



LOBE SCIENCES LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended February 28, 2022 and 2021

(Expressed in Canadian dollars)

(Unaudited)

Notice of Disclosure of Non-auditor Review of the Condensed Interim Consolidated Financial Statements for the Three and Six Months Ended February 28, 2022.

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of Lobe Sciences Ltd. (“the Company” or “Lobe”) for the interim period ended February 28, 2022, have been prepared in accordance with the International Accounting Standard 34 - *Interim Financial Reporting* as issued by the International Accounting Standards Board and are the responsibility of the Company’s management.

The Company’s independent auditors, Manning Elliott LLP, have not performed a review of these condensed interim consolidated financial statements.

March 30, 2022

LOBE SCIENCES LTD.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Expressed in Canadian dollars) - Unaudited

	Note	February 28, 2022	August 31, 2021
		\$	\$
ASSETS			
Current			
Cash		1,127,956	1,141,839
Receivables	7	16,933	195,707
Prepaid expenses and deposits	8	494,621	282,902
Common shares	9(b)	393,619	952,910
Preferred Shares	9(a)	513,003	5,331,292
Warrants	10	5,610	200,926
Dividend receivable	9(a)	1,628,840	1,563,310
		4,180,582	9,668,886
Preferred Shares	9(a)	-	1,362,145
Promissory note receivable	11	68,369	65,409
Investment in Krysalis	12	919,371	961,508
Intangible assets	13	40,000	40,000
Total assets		5,208,322	12,097,948
LIABILITIES			
Current			
Accounts payable and accrued liabilities	19	1,267,246	804,701
		1,267,246	804,701
EQUITY			
Share capital	16(c)	24,956,218	24,841,218
Shares to be issued	16(c)	-	115,000
Reserves	16(h)	5,394,182	5,059,203
Accumulated other comprehensive loss		-	(247,999)
Deficit		(26,409,324)	(18,474,175)
Total equity		3,941,076	11,293,247
Total liabilities and equity		5,208,322	12,097,948

Nature of operations (note 1)

Events after the reporting period (note 20)

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on March 30, 2022.

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 condensed interim consolidated financial statements.

LOBE SCIENCES LTD.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

For the three and six months ended February 28, 2022 and 2021

(Expressed in Canadian dollars, except share numbers) – Unaudited

	Note	Three months ended		Six months ended	
		2022	2021	2022	2021
				\$	\$
Operating expenses					
Advertising		11,573	849,528	102,990	1,452,764
Consulting fees	19	391,903	348,855	664,415	570,112
General and administrative		53,272	21,947	123,947	54,893
Insurance		83,709	22,352	166,161	45,709
Management fees	19	148,956	57,384	239,673	96,801
Professional fees	19	155,767	140,445	217,456	261,581
Rent expense	14	-	3,524	-	8,024
Research		-	566,770	323,537	731,842
Share-based compensation	16,19	185,440	493,478	334,979	571,038
		1,030,620	2,504,283	2,173,158	3,792,764
Loss before other items		(1,030,620)	(2,504,283)	(2,173,158)	(3,792,764)
Other items					
Foreign exchange loss		16,309	64,460	44,289	72,572
Dividend income	9(a)	(868,275)	-	(1,593,665)	-
Other income	11	(1,097)	-	(2,193)	-
Loss on change in fair value of common shares	9(b)	1,258,781	-	1,635,236	-
Loss on change in fair value of Preferred Shares	9(a)	1,608,724	-	5,192,872	-
Loss on change in fair value of Warrants	10	51,496	-	195,316	-
Share of loss on Krysalis	12	16,076	-	42,137	-
Loss (gain) on debt settlement	16(c)	-	4,500	-	(15,375)
		2,082,014	68,960	5,513,992	57,197
Loss from continuing operations		(3,112,634)	(2,573,243)	(7,687,150)	(3,849,961)
(Loss) income from discontinued operations, net of tax	5	-	(1,889)	-	29,637
Net loss		(3,112,634)	(2,575,132)	(7,687,150)	(3,820,324)
Other comprehensive loss					
Translation adjustment		-	(99,084)	-	(125,659)
Comprehensive loss		(3,112,634)	(2,674,216)	(7,687,150)	(3,945,983)
Net loss per share from continuing operations					
Basic and diluted		(0.01)	(0.02)	(0.03)	(0.02)
Net (loss) income per share from discontinued operations					
Basic and diluted		-	(0.00)	-	0.00
Weighted average number of shares outstanding					
Basic and diluted		224,633,984	169,459,942	224,633,984	174,113,530

