



**LOBE SCIENCES LTD.**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For the three and nine months ended May 31, 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 Nine Months ended May 31, 2022 and 2021.**

Pursuant to subsection 4.3(3)(a) of National Instrument 51-102 – Continuous Disclosure Obligations, 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 May 31, 2022 and 2021, 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.

July 20, 2022

**LOBE SCIENCES LTD.**

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars) - Unaudited

	Note	May 31, 2022	August 31, 2021
		\$	\$
<b>ASSETS</b>			
<b>Current</b>			
Cash		827,753	1,141,839
Receivables	7	26,812	195,707
Prepaid expenses and deposits	8	352,890	282,902
Common shares	9(b)	102,615	952,910
Preferred Shares	9(a)	176,354	5,331,292
Warrants	10	17,321	200,926
Dividend receivable	9(a)	808,801	1,563,310
Promissory note receivable	11	69,490	-
		<b>2,382,036</b>	9,668,886
Preferred Shares	9(a)	-	1,362,145
Promissory note receivable	11	-	65,409
Investment in Krysalis	12	899,921	961,508
Intangible assets	13	40,000	40,000
<b>Total assets</b>		<b>3,321,957</b>	12,097,948
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	19	1,069,036	804,701
		<b>1,069,036</b>	804,701
<b>EQUITY</b>			
Share capital	16(c)	25,112,430	24,841,218
Shares to be issued	16(c)	-	115,000
Reserves	16(h)	5,511,449	5,059,203
Accumulated other comprehensive loss		-	(247,999)
Deficit		<b>(28,370,958)</b>	<b>(18,474,175)</b>
Total equity		<b>2,252,921</b>	11,293,247
<b>Total liabilities and equity</b>		<b>3,321,957</b>	12,097,948

Nature of operations (Note 1)

Contingency (Note 20)

Events after the reporting period (Note 21)

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on July 20, 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) INCOME AND COMPREHENSIVE (LOSS) INCOME  
(Expressed in Canadian dollars, except share numbers) – Unaudited

		Three months ended		Nine months ended	
		May 31,		May 31,	
	Note	2022	2021	2022	2021
				\$	\$
<b>Operating expenses</b>					
Advertising		65,721	215,838	168,711	1,668,602
Bad debt expense		-	62,040	-	62,040
Consulting fees	19	221,108	217,684	885,523	787,796
General and administrative		38,974	55,460	162,921	110,353
Insurance		82,638	21,607	248,799	67,316
Management fees	19	128,490	138,514	368,163	235,315
Professional fees	19	86,874	148,264	304,330	409,845
Rent expense	14	-	-	-	8,024
Research		-	320,843	323,537	1,052,685
Share-based compensation	16,19	164,303	95,693	499,282	666,731
		<b>788,108</b>	<b>1,275,943</b>	<b>2,961,266</b>	<b>5,068,707</b>
Loss before other items		<b>(788,108)</b>	<b>(1,275,943)</b>	<b>(2,961,266)</b>	<b>(5,068,707)</b>
<b>Other items</b>					
Foreign exchange loss (gain)		22,775	(5,213)	67,064	67,359
Dividend income	9(a)	(213,047)	(684,211)	(1,806,712)	(684,211)
Interest income	11	(1,121)	(1,035)	(3,314)	(1,035)
Loss on change in fair value of dividend receivable	9(a)	303,497	32,981	1,938,733	32,981
Loss on change in fair value of Preferred Shares	9(a)	244,881	6,882,596	5,437,753	6,882,596
(Gain) loss on change in fair value of Warrants	10	(11,711)	257,222	183,605	257,222
Impairment of dividend receivable	9(a)	808,802	-	808,802	-
Share of loss on Krysalis	12	19,450	30,617	61,587	30,617
Gain on debt settlement	16(c)	-	-	-	(15,375)
		<b>1,173,526</b>	<b>6,512,957</b>	<b>6,687,518</b>	<b>6,570,154</b>
Loss before tax from continuing operations		<b>(1,961,634)</b>	<b>(7,788,900)</b>	<b>(9,648,784)</b>	<b>(11,638,861)</b>
Current income tax recovery		-	1,203,215	-	1,203,215
Net loss from continuing operations		<b>(1,961,634)</b>	<b>(6,585,685)</b>	<b>(9,648,784)</b>	<b>(10,435,646)</b>
Income from discontinued operations, net of tax	5	-	17,788,170	-	17,817,807
<b>Net (loss) income</b>		<b>(1,961,634)</b>	<b>11,202,485</b>	<b>(9,648,784)</b>	<b>7,382,161</b>
<b>Other comprehensive loss</b>					
Translation adjustment		-	(119,082)	-	(244,741)
<b>Comprehensive (loss) income</b>		<b>(1,961,634)</b>	<b>11,083,403</b>	<b>(9,648,784)</b>	<b>7,137,420</b>
<b>Net loss per share from continuing operations</b>					
Basic		<b>(0.05)</b>	(0.19)	<b>(0.26)</b>	(0.34)
Diluted		<b>(0.05)</b>	(0.19)	<b>(0.26)</b>	(0.34)
<b>Net income per share from discontinued operations</b>					
Basic		-	0.52	-	0.58
Diluted		-	0.51	-	0.57
<b>Weighted average number of shares outstanding</b>					
Basic		<b>38,087,284</b>	34,384,468	<b>37,666,039</b>	30,827,091
Diluted		<b>38,087,284</b>	34,715,113	<b>37,666,039</b>	31,007,347

