinued operations	**-**	31,526

General and administration

During Q1 2022, the Company incurred general and administration expenses of $70,675, compared to $32,946 during Q1 2021. The increase is consequence of expenditure on various conferences and brokerage fees on the sale of the Ionic common shares.

Insurance

During Q1 2022, the Company incurred insurance expenses of $82,452, compared to $23,357 during Q1 2021. The expense relates to a director and officers insurance policy that was put in place during Q1 2021.

Advertising

During Q1 2022, the Company incurred advertising expenses of $91,417, compared to $603,236 during Q1 2021. The decrease is due to lower spend since the prior year as Q1 2021 included expenses related to the rebranding of the Company.

Rent expense

During Q1 2022, the Company incurred rent expense of $nil, compared to $4,500 during Q1 2021. The expense relates to office space which was vacated during Q2 2021. The Company has no further obligation with respect to the premises.

Research

During Q1 2022, the Company incurred research expense of $323,537, compared to $165,072 during Q1 2021. The increase relates to timing of contractual payments for the preclinical study in collaboration with the University of Miami Miller School of Medicine.

Professional fees
During Q1 2022, the Company incurred professional fees of $61,689, compared to $121,136 during Q1 2021. The decrease is attributable to higher legal fees incurred in relation to general corporate matters and rebranding of the Company in Q1 2021.

Consulting fees
During Q1 2022, the Company incurred consulting fees of $272,512, compared to $221,257 during Q1 2021. The increase is attributable to a consulting agreement with the Executive Chairman, monthly consulting fee for the new CEO and consulting agreements with various advisors for corporate communications and business development.

Management fees
During Q1 2022, the Company incurred management fees of $90,717, compared to $39,417 during Q1 2021. The expense relates to advisory fees incurred in the period.

Share-based compensation
During Q1 2022, the Company incurred share-based compensation of $149,539, compared to $77,560 during Q1 2021. The Company uses the Black-Scholes valuation model for options granted at fair value of shares issued to officers, management, and consultants. The increase is the result of stock options being granted during the quarter.

Foreign exchange loss (gain)
During Q1 2022, the Company incurred foreign exchange loss of $27,980, compared to foreign exchange loss of $8,112 during Q1 2021. The amount will fluctuate from period to period with movements in the CAD to USD foreign exchange rates. The loss is due to variances in the value of the CAD relative to the USD in Q1 2022 as compared to Q1 2021.

Dividend income
During Q1 2022, the Company earned dividend income of $725,390, compared to $nil during Q1 2022. The amount represents the 13% dividend on the preferential shares received as part of the proceeds from the sale of the Cowlitz Disposal Group.

Other income
During Q1 2022, the Company earned other income of $1,096, compared to $nil during Q1 2021. The amount recorded in Q1 2022 represents interest income on the promissory note receivable with Ionic received as part of the proceeds from the sale of the Cowlitz Disposal Group.

Loss on change in fair value of short-term investments
During Q1 2022, the Company incurred a loss from change in fair value of common shares of $376,455, compared to $nil during Q1 2021. The loss is the result of a decrease in the Ionic share price from $0.095 on August 31, 2021 to $0.040 at November 30, 2021.

Loss on change in fair value of preferred shares
During Q1 2022, the Company incurred a loss from change in fair value of shares of $3,584,148, compared to $nil during Q1 2021. The loss is the result of a decrease in the Ionic share price from $0.095 per common share on August 31, 2021 to $0.040 per common share on November 30, 2021.

Loss on change in fair value of Warrants
During Q1 2022, the Company incurred a loss from change in fair value of warrants of $143,820, compared to $nil during Q1 2021. The loss is the result of a lower Black-Scholes valuation resulting from a decrease in the Ionic share price from $0.095 per common share on August 31, 2021 to $0.040 per common share on November 30, 2021.

Equity loss on Krysalis
During Q1 2022, the Company incurred a loss on its Krysalis representing 50% of the total expenses incurred of $26,061, compared to $nil during Q1 2021. The expenses included by Krysalis is related to initial development of the Krysalis Pod.

Loss on debt settlement
During Q1 2022, the Company recorded a loss on debt settlement of $nil, compared to $19,875 during Q1 2021. The amount resulted in large part from the issuance of 562,500 common shares at $0.05 per common share for total fair value consideration of $28,125 as settlement of accounts payable in the amount of $45,000. In addition, the Company recorded a $3,000 gain resulting from the renegotiation of an invoice with a vendor.