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

LOBE SCIENCES LTD.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the six months ended February 28, 2022 and 2021

(Expressed in Canadian dollars) - Unaudited

	Note	2022	2021
		\$	\$
Operating activities			
Net loss from continuing operations		(7,687,150)	(3,849,961)
Adjustments for non-cash items:			
Share-based compensation	16,19	334,979	571,038
Unrealized foreign exchange gain		(767)	(16,886)
Dividend income	9(a)	(1,593,665)	-
Other income	11	(2,193)	-
Loss on change in fair value of common shares	9(b)	1,635,236	-
Loss on change in fair value of Preferred Shares	9(a)	5,192,872	-
Loss on change in fair value of Warrants	10	195,316	-
Share of loss on Krysalis	12	42,137	-
Gain on settlement of accounts payable	13	-	(15,375)
Changes in non-cash working capital items:			
Receivables		178,774	(100,719)
Prepaid expenses and deposits		(211,719)	164,442
Accounts payable and accrued liabilities		462,545	(300,920)
Net cash used in operating activities of continuing operations		(1,453,635)	(3,548,381)
Net cash provided by operating activities of discontinued operations	5	-	289,189
Investing activities			
Proceeds from sale of common shares	9(b)	1,439,752	-
Net cash provided by investing activities		1,439,752	-
Financing activities			
Common shares issued for cash - private placement	16(c)	-	5,160,234
Share issue costs	16(c)	-	(213,119)
Repayment of lease liability	15	-	(87,815)
Net cash provided by financing activities		-	4,859,300
Effect of exchange rate changes on cash		-	25,921
(Decrease) increase in cash		(13,883)	1,626,029
Cash, beginning of period		1,141,839	172,107
Cash, end of period		1,127,956	1,798,136

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

LOBE SCIENCES LTD.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian dollars, except share numbers) - Unaudited

	Note	Number of shares	Share capital	Shares to be issued	Reserves	Accumulated other comprehensive income (loss)	Deficit	Total equity
		#	\$	\$	\$	\$	\$	\$
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	16(c)	56,057,059	3,456,746	(13,500)	1,716,988	-	-	5,160,234
Shares issued - debt settlement	16(c)	562,500	23,632	-	4,493	-	-	28,125
Share issue costs	16(c)	-	(258,772)	-	45,653	-	-	(213,119)
Share-based compensation	16	-	-	-	571,038	-	-	571,038
Comprehensive loss		-	-	-	-	(125,659)	(3,820,324)	(3,945,983)
Balance, February 28, 2021		199,733,984	21,746,115	-	4,693,802	(129,529)	(12,636,087)	13,674,301
Shares issued - exercise of options		500,000	45,814	-	(15,814)	-	-	30,000
Shares issued - asset acquisition		18,900,000	2,457,000	-	-	-	-	2,457,000
Shares issued - joint venture		5,500,000	577,500	-	-	-	-	577,500
Share issue costs		-	14,789	-	-	-	-	14,789
Share purchase warrants		-	-	-	30,655	-	-	30,655
Share-based compensation		-	-	-	350,560	-	-	350,560
Shares to be issued - service agreement		-	-	115,000	-	-	-	115,000
Comprehensive loss		-	-	-	-	(118,470)	(5,838,088)	(5,956,558)
Balance, August 31, 2021		224,633,984	24,841,218	115,000	5,059,203	(247,999)	(18,474,175)	11,293,247
Shares issued - service agreement	16(c)	1,000,000	115,000	(115,000)	-	-	-	-
Share-based compensation	16	-	-	-	334,979	-	-	334,979
Cumulative translation adjustment recycled to deficit		-	-	-	-	247,999	(247,999)	-
Comprehensive loss		-	-	-	-	-	(7,687,150)	(7,687,150)
Balance, February 28, 2022		225,633,984	24,956,218	-	5,394,182	-	(26,409,324)	3,941,076

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

LOBE SCIENCES LTD.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

February 28, 2022 and 2021

(Expressed in Canadian dollars)

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. 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'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 5).