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 nine months ended May 31, 2022 and 2021

(Expressed in Canadian dollars) – Unaudited

	<b>Note</b>	<b>2022</b>	<b>2021</b>
		\$	\$
<b>Operating activities</b>			
Net loss from continuing operations		<b>(9,648,784)</b>	(10,435,646)
Adjustments for non-cash items:			
Share-based compensation	16,19	<b>499,282</b>	666,731
Bad debt expense		-	62,040
Unrealized foreign exchange gain		<b>(767)</b>	(128,656)
Dividend income	9(a)	<b>(1,806,712)</b>	(684,211)
Interest income	11	<b>(3,314)</b>	1,035
Loss on change in fair value of dividend receivable	9(a)	<b>1,938,733</b>	32,981
Loss on change in fair value of Preferred Shares	9(a)	<b>5,437,753</b>	6,882,596
Loss on change in fair value of Warrants	10	<b>183,605</b>	257,222
Impairment of dividend receivable	9(a)	<b>808,802</b>	-
Share of loss on Krysalis	12	<b>61,587</b>	30,617
Gain on debt settlement	16(c)	-	(15,375)
Current income tax recovery		-	(1,203,215)
Changes in non-cash working capital items:			
Receivables		<b>168,895</b>	(131,473)
Prepaid expenses and deposits		<b>(69,988)</b>	193,199
Accounts payable and accrued liabilities		<b>264,335</b>	(16,140)
<b>Net cash used in operating activities of continuing operations</b>		<b>(2,166,573)</b>	(4,488,295)
<b>Net cash provided by operating activities of discontinued operations</b>	5	-	293,434
<b>Investing activities</b>			
Proceeds from sale of common shares	9(b)	<b>1,743,311</b>	-
Cash on sale of assets, net	5	-	1,649,249
Investment in Krysalis	12	-	(78,405)
Acquisition of Vitamind	6	-	(136,273)
<b>Net cash provided by investing activities</b>		<b>1,743,311</b>	1,434,571
<b>Financing activities</b>			
Common shares issued for cash - private placement	16(c)	-	5,173,734
Common shares issued for cash - exercise of stock options	16(c)	<b>112,500</b>	30,000
Share issue costs	16(c)	<b>(3,324)</b>	(223,469)
Repayment of lease liability	15	-	(87,815)
<b>Net cash provided by financing activities</b>		<b>109,176</b>	4,892,450
Effect of exchange rate changes on cash		-	20,937
(Decrease) increase in cash		<b>(314,086)</b>	2,153,097
Cash, beginning of period		<b>1,141,839</b>	172,107
<b>Cash, end of period</b>		<b>827,753</b>	2,325,204
Supplemental disclosures for cash flow information			
Interest paid in cash		-	-
Income taxes paid in cash		-	-

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		23,852,440	18,524,509	13,500	2,355,630	(3,870)	(8,815,763)	12,074,006
Shares issued – private placement	16(c)	9,342,844	3,456,746	(13,500)	1,716,988	-	-	5,160,234
Shares issued – debt settlement	16(c)	93,750	23,632	-	4,493	-	-	28,125
Shares issued – exercise of options	16(c)	83,334	45,814	-	(15,814)	-	-	30,000
Shares issued – asset acquisition	16(c)	3,150,000	2,196,136	-	-	-	-	2,196,136
Shares issued – joint venture	16(c)	916,667	577,500	-	-	-	-	577,500
Share issue costs	-	-	(269,122)	-	45,653	-	-	(223,469)
Share-based compensation	-	-	-	-	666,731	-	-	666,731
Comprehensive (loss) income	-	-	-	-	-	(244,741)	7,382,161	7,137,420
<b>Balance, May 31, 2021</b>		<b>37,439,035</b>	<b>24,555,215</b>	<b>-</b>	<b>4,773,681</b>	<b>(248,611)</b>	<b>(1,433,602)</b>	<b>27,646,683</b>
Shares issued – asset acquisition	16(c)	-	-	-	30,655	-	-	30,655
Share purchase warrants	-	-	260,864	-	-	-	-	260,864
Shares to be issued - service agreement	16(c)	-	25,139	-	-	-	-	25,139
Share issue costs	-	-	-	-	254,867	-	-	254,867
Share-based compensation	-	-	-	115,000	-	-	-	115,000
Comprehensive income (loss)	-	-	-	-	-	612	(17,040,573)	(17,039,961)
<b>Balance, August 31, 2021</b>		<b>37,439,035</b>	<b>24,841,218</b>	<b>115,000</b>	<b>5,059,203</b>	<b>(247,999)</b>	<b>(18,474,175)</b>	<b>11,293,247</b>
Shares issued – service agreement	16(c)	166,667	115,000	(115,000)	-	-	-	-
Shares issued – exercise of options	16(c)	625,000	159,536	-	(47,036)	-	-	112,500
Share issue costs	-	-	(3,324)	-	-	-	-	(3,324)
Share-based compensation	-	-	-	-	499,282	-	-	499,282
Cumulative translation adjustment recycled to deficit	-	-	-	-	-	247,999	(247,999)	-
Comprehensive loss	-	-	-	-	-	-	(9,648,784)	(9,648,784)
<b>Balance, May 31, 2022</b>		<b>38,230,702</b>	<b>25,112,430</b>	<b>-</b>	<b>5,511,449</b>	<b>-</b>	<b>(28,370,958)</b>	<b>2,252,921</b>