Net income from discontinued operations
During Q1 2022, the Company recorded income from discontinued operations of $nil, compared to income from discontinued operations of $31,526 during Q1 2021. The change over the prior year is due to the sale of the Cowlitz Disposal Group.

6. LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

6.1 Liquidity

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with its financial liabilities and other contractual obligations. The Company's strategy for managing liquidity is based on the sale of Preferred Shares and dividend receivable, accessing capital markets through equity financing and achieving positive cash flows from operations to internally fund operating and capital requirements.

Factors that may affect the Company's liquidity are continuously monitored. These factors include fair value of the Preferred Shares and dividend receivable, patent application costs, research and development costs to develop the Company's patents, operating costs, capital costs, income tax refunds, foreign currency fluctuations, market immaturity and a highly fluid environment related to state and federal law passage and regulations.

In the event that the Company is adversely affected by any of these factors and, as a result, the operating cash flows are not sufficient to meet the Company's working capital requirements there is no guarantee that the Company would be able to raise additional capital on acceptable terms to fund a potential cash shortfall. Consequently, the Company is subject to liquidity risk.

At November 30, 2021, the Company had working capital of $5,761,001, as follows:

As at	**November 30, 2021**	August 31, 2021
	$	$
Cash	**1,443,904**	1,141,839
Receivables	**20,665**	195,707
Prepaid expenses and deposits	**396,830**	282,902
Common shares	**223,036**	952,910
Preferred Shares	**2,672,334**	5,331,292
Warrants	**57,106**	200,926
Dividend receivable	**2,117,954**	1,563,310
Total current assets	**6,931,829**	9,668,886
Accounts payable and accrued liabilities	**1,106,278**	804,701
Total current liabilities	**1,106,278**	804,701
Working capital	**5,825,551**	8,864,185

Despite the current working capital surplus of $5,825,551 as at November 30, 2021, the Company incurred a net loss of $4,574,516 during the three months ended November 30, 2021. As at November 30, 2021, the Company has an accumulated deficit of $23,296,690. 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. Management will continue to monitor and assess its capital resources to meet operating requirements over the next twelve months.

6.2. Cash Flows

Review of cash flow for the three months ended Q1 2022 compared to Q1 2021:

Net cash provided by (used in)	**Q1 2022**	Q1 2021
	$	$
Operating activities of continuing operations	**(659,055)**	(1,781,022)
Operating activities of discontinued operations	**-**	195,359
Investing activities	**961,120**	-
Financing activities	**-**	1,519,704
Effect of exchange rate changes on cash	**-**	943
Cash, beginning of period	**1,141,839**	172,107
Cash, end of period	**1,443,904**	107,091

Cash used in operating activities of continuing operations during Q1 2022 was $659,055, compared to cash used in operating activities of continuing operations of $1,781,022 during Q1 2021. The decrease in cash used in operating activities is attributable to the following:

- Net loss from continuing operations of $4,574,516, compared to net loss from continuing operations of $1,276,718 due primarily to non-cash changes in fair value of Preferred Shares, changes in fair value of short-term investments, share-based compensation. Included in net loss are non-cash items of $3,552,770 for the

three months ended November 30, 2021, compared to $91,294 for the three months ended November 30, 2020.

- Movements in receivables increased cash by $175,042, compared to decreasing cash by $71,088 for the three months ended November 30, 2020.
- Movements in prepaid expenses decreased cash by $113,928, compared to decreasing cash by $121,770 for the three months ended November 30, 2020.
- Movements in accounts payable and accrued liabilities increased cash by $301,577, compared to decreasing cash by $402,740 for the three months ended November 30, 2020.

Cash provided by operating activities of discontinued operations for the three months ended November 30, 2021 was $nil as compared to $195,359 during the three months ended November 30, 2020. The movements during Q1 2021 relates to collection of rental and license revenues from Cowlitz which was partially offset by rent expense.

Cash used in investing activities for the three months ended November 30, 2021 was $961,120 as compared to cash provided of $nil during the three months ended November 30, 2020. Cash used in investing activities during the three months ended November 30, 2021 was the result of sale of short-term investments.

Cash provided by financing activities for the three months ended November 30, 2021 was $nil as compared to $1,519,704 during the three months ended November 30, 2020. Movements during Q1 2021 were the result of funds raised through private placements which were partially offset by share issue costs and lease payments.