Going concern

During the six months ended February 28, 2022, the Company incurred a net loss of \$7,687,150. As at February 28, 2022, the Company has an accumulated deficit of \$26,409,324. 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

There was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through to 2022 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 condensed interim consolidation financial statements (the "interim financial statements") of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations issued by the Financial Reporting Interpretations Committee. As such, these interim financial statements do not contain all the disclosures required by IFRS for annual financial statements and should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended August 31, 2021 and 2020 ("annual financial statements").

(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.

Functional and presentation currency

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

LOBE SCIENCES LTD.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

February 28, 2022 and 2021

(Expressed in Canadian dollars, except where noted) - Unaudited

2. BASIS OF PRESENTATION (continued)

(c) 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
Eleusian Biosciences Corp	Canada	100%	CAD

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in the preparation of these interim financial statements are consistent with those applied and disclosed in notes 2 and 3 to the annual financial statements.

4. 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.

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

5. 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:IIONC) 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 15) 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.

LOBE SCIENCES LTD.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2022 and 2021

(Expressed in Canadian dollars, except where noted) - Unaudited

5. SALE OF COWLITZ DISPOSAL GROUP (continued)

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%.

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	Note	\$
100,406,701 Series E Nonvoting Preferred Shares	9(a)	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		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	15	(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

LOBE SCIENCES LTD.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2022 and 2021

(Expressed in Canadian dollars, except where noted) - Unaudited

5. SALE OF COWLITZ DISPOSAL GROUP (continued)

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 carry forwards from continuing operations which were previously unrecognized. The current income tax liability as at August 31, 2021 was \$nil.

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 three and six months ended February 28, 2022, and 2021 are summarized below:

	Note	Three months ended, February 28, 2022	February 28, 2021	February 28, 2022	Six months ended, February 28, 2021
		\$	\$	\$	\$
Revenues					
License royalties	13	-	34,746	-	104,306
Lease	14	-	107,457	-	218,515
		-	142,203	-	322,821
Operating expenses					
Rent expense	14	-	4,782	-	9,724
Interest expense	15	-	5,950	-	13,211
Amortization	13	-	50,281	-	102,825
Depreciation	14	-	82,057	-	166,402
		-	143,070	-	292,162
Other items					
Foreign exchange loss		-	1,022	-	1,022
Net (loss) income from discontinued operations		-	(1,889)	-	29,637

The cash flows associated with the discontinued operations for the six months ended February 28, 2022, and 2021 are summarized below:

	2022	2021
	\$	\$
Operating activities		
Net income from discontinued operations	-	29,637
Adjustments for non-cash items:		
Amortization	-	102,825
Depreciation	-	166,402
Changes in non-cash working capital items:		
Receivables	-	(9,675)
Net cash provided by discontinued operations	-	289,189

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 \$37,023.

LOBE SCIENCES LTD.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2022 and 2021

(Expressed in Canadian dollars, except where noted) - Unaudited

6. INVESTMENT IN VITAMIND (continued)

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. During the year ended August 31, 2021 management expensed the consideration in excess of the net assets acquired equal to \$2,594,023.

7. RECEIVABLES

	February 28, 2022	August 31, 2021
	\$	\$
Sales tax receivable	16,933	195,707
	16,933	195,707

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 5).

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

8. PREPAID EXPENSES AND DEPOSITS

	February 28, 2022	August 31, 2021
	\$	\$
Advertising	100,000	33,333
Insurance	60,438	77,332
Deposits	330,661	166,481
Other	3,522	5,756
	494,621	282,902

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.