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

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

May 31, 2022 and 2021

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

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**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.

On June 10, 2022, the Company consolidated its issued share capital on a ratio of 6 old common shares for every 1 new post-consolidated common share. All current and comparative references to the number of common shares, weighted average number of common shares, loss per share, stock options and warrants have been restated to give effect to this share consolidation.

Lobe is a life sciences company focused on psychedelic medicines. The Company, through collaborations with industry leading partners, is engaged in drug research and development using psychedelic compounds and the development of innovative devices and delivery mechanisms to improve mental health and wellness. 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 leased office and production premises to a cannabis processor and retailer which were disposed of on March 5, 2021 (Note 5).

**Going concern**

During the nine months ended May 31, 2022, the Company incurred a net loss of \$9,648,784. As at May 31, 2022, the Company has an accumulated deficit of \$28,370,958. 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**

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. The COVID-19 outbreak has resulted and continued as a widespread health crisis that has adversely affected workforces, economies, and financial markets around the world, resulting in an economic downturn for some industries. As at the date of these interim financial statements, COVID-19 has had no significant impact on the Company's operations but may impact the Company's ability to raise funding should travel and other restrictions related to COVID-19 be extended or expanded in scope.

**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 International 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**

These interim financial statements have been prepared on a historical cost basis except for those financial instruments which have been classified at fair value through profit or loss. In addition, except for cash flow information, these interim financial statements have been prepared using the accrual method of accounting.

**LOBE SCIENCES LTD.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2022 and 2021

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

**2. BASIS OF PRESENTATION (continued)**

## (c) Functional and presentation currency

These interim 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”.

## (d) Basis of consolidation

These interim 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 interim 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 interim financial statements incorporate the accounts of the Company and the following subsidiaries:

<b>Name of Subsidiary</b>	<b>Country of incorporation</b>	<b>Percentage ownership</b>	<b>Functional currency</b>
Green Star Biosciences Inc. <sup>(1)</sup>	Canada	100%	USD
Eleusian Biosciences Corp.	Canada	100%	CAD

<sup>(1)</sup> 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 Note 2 and Note 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:

<b>Purchase price</b>	<b>\$</b>
10,033,343 acquisition common shares	7,224,007
500,167 finders’ common shares	360,120
Legal fees	40,000
<b>Total consideration</b>	<b>7,624,127</b>
<b>Net assets acquired</b>	
Cash	192,849
Accounts receivable	47,558
Prepaid expenses	18,333
Intellectual property (Note 13)	7,385,387
Accounts payable	(20,000)
<b>Total net assets acquired</b>	<b>7,624,127</b>



**LOBE SCIENCES LTD.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2022 and 2021

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

**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.

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 \$63,340 (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:

<b>Consideration received</b>	<b>Note</b>	<b>\$</b>
100,406,705 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
		<b>20,058,388</b>
<b>Assets disposed</b>		
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
		<b>4,519,097</b>
<b>Liabilities disposed</b>		
Lease liability	15	(207,522)
Total net assets disposed		<b>4,311,575</b>
Legal fees		100,750
Finder’s fee	9	1,489,632
<b>Gain on sale</b>		<b>14,156,431</b>
Current income tax expense		(1,023,688)
<b>Gain on sale, net of tax</b>		<b>13,132,743</b>

**LOBE SCIENCES LTD.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2022 and 2021

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

**5. SALE OF COWLITZ DISPOSAL GROUP (continued)**

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

Date	Expected life (years)	Unit price (\$)	Expected volatility	Risk-free rate	Dividend yield	Fair value (\$)
March 5, 2021	0.58 - 1.50	0.2350	125.0%	0.24%	0.00%	1,489,632