6.3 Capital Resources

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

	November 30, 2021	August 31, 2021
	$	$
Cash	**1,443,904**	1,141,839
Receivables	**20,665**	195,707
Less:		
Trade payables and other liabilities	**(1,106,278)**	(804,701)
Net capital	**358,291**	532,845
Add:		
Equity	**6,868,270**	11,293,247
Net capital and equity	**7,226,561**	11,826,092

The board of directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management policies on an annual basis. The Company's board of directors identifies and evaluates the Company's financial risks and is charged with the responsibility of establishing controls and procedures to ensure financial risks are mitigated. The Company's objectives when managing capital are to maintain adequate capital resources to fund development of the Company's patents, operating costs and capital costs. The Company does not have any externally imposed capital requirements to which it is subject. The Company manages the capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new common shares or adjust the amount of cash. The Company's investment policy is to invest excess cash in investment instruments at high credit, quality financial institutions with terms to maturity selected with regards to the expected time of expenditures from continuing operations.

7. OFF-BALANCE SHEET ARRANGEMENTS

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

8. RELATED PARTY DISCLOSURES

Key management personnel compensation for the three months ended November 30, 2021 and 2020 were as follows:

	2021	2020
	$	$
Management fees	**-**	105,846
Consulting fees	**142,583**	-
Share-based payments	**18,262**	8,544
	160,845	114,390

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

Other related party transactions for the three months ended November 30, 2021 and 2020 were as follows:

	2021	2020
	$	$
Professional fees	**30,750**	25,933
	30,750	25,933

During the three months ended November 30, 2021, the Company incurred $30,750 (2020 - $25,933) 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.

Due to related parties as at November 30, 2021 and August 31, 2021 were as follows:

	November 30, 2021	August 31, 2021
	$	$
Trade payables and other liabilities	**63,532**	59,300
Balance, end of period	**63,532**	59,300

As at November 30, 2021, included in trade payables and other liabilities is $24,929 (August 31, 2021 - $24,919) 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 November 30, 2021, included in trade payables and other liabilities is $11,103 (August 31, 2021 - $11,625) 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 November 30, 2021, included in trade payables and other liabilities is $27,500 (August 31, 2021 - $22,756) payable to Directors for director fees. The amounts are unsecured, non-interest bearing and due on demand.

9. OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company's authorized share capital consists of an unlimited number of common shares without par value. The Company had the following securities outstanding as at January 28, 2022.

Type of Security	Number Outstanding
Common Shares	224,633,984
Share Purchase Options	18,653,836
Performance Warrants	4,655,992
Share Purchase Warrants	47,759,515
Restricted Share Units	4,500,000
Deferred Share Units	1,800,000
Fully Diluted	**302,003,327**

10. INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB, effective as of August 31, 2021. The accounting policies applied in the preparation of these consolidated financial statements are consistent with those applied and disclosed in note 3 to the annual financial statements.

11. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

Fair value of Preferred Shares

The Company measures the fair value of Preferred Shares at each balance sheet date and when they are converted into Ionic common shares. Estimating fair value for the Preferred Shares requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield and making assumptions about them. Changes in estimates could materially impact reported assets and our profit could be adversely affected if actual fair value differs from our estimates.

Share-based payments

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

Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law in the relevant jurisdiction.

For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision.

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

Useful lives of intangibles

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

Impairment

Long-lived assets, including intangible assets are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "CGU"). Judgments and estimates are required in defining a CGU and determining the indicators of impairment and the estimates required to measure an impairment, if any.

Promissory note receivable

The Company accounts for impairment of note receivables by recording allowances. The assessment of whether a note receivable is collectible involves the use of judgment and requires the use of assumptions about the financial situation of who the note was issued.

Judgment is required when we evaluate available information about a particular customer's financial situation to determine whether it is probable that a credit loss will occur on the note receivable, and the amount of such loss is reasonably estimable and thus an allowance for that specific account is necessary. Changes in our estimates about the allowance for doubtful accounts could materially impact reported assets and expenses, and our profit could be adversely affected if actual credit losses exceed our estimates.

Business combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. This significant estimate could impact the recognition of intangible assets and goodwill.

12. RISKS AND UNCERTAINTIES

For a detailed listing of the risk factors faced by the Company, please refer to the Company's MD&A for the year ended August 31, 2021.