LOBE SCIENCES LTD.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2022 and 2021

(Expressed in Canadian dollars, except where noted) - Unaudited

9. PREFERRED AND COMMON SHARES (continued)

A continuity of the Preferred Shares is as follows:

	Number of shares	February 28, 2021	Number of shares	August 31, 2021
	#	\$	#	\$
Balance, beginning of period	81,737,325	6,693,437	-	-
Addition (note 5)	-	-	100,406,705	17,582,307
Finders' fee (note 5)	-	-	(8,638,751)	(1,489,632)
Conversion to common shares	(26,676,555)	(987,562)	(10,030,629)	(1,998,225)
Loss on change in fair value of Preferred Shares	-	(5,192,872)	-	(7,401,013)
Balance, end of period	55,060,770	513,003	81,737,325	6,693,437
Less: Non-current portion	-	-	(18,353,591)	1,362,145
Current portion of Preferred Shares	55,060,770	513,003	63,383,734	5,331,292

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 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%	0.00%	0.00%	\$ 14,094,451
August 31, 2021	0.10 - 1.01	0.0950	105.0%	0.00%	0.00%	\$ 6,693,438
November 30, 2021	0.10 - 0.76	0.0400	95.0%	0.00%	0.00%	\$ 2,279,822
February 28, 2022	0.10 - 0.52	0.0100	105.0%	0.00%	0.00%	\$ 513,003

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:

	February 28, 2022	August 31, 2021
	\$	\$
Balance, beginning of period	1,563,310	-
Dividend income	1,593,665	1,563,310
Converted to 48,498,606 common shares	(1,528,135)	-
Balance, end of period	1,628,840	1,563,310

(b) Common shares

A continuity of the common shares is as follows:

	Number of shares	February 28, 2022	Number of shares	August 31, 2021
	#	\$	#	\$
Balance, beginning of period	10,030,629	952,910	-	-
Conversion of Preferred Shares	26,676,555	987,562	10,030,629	1,998,225
Conversion of dividend receivable	48,498,606	1,528,135	-	-
Common shares sold	(45,843,897)	(1,439,752)	-	-
Loss on change in fair value	-	(1,635,236)	-	(1,045,315)
Balance, end of period	39,361,893	393,619	10,030,629	952,910

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9. PREFERRED AND COMMON SHARES (continued)

During the six months ended February 28, 2021, the Company converted 26,676,555 Preferred Shares into common shares which were valued at \$987,562 resulting in a loss on change in fair value of \$110,556 on conversion. In addition, the Company received 48,498,606 common shares as payment of dividend receivable of \$1,528,135. The Company sold 45,843,897 common shares gross proceeds of \$1,439,752 resulting in a realized loss on sale of common shares of \$807,167. At February 28, 2022, the Company held 39,361,893 common shares and recorded a loss of \$717,512 on these shares due to the decline in market price to \$0.01 per common share as at February 28, 2022. These common shares were sold subsequent to February 28, 2022 (note 20).

On March 5, 2021, the Company converted 10,030,629 Preferred Shares into common shares which were valued at \$1,998,225 using the Black-Scholes option pricing model (see note 5). At the August 31, 2021, the Company recorded a loss of \$1,045,315 on these common shares due to the decline in market price to \$0.095 per common share as 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 common shares, 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:

	February 28, 2022	August 31, 2021
	\$	\$
Balance, beginning of period	200,926	-
Addition	-	662,741
Loss on change in fair value of Warrants	(195,316)	(461,815)
Balance, end of period	5,610	200,926

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	5.00	0.2350	100.0%	0.24%	0.00%	\$ 662,741
August 31, 2021	4.50	0.0950	100.0%	0.24%	0.00%	\$ 200,926
November 30, 2021	4.25	0.0400	100.0%	0.24%	0.00%	\$ 57,106
February 28, 2022	4.00	0.0100	100.0%	0.24%	0.00%	\$ 5,610

11. PROMISSORY NOTE RECEIVABLE

The balance represents a secured promissory note of (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.

	February 28, 2022	August 31, 2021
	\$	\$
Balance, beginning of period	65,409	-
Addition	-	63,340
Interest income	2,193	2,293
Unrealized foreign exchange gain (loss)	767	(224)
Balance, end of period	68,369	65,409

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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%).