On March 5, 2021, the Company recorded initial current income tax of \$1,023,688 related to the Preferred Shares. During the year ended August 31, 2021, the Company recorded a reduction of \$1,023,688 in the current income tax liability related to existing tax loss 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 and cash flows associated with these assets and liabilities as discontinued operations. The net income associated with the discontinued operations for the three and nine months ended May 31, 2022, and 2021 are summarized below:

	Note	Three months ended May 31,		Nine months ended,	
		2022	2021	2022	2021
		\$	\$	\$	\$
<b>Revenues</b>					
License royalties	13	-	-	-	104,306
Lease	14	-	-	-	218,515
		-	-	-	322,821
<b>Operating expenses</b>					
Rent expense	14	-	-	-	9,724
Interest expense	15	-	-	-	13,211
Amortization	13	-	-	-	102,825
Depreciation	14	-	-	-	166,402
		-	-	-	292,162
<b>Other items</b>					
Gain on sale, net of tax		-	(17,788,170)	-	(17,788,170)
Foreign exchange loss		-	-	-	1,022
<b>Net income from discontinued operations</b>		-	17,788,170	-	17,817,807

The cash flows associated with the discontinued operations for the nine months ended May 31, 2022, and 2021 are summarized below:

	2022	2021
	\$	\$
<b>Operating activities</b>		
Net income from discontinued operations	-	17,817,807
Adjustments for non-cash items:		
Amortization	-	102,825
Depreciation	-	166,402
Gain on sale, net of tax	-	(17,788,170)
Changes in non-cash working capital items:		
Receivables	-	(5,430)
<b>Net cash provided by discontinued operations</b>	-	293,434

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

May 31, 2022 and 2021

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

**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 2,916,666 common shares of the Company (“Consideration Shares”) of which 2,187,500 of the Consideration Shares are subject to escrow conditions (“Escrow Shares”), such that the Escrow Shares will be released in further increments of 729,167 common shares upon the Company achieving certain performance milestones with the Vendor’s cooperation. 233,334 common shares of the Company as a finder’s fee, a cash payment of \$100,000 and legal costs of \$37,023.

The following table summarizes the consideration:

	<b>\$</b>
Fair value of 729,167 Consideration Shares	568,750
Fair value of 2,187,500 Escrow Shares	1,706,250
Fair value of 233,334 finders’ shares	182,000
Cash	100,000
Legal fees	37,023
<b>Total consideration</b>	<b>2,594,023</b>

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**

	<b>May 31, 2022</b>	August 31, 2021
	<b>\$</b>	<b>\$</b>
Sales tax receivable	<b>26,812</b>	195,707
	<b>26,812</b>	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**

	<b>May 31, 2022</b>	August 31, 2021
	<b>\$</b>	<b>\$</b>
Advertising	<b>50,000</b>	33,333
Insurance	<b>33,155</b>	77,332
Deposits	<b>269,735</b>	166,481
Other	<b>-</b>	5,756
	<b>352,890</b>	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.

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**9. PREFERRED AND COMMON SHARES (continued)**

A continuity of the Preferred Shares is as follows:

	Number of shares	May 31, 2022	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	(45,030,145)	(1,079,330)	(10,030,629)	(1,998,225)
Loss on change in fair value of Preferred Shares	-	(5,437,753)	-	(7,401,013)
Balance, end of period	36,707,180	176,354	81,737,325	6,693,437
Less: Non-current portion	-	-	(18,353,591)	1,362,145
Current portion of Preferred Shares	36,707,180	176,354	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 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 <sup>(1)</sup>	0.58 - 1.50	0.2350	125.0%	0.24%	0.00%	14,094,450
August 31, 2021	0.10 - 1.01	0.0950	105.0%	0.24%	0.00%	6,693,438
May 31, 2022	0.10 - 0.27	0.0050	105.0%	0.24%	0.00%	176,354

<sup>(1)</sup> Fair value of \$14,094,450 represents the addition of \$17,582,307 less finders' fee of \$1,489,632 and March 5, 2021 conversion of 10,030,629 Preferred Shares to common shares valued at \$1,998,225.

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:

	May 31, 2022	August 31, 2021
	\$	\$
Balance, beginning of period	1,563,310	-
Dividend income	1,806,712	1,563,310
Converted to 72,011,555 common shares	(1,752,419)	-
Impairment	(808,802)	-
Balance, end of period	808,801	1,563,310

On April 20, 2022, the Company entered a voluntary lock-up agreement ("VLA") with Ionic as further described in Note 20.

During the three and nine months ended May 31, 2022, the Company recorded an impairment expense of \$808,802 with respect to the dividend receivable due to the lack of marketability of the Ionic common shares.