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

	February 28, 2022	August 31, 2021
	\$	\$
Balance, beginning of period	961,508	-
Initial investment	-	1,053,561
Company's share of loss during the period	(42,137)	(92,053)
Balance, end of period	919,371	961,508

13. INTANGIBLE ASSETS

	February 28, 2022	August 31, 2021
	\$	\$
Cost		
Balance, beginning of period	40,000	11,558,827
Disposal	-	(4,054,511)
Impairment	-	(7,345,387)
Unrealized foreign exchange loss	-	(118,929)
Balance, end of period	40,000	40,000
Accumulated depreciation		
Balance, beginning of period	-	473,054
Amortization	-	102,825
Disposal	-	(560,703)
Unrealized foreign exchange loss	-	(15,176)
Balance, end of period	-	-
Carrying amount	40,000	40,000

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13. INTANGIBLE ASSETS (continued)**(a) 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.

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 wrote down its licenses to the estimated replacement value of \$40,000 and recorded impairment of intangible assets in the amount of \$7,345,387 during the year ended August 31, 2021. The Company will continue to develop these provisional patent applications and revisit the recoverable amount at each reporting period.

(b) 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 three and six months ended February 28, 2022, the Company recognized \$nil and \$nil, respectively (2021 - \$34,746 (USD\$27,262) and \$104,306 (USD\$80,071), respectively) 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 5). 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.

	February 28, 2022	August 31, 2021
	\$	\$
Balance, beginning of period	-	571,421
Depreciation	-	(166,402)
Disposal	-	(392,356)
Unrealized foreign exchange loss	-	(12,663)
Balance, end of period	-	-

During the three and six months ended February 28, 2022, the Company recognized \$nil and \$nil, respectively 2021 - \$107,457 (USD\$84,313) and \$218,515 (USD\$168,627), respectively) in lease revenues earned pursuant to the Lease Purchase Agreement.

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14. LEASE (continued)

For the three and six months ended February 28, 2022 the company recognized rent expense of \$nil and \$nil, respectively (2021 - \$3,524 and \$8,024, respectively) 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 5) 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. LEASE LIABILITY

	February 28, 2022	August 31, 2021
	\$	\$
Balance, beginning of period	-	302,020
Repayment of lease obligation	-	(101,026)
Interest expense	-	13,211
Disposal	-	(207,522)
Unrealized foreign exchange loss	-	(6,683)
Balance, end of period	-	-
Less: Non-current portion	-	-
Current portion of lease liability	-	-

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

16. SHARE CAPITAL

(a) Authorized

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

(b) Escrow shares

The Company has shares subject to trading restrictions and escrow which are released in tranches through 2022. As at February 28, 2022, 4,375,000 common shares were subject to these escrow restrictions (August 31, 2021 - 13,125,000).

(c) Issued

The Company has the following common share transactions during the six months ended February 28, 2022:

- On February 14, 2022, pursuant to a service agreement, the Company issued 1,000,000 common shares with a fair value of \$0.115 for total consideration of \$115,000.

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 share purchase warrant entitles the subscriber to acquire one additional share at a price of \$0.20 per whole share purchase 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. 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 whole share purchase warrant entitles the subscriber to acquire one additional Share at a price of \$0.20 per Share Purchase 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%).

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16. SHARE CAPITAL (continued)

- 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 share purchase warrant entitles the subscriber to acquire one additional share at a price of \$0.20 per whole share purchase 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 share purchase warrant entitles the subscriber to acquire one additional Share at a price of \$0.25 per share purchase 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%).
- 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 share purchase warrant entitles the subscriber to acquire one additional Share at a price of \$0.25 per share purchase 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).

(d) Share purchase warrants

A summary of share purchase warrant activity is as follows:

	Number of warrants	Weighted average exercise price (\$)
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 and February 28, 2022	47,759,515	0.24

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16. SHARE CAPITAL (continued)

The share purchase warrants outstanding and exercisable at February 28, 2022 and August 31, 2021 have the following expiry date and exercise prices:

Expiry date	Exercise price	February 28, 2022	August 31, 2021
March 22, 2022	\$0.20	281,250	281,250
March 31, 2022	\$0.20	10,799,292	10,799,292
December 22, 2022	\$0.25	23,271,000	23,271,000
January 5, 2023	\$0.25	11,187,475	11,187,475
June 9, 2023	\$0.20	600,000	600,000
October 2, 2023	\$0.20	1,620,498	1,620,498
Total		47,159,515	47,159,515
Weighted average remaining contractual life of warrants outstanding at period end		0.69 years	1.19 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.