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**9. PREFERRED AND COMMON SHARES (continued)**

## (b) Common shares

A continuity of the common shares is as follows:

	Number of shares	May 31, 2022	Number of shares	August 31, 2021
	#	\$	#	\$
Balance, beginning of period	10,030,629	952,910	-	-
Conversion of Preferred Shares	45,030,145	1,079,330	10,030,629	1,998,225
Conversion of dividend receivable	72,011,434	1,752,419	-	-
Common shares sold	(106,549,397)	(1,743,311)	-	-
Loss on change in fair value	-	(1,938,733)	-	(1,045,315)
Balance, end of period	20,522,811	102,615	10,030,629	952,910

During the nine months ended May 31, 2022, the Company converted 45,030,145 Preferred Shares into common shares which were valued at \$1,079,331 resulting in a loss on change in fair value of \$197,968 on conversion. In addition, the Company received 72,011,434 common shares as payment of dividend receivable of \$1,752,419. The Company sold 106,549,397 common shares gross proceeds of \$1,743,311 resulting in a realized loss on sale of common shares of \$1,938,733. At May 31, 2022, the Company held 20,522,811 common shares.

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.

On April 20, 2022, the Company entered a VLA with Ionic as further described in Note 20.

**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:

	May 31, 2022	August 31, 2021
	\$	\$
Balance, beginning of period	200,926	-
Addition	-	662,741
Loss on change in fair value of Warrants	(183,605)	(461,815)
Balance, end of period	17,321	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	100.00%	0.24%	0.00%	662,741
August 31, 2021	4.50	0.0950	100.00%	0.24%	0.00%	200,926
May 31, 2022	3.75	0.0050	231.58%	2.62%	0.00%	17,321

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**11. PROMISSORY NOTE RECEIVABLE**

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

	May 31, 2022	August 31, 2021
	\$	\$
Balance, beginning of period	65,409	-
Addition	-	63,340
Interest income	3,314	2,293
Unrealized foreign exchange gain (loss)	767	(224)
Balance, end of period	69,490	65,409

**12. INVESTMENT IN KRYSALIS**

On April 26, 2021, the Company entered into an agreement with Virtual Psychedelics Incorporated ("VPI") with respect to the joint design, development and commercialization of a new psychedelic/virtual experience pod. The activity will be conducted through Krysalis which is an entity jointly controlled 50% by each of the Company and VPI. As the Company and VPI have joint control of Krysalis the acquisition has been accounted as an investment in joint venture in accordance with IAS 28 - *Investments in Associates and Joint Ventures*, and as such, the Company has used the equity method to account for its investment.

The initial investment was comprised of the following:

	\$
833,334 common shares of the Company <sup>(1)</sup>	525,500
83,334 common shares of the Company <sup>(1)</sup>	52,500
100,000 share purchase warrants <sup>(2)</sup>	30,655
Legal fees	123,012
Cash contribution	322,394
	<b>1,053,561</b>

<sup>(1)</sup> The Company issued 833,334 common shares of the Company with a fair market value of \$0.63 per common share, 83,334 common shares of the Company with a fair market value of \$0.63 per common share as a finder's fee.

<sup>(2)</sup> On June 9, 2021, the Company issued 100,000 share purchase warrants in relation to Krysalis. The warrants have an exercise price of \$1.20 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%, dividend yield – 0%).

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

	May 31, 2022	August 31, 2021
	\$	\$
Balance, beginning of period	961,508	-
Initial investment	-	1,053,561
Company's share of loss during the period	(61,587)	(92,053)
Balance, end of period	899,921	961,508

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**13. INTANGIBLE ASSETS**

	May 31, 2022	August 31, 2021
	\$	\$
<b>Cost</b>		
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
<b>Accumulated depreciation</b>		
Balance, beginning of period	-	473,054
Amortization	-	102,825
Disposal	-	(560,703)
Unrealized foreign exchange loss	-	(15,176)
Balance, end of period	-	-
<b>Carrying amount</b>	<b>40,000</b>	40,000

## (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 life science 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 nine months ended May 31, 2022, the Company recognized \$nil and \$nil, respectively (2021 - \$nil (USD \$nil) 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.

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**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.

	May 31, 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 nine months ended May 31, 2022, the Company recognized \$nil and \$nil, respectively 2021 - \$nil (USD \$nil) and \$218,515 (USD \$168,627), respectively) in lease revenues earned pursuant to the Lease Purchase Agreement.

For the three and nine months ended May 31, 2022 the company recognized rent expense of \$nil and \$nil, respectively (2021 - \$nil 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**

	May 31, 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 May 31, 2022, 546,875 common shares were subject to these escrow restrictions (August 31, 2021 - 2,187,500).



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**16. SHARE CAPITAL (continued)**

## (c) Issued

On June 10, 2022, the Company consolidated its issued share capital on a ratio of 6 old common shares for every 1 new post-consolidated common share. All current and comparative references to the number of common shares, weighted average number of common shares, loss per share, stock options and warrants have been restated to give effect to this share consolidation.

The Company has the following common share transactions during the nine months ended May 31, 2022:

- On February 14, 2022, pursuant to a service agreement, the Company issued 166,667 common shares with a fair value of \$0.69 for total consideration of \$115,000.
- On March 15, 2022, the Company issued 555,555 common shares pursuant to the exercise of 555,555 stock options with an exercise price of \$0.18 for proceeds of \$100,000.
- On May 9, 2022, the Company issued 69,445 common shares pursuant the exercise of 69,455 stock options with an exercise price of \$0.18 for proceeds of \$12,500.

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

- On September 18, 2020, the Company issued 1,732,809 units pursuant to a non-brokered private placement at \$0.48 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 \$1.20 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 93,750 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 \$0.30 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 \$1.20 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%).
- On October 2, 2020, the Company issued 1,866,955 units pursuant to a non-brokered private placement at \$0.48 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 \$1.20 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 270,083 finders' warrants ("Finders Warrants") in connection with the Offering. Each Finders Warrant is exercisable into one Share at an exercise price of \$1.20 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 3,878,500 units pursuant to the first tranche closing of a non-brokered private placement at \$0.60 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 \$1.50 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%).

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**16. SHARE CAPITAL (continued)**

- On January 5, 2021, the Company issued 1,864,580 units pursuant to the second and final tranche closing of a non-brokered private placement at \$0.60 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 \$1.50 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 83,334 common shares for \$0.36 per common share. Total proceeds were \$30,000.
- On May 3, 2021, pursuant to an APA, the Company issued a total of 2,916,666 common shares and 233,334 common shares as a finder's fee. On May 3, 2021, the Company released 729,167 of the Consideration Shares and the 233,334 common shares associated with the finders' fees. The remaining 2,187,500 Escrow Shares will be released in further increments of 729,167 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 916,667 common shares with a fair value of \$0.63 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	211,313	\$4.38
Issued	7,959,920	\$1.42
Expired	(211,312)	\$4.37
Balance, August 31, 2021	7,959,921	\$1.48
Expired	(1,846,758)	\$1.20
<b>Balance, May 31, 2022</b>	<b>6,113,163</b>	<b>\$2.66</b>

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

Expiry date	Exercise price	May 31, 2022	August 31, 2021
March 22, 2022	\$1.20	-	46,876
March 31, 2022	\$1.20	-	1,799,882
December 22, 2022	\$1.50	<b>3,878,500</b>	3,878,500
January 5, 2023	\$1.50	<b>1,864,580</b>	1,864,580
June 9, 2023	\$1.20	<b>100,000</b>	100,000
October 2, 2023	\$1.20	<b>270,083</b>	270,083
Total		<b>6,113,163</b>	7,959,921
<b>Weighted average remaining contractual life of warrants outstanding at period end</b>		<b>0.61 years</b>	1.19 years

## (e) Performance warrants

On May 18, 2018, the Company issued 776,000 non-transferable performance warrants ("Performance Warrant"). Each Performance Warrant is exercisable into one common share of the Company at an exercise price of \$2.10.

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**16. SHARE CAPITAL (continued)**

The following table summarizes performance warrants outstanding as at May 31, 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	776,000	776,000	\$2.10	3.96
<b>Total</b>		<b>776,000</b>	<b>776,000</b>	<b>\$2.10</b>	<b>3.96</b>

The Company recognized share-based compensation expense of \$41,001 and \$123,003 during the three and nine months ended May 31, 2022 (2021 - \$41,001 and \$123,003, respectively) with respect to the Performance Warrants.

## (f) Share purchase options

A summary of share purchase options activity is as follows:

	Number of share purchase options outstanding	Weighted average exercise price
Balance, August 31, 2020	1,111,497	\$0.72
Granted	2,140,834	\$0.82
Expired	(41,667)	\$0.60
Exercised	(83,334)	\$0.36
Balance, August 31, 2021	3,127,330	\$0.84
Granted	1,356,669	\$0.18
Cancelled	(1,476,683)	\$0.86
Expired	(25,000)	\$1.20
Exercised	(625,001)	\$0.18
<b>Balance, May 31, 2022</b>	<b>2,357,315</b>	<b>\$0.59</b>

As at May 31, 2022 there were 1,398,982 (August 31, 2021 - 2,598,140) share purchase options vested and exercisable at an average exercise price of \$0.78 (August 31, 2021 - \$0.84).