The following table summarizes performance warrants outstanding as at February 28, 2022:

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	4.22
Total		4,655,922	4,655,992	\$0.35	4.22

The Company recognized share-based compensation expense of \$41,001 and \$82,002 during the three and six months ended February 28, 2022 (2021 - \$41,001 and \$82,002, respectively) 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, 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
Granted	3,473,333	\$0.02
Cancelled	(1,290,000)	\$0.16
Expired	(150,000)	\$0.37
Balance, February 28, 2022	20,797,169	\$0.12

As at February 28, 2022 there were 18,497,169 (August 31, 2021 - 15,588,836) share purchase options vested and exercisable at an average exercise price of \$0.11 (August 31, 2021 - \$0.14).

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16. SHARE CAPITAL (continued)

The following table summarizes the share purchase options outstanding as at February 28, 2022 and August 31, 2021:

Expiry date	Exercise price	February 28, 2022	August 31, 2021
September 6, 2021	\$0.200	-	150,000
September 12, 2022	\$0.080	300,000	300,000
February 12, 2023	\$0.170	225,000	225,000
February 23, 2023	\$0.230	200,000	200,000
June 15, 2023	\$0.130	100,000	100,000
May 19, 2023	\$0.140	-	200,000
August 31, 2023	\$0.100	100,000	100,000
October 19, 2023	\$0.100	950,000	1,150,000
January 15, 2024	\$0.150	6,900,000	7,400,000
February 25, 2024	\$0.030	3,333,333	-
June 28, 2024	\$0.250	300,000	550,000
July 29, 2024	\$0.200	500,000	500,000
August 30, 2024	\$0.115	100,000	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	2,060,000	2,080,000
August 12, 2025	\$0.100	750,000	750,000
August 31, 2025	\$0.100	280,000	290,000
November 30, 2025	\$0.080	30,000	-
February 28, 2026	\$0.040	100,000	-
May 30, 2028	\$0.200	840,000	890,000
Total		20,797,169	18,763,836
Weighted average remaining contractual life of share purchase options outstanding at period end		2.46 years	2.98 years

The Company recognized share-based compensation expense of \$70,449 and \$109,816 during the three and six months ended February 28, 2022, respectively (2021 - \$452,477 and \$489,036, respectively) with respect to the share purchase options.

The Company granted 3,473,333 options during the six months ended February 28, 2022 (2021 - 9,525,000) with a weighted average fair value at grant date of \$0.01 (2021 - \$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:

	2022	2021
Risk-free rate	1.67%	0.43%
Expected life of options	2.08 years	3.21 years
Annualized volatility	100%	100%
Dividend rate	0%	0%

(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 issue price
Balance, August 31, 2020	-	-
Granted	4,500,000	0.115
Balance, August 31, 2021 and February 28, 2022	4,500,000	0.115
RSUs outstanding and exercisable	-	-

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16. SHARE CAPITAL (continued)

The following table summarizes the RSU options outstanding as at February 28, 2022:

Grant date	Issue price	RSU outstanding at February 28, 2022	Last vesting	RSU vested and issued at February 28, 2022
15-Jun-21	\$0.115	4,500,000	30-Jun-25	-
Total		4,500,000		-
Weighted average remaining contractual life of RSUs outstanding at period end				3.34 years

The Company recognized share-based compensation expense of \$64,640 and \$129,998 during the three and six months ended February 28, 2022, respectively (2021 - \$nil and \$nil, respectively) with respect to the RSU options. Over their vesting terms the Company will record compensation expense \$111,044 for the remainder of 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 issue price
Balance, August 31, 2020	-	-
Granted	300,000	0.10
Balance, August 31, 2021	300,000	0.10
Granted	2,220,000	0.08
Cancelled	(600,000)	-
Balance, February 28, 2022	1,920,000	0.09
DSUs outstanding and exercisable	-	-

The following table summarizes the DSU options outstanding as at February 28, 2022:

Grant date	Issue price	DSU outstanding at February 28, 2022	Last vesting	DSU vested and issued at February 28, 2022
15-Jun-21	\$0.115	150,000	30-Jun-25	-
31-Aug-21	\$0.070	75,000	31-Aug-25	-
30-Nov-21	\$0.080	1,575,000	30-Nov-25	-
28-Feb-22	\$0.030	120,000	31-Aug-25	-
Total		1,920,000		-
Weighted average remaining contractual life of DSUs outstanding at period end				3.70 years

The Company recognized share-based compensation expense of \$9,350 and \$13,163 during the three and six months ended February 28, 2022, respectively (2021 - \$nil and \$nil, respectively) with respect to the DSU options. Over their vesting terms the Company will record compensation expense \$22,562 for the remainder of fiscal 2022, \$28,060 for fiscal 2023, \$14,935 for fiscal 2024 and \$6,829 for fiscal 2025.

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16. SHARE CAPITAL (continued)

(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, 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
Share-based payments	109,815	129,998	13,164	-	-	-	252,977
Reclassified on expiration of options	(25,088)	-	-	-	-	25,088	-
Performance Warrants	-	-	-	82,002	-	-	82,002
Balance, February 28, 2022	1,583,434	185,301	15,622	618,685	1,720,071	1,271,069	5,394,182

17. FINANCIAL RISK MANAGEMENT

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 and common shares 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 is disclosed in note 9 and Warrants is disclosed in note 10.

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18. 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:

	February 28, 2022	August 31, 2021
	\$	\$
Cash	1,127,956	1,141,839
Receivables	16,933	195,707
Less:		
Accounts payable and accrued liabilities	(1,267,246)	(804,701)
Net capital	(122,357)	532,845
Add:		
Equity	3,941,076	11,293,247
Net capital and equity	3,818,719	11,826,092

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 February 28, 2022.

19. 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 three and six months ended February 28, 2022 and 2021 were as follows:

	Three months ended,		Six months ended,	
	February 28, 2022	February 28, 2021	February 28, 2022	February 28, 2021
	\$	\$	\$	\$
Consulting fees	294,412	364,251	436,995	470,098
Professional fees	43,313	38,880	74,063	64,813
Share-based compensation	11,790	348,462	30,052	357,006
	349,514	751,593	541,109	891,917

During the three and six months ended February 28, 2022, the Company incurred professional fees of \$43,313 and \$74,063, respectively (three and six months ended February 28, 2021 - \$38,880 and \$64,813) in accounting costs to a firm related to the Chief Financial Officer.

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

Due to related parties as at February 28, 2022 and August 31, 2021 were as follows:

	February 28, 2022	August 31, 2021
	\$	\$
Accounts payable and accrued liabilities	84,192	59,300
Balance, end of period	84,192	59,300

As at February 28, 2022, included in accounts payable and accrued liabilities is \$18,518 (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.

LOBE SCIENCES LTD.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2022 and 2021

(Expressed in Canadian dollars, except where noted) - Unaudited

19. RELATED PARTY TRANSACTIONS (continued)

As at February 28, 2022, included in accounts payable and accrued liabilities is \$21,374 (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 February 28, 2022, included in accounts payable and accrued liabilities is \$44,300 (August 31, 2021 - \$22,756) payable to Directors for director fees. The amounts are unsecured, non-interest bearing and due on demand.

20. EVENTS AFTER THE REPORTING PERIOD

On March 15, 2022, the Company issued 3,333,333 common shares pursuant to the exercise of 3,333,333 stock options with an exercise price of \$0.03 for proceeds of \$100,000.

On March 22, 2022, 281,250 warrants expired unexercised.

On March 25, 2022, the Company received 21,343,724 Ionic common shares as partial settlement of the dividend receivable.

On March 29, 2022, the Company issued 1,666,667 stock options with an exercise price of \$0.03. These options expire on March 29, 2024. 416,666 stock options vest immediately and the remainder vest in quarterly instalments of 416,667 commencing June 1, 2022.

A total of 60,705,617 Ionic common shares were sold for gross proceeds of \$300,942. Transaction costs totalled \$4,824 and the Company received proceeds of \$296,118.