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**16. SHARE CAPITAL (continued)**

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

<b>Expiry date</b>	<b>Exercise price</b>	<b>May 31, 2022</b>	<b>August 31, 2021</b>
September 6, 2021	\$0.14	-	25,000
September 12, 2022	\$0.48	<b>50,001</b>	50,001
February 12, 2023	\$1.02	<b>37,501</b>	37,501
February 23, 2023	\$1.38	<b>33,334</b>	33,334
June 15, 2023	\$0.78	<b>16,667</b>	16,667
May 19, 2023	\$0.84	-	33,334
August 31, 2023	\$0.60	<b>16,667</b>	16,667
October 19, 2023	\$0.60	<b>58,334</b>	191,669
January 15, 2024	\$0.90	<b>216,667</b>	1,233,338
March 29, 2024	\$0.18	<b>208,333</b>	-
June 28, 2024	\$1.50	<b>50,001</b>	91,668
July 29, 2024	\$1.20	<b>83,334</b>	83,334
August 30, 2024	\$0.69	<b>16,667</b>	25,001
January 16, 2025	\$0.84	<b>41,667</b>	58,335
February 6, 2025	\$0.51	<b>554,807</b>	563,141
June 15, 2025	\$0.78	<b>166,667</b>	346,670
August 12, 2025	\$0.60	<b>125,000</b>	125,000
August 31, 2025	\$0.60	<b>41,667</b>	48,335
May 23, 2026	\$0.18	<b>500,000</b>	-
May 30, 2028	\$1.20	<b>140,001</b>	148,335
<b>Total</b>		<b>2,357,315</b>	<b>3,127,330</b>
<b>Weighted average remaining contractual life of share purchase options outstanding at period end</b>		<b>2.85 years</b>	<b>2.98 years</b>

The Company recognized share-based compensation expense of \$45,593 and \$155,408 during the three and nine months ended May 31, 2022, respectively (2021 - \$95,693 and \$666,731, respectively) with respect to the share purchase options.

The Company granted 1,356,669 options during the nine months ended May 31, 2022 (2021 - 2,140,834) with a weighted average fair value at grant date of \$0.18 (2021 - \$0.82) per stock option. The fair value of stock options was calculated using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	<b>2022</b>	<b>2021</b>
Risk-free rate	<b>2.20%</b>	0.43%
Expected life of options	<b>2.77 years</b>	3.21 years
Annualized volatility	<b>100%</b>	100%
Dividend rate	<b>0%</b>	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 activity is as follows:

	<b>Number of RSU options</b>	<b>Weighted average issue price</b>
Balance, August 31, 2020	-	-
Granted	750,001	0.69
<b>Balance, August 31, 2021 and May 31, 2022</b>	<b>750,001</b>	<b>0.69</b>
<b>RSUs outstanding and exercisable</b>	<b>-</b>	<b>-</b>

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## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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**17. SHARE CAPITAL (continued)**

The following table summarizes the RSU options outstanding as at May 31, 2022:

<b>Grant date</b>	<b>Issue price</b>	<b>RSU outstanding at May 31, 2022</b>	<b>Last vesting</b>	<b>RSU vested and issued at May 31, 2022</b>
15-Jun-21	\$0.69	750,001	30-Jun-25	-
<b>Total</b>		<b>750,001</b>		<b>-</b>
<b>Weighted average remaining contractual life of RSUs outstanding at period end</b>				<b>3.04 years</b>

The Company recognized share-based compensation expense of \$66,076 and \$196,074 during the three and nine months ended May 31, 2022, respectively (2021 - \$nil and \$nil, respectively) with respect to the RSU options. Over their vesting terms the Company will record compensation expense \$44,968 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:

	<b>Number of DSU options</b>	<b>Weighted average issue price</b>
Balance, August 31, 2020	-	-
Granted	50,004	0.60
Balance, August 31, 2021	50,004	0.60
Granted	390,002	0.45
Cancelled	(100,001)	0.50
<b>Balance, May 31, 2022</b>	<b>340,005</b>	<b>0.46</b>
<b>DSUs outstanding and exercisable</b>	<b>-</b>	<b>-</b>

The following table summarizes the DSU options outstanding as at May 31, 2022:

<b>Grant date</b>	<b>Issue price</b>	<b>DSU outstanding at May 31, 2022</b>	<b>Last vesting</b>	<b>DSU vested and issued at May 31, 2022</b>
15-Jun-21	\$0.690	25,002	30-Jun-25	-
31-Aug-21	\$0.420	12,501	31-Aug-25	-
30-Nov-21	\$0.240	262,500	30-Nov-25	-
28-Feb-22	\$0.180	20,001	31-Aug-25	-
31-May-22	\$0.060	20,001	31-May-26	-
<b>Total</b>		<b>340,005</b>		<b>-</b>
<b>Weighted average remaining contractual life of DSUs outstanding at period end</b>				<b>3.60 years</b>

The Company recognized share-based compensation expense of \$11,633 and \$24,797 during the three and nine months ended May 31, 2022, respectively (2021 - \$nil and \$nil, respectively) with respect to the DSU options. Over their vesting terms the Company will record compensation expense \$11,087 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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**17. 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	155,408	196,074	24,797	-	-	-	376,279
Exercise of share purchase options	(47,036)	-	-	-	-	-	(47,036)
Reclassified on expiration of options	(23,502)	-	-	-	-	23,502	-
Performance Warrants	-	-	-	123,003	-	-	123,003
Reclassified on expiry of warrants	-	-	-	-	(1,616,567)	1,616,567	-
<b>Balance, May 31, 2022</b>	<b>1,583,577</b>	<b>251,377</b>	<b>27,255</b>	<b>659,686</b>	<b>103,504</b>	<b>2,886,050</b>	<b>5,511,449</b>

**18. 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, common shares, dividend receivable and promissory note receivable 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 is 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(a) and warrants is disclosed in Note 10.

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**19. 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:

	May 31, 2022	August 31, 2021
	\$	\$
Cash	827,753	1,141,839
Receivables	26,812	195,707
Less:		
Accounts payable and accrued liabilities	(1,069,036)	(804,701)
Net capital	(214,471)	532,845
Add:		
Equity	2,252,921	11,293,247
Net capital and equity	2,038,450	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 May 31, 2022.

**20. 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 nine months ended May 31, 2022 and 2021 were as follows:

	Three months ended May 31,		Nine months ended May 31,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Consulting fees	188,231	353,464	625,226	823,562
Professional fees	30,750	25,881	104,813	90,694
Directors' fees included in management fees	44,300	-	143,694	-
Share-based compensation	91,758	39,518	264,973	396,524
	355,039	418,863	1,138,705	1,310,780

Share-based compensation represents the expense recognized during the period for vesting of share purchase options, RSUs and DSUs.

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

	May 31, 2022	August 31, 2021
	\$	\$
Accounts payable and accrued liabilities	67,880	59,300
	67,880	59,300

As at May 31, 2022, included in accounts payable and accrued liabilities is \$nil (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**

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**20. RELATED PARTY TRANSACTIONS (continued)**

As at May 31, 2022, included in accounts payable and accrued liabilities is \$12,648 (August 31, 2021 - \$nil) payable to a Company related to the Chief Science Officer for consulting fees. The amount is unsecured, non-interest bearing and due on demand.

As at May 31, 2022, included in accounts payable and accrued liabilities is \$10,932 (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 May 31, 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.

**21. CONTINGENCY**

The VLA is contingent on the execution of the plan of arrangement between Yourway Cannabis Brands Inc. ("Yourway") and Ionic ("Plan of Arrangement"). Pursuant to the VLA, the Company agreed to the following on the effective date of the Plan of Arrangement:

- convert 36,707,180 Preferred Shares to Ionic common shares resulting in the Company holding 57,229,991 Ionic common shares;
- convert 57,229,991 Ionic common shares to Yourway common shares at an exchange ratio of 0.0525 Yourway common shares for each Ionic common share resulting in the Company holding approximately 3,000,000 Yourway common shares;
- enter into an escrow agreement for the Yourway common shares held by the Company whereby the Yourway common shares will be released quarterly in 5 equal tranches commencing 12 months from the effective date of the Plan of Arrangement;
- accept 9,900,000 Ionic common share purchase warrants (the "Consideration Warrants") with each Consideration Warrant entitling the Company to acquire one Ionic common share at \$0.05 per Ionic common share for three years from the date of issuance in exchange for forgiveness of the dividend receivable; and
- convert the 4,000,000 Warrants and 9,900,000 Consideration Warrants, at an exchange ratio of 0.0525, into warrants exercisable into approximately 720,000 Yourway common shares at an exercise price of \$0.95.

Due to the contingent nature of the VLA, the Company has not reflected the impact of the VLA in these interim financial statements. As at May 31, 2022, the Plan of Arrangement had not been completed.

**22. EVENTS AFTER THE REPORTING PERIOD**

On June 1, 2022, the Company issued 69,445 common shares pursuant to the exercise of 69,445 share purchase options with an exercise price of \$0.18 for gross proceeds of \$12,500.

On June 13, 2022, the Company issued 500,000 stock options with an exercise price of \$0.05. These options expire on June 13, 2026. 200,000 stock options vest in quarterly instalments of 50,000 commencing September 13, 2022, and the remainder vest upon the completion of project milestones.

On June 22, 2022, pursuant to the exercise of vested RSU options, the Company issued 187,501 common shares.

The Company received subscription receipts of \$40,000 related to a non-brokerage private placement of units at a subscription price of \$0.05 per unit. 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 \$0.05 per share purchase warrant for a period of two years after the closing of the non-brokered private placement.