

Notice to reader

The management discussion and analysis of Lobe Sciences Ltd. for the three and nine months ended May 31, 2022 and 2021 is being amended and refiled to remove a watermark. There have been no other changes to the management discussion and analysis as originally filed on July 20, 2022.



LOBE SCIENCES LTD.

Management Discussion & Analysis

For the three and nine months ended May 31, 2022 and 2021

This management discussion and analysis (“MD&A”) of the financial condition and results of operations of Lobe Sciences Ltd. and its subsidiaries (“Lobe” or the “Company”), prepared as at July 20, 2022, is for the three and nine months ended May 31, 2022 and 2021. This MD&A is a supplement to and should be read in conjunction with the Company’s unaudited condensed interim consolidated financial statements for the three and nine months ended May 31, 2022 and 2021. The Company’s condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee applicable to the preparation of interim financial statements including International Accounting Standard 34 - *Interim Financial Reporting*. All amounts presented herein are stated in Canadian dollars unless otherwise indicated. The first, second, third and fourth quarters of the Company’s fiscal years are referred to as “Q1”, “Q2”, “Q3” and “Q4”, respectively. The years ended August 31, 2022 and 2021, are also referred to as “fiscal 2022” and “fiscal 2021”, respectively.

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

Forward Looking Information

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

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

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



1. LOBE SCIENCES LTD.

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

On May 30, 2019, the Company completed a reverse takeover with Green Star Biosciences Inc. The transaction was accounted for as a reverse acquisition. On May 30, 2019, the Company changed its name to GreenStar Biosciences Corp. and on November 16, 2020 the Company changed its name to Lobe Sciences Ltd. The Company's common shares are listed under the symbol "LOBE" on the Canadian Securities Exchange and under the symbol "LOBEF" on the OTCQB.

On June 10, 2022, the Company consolidated its issued share capital on a ratio of six old common shares for every one 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 ("NAC") for the treatment of mild traumatic brain injuries ("mTBI"), post-traumatic stress disorder ("PTSD") and other neurologic conditions and devices for the efficient application of these medications. The Company also owned acquired brands, intellectual property and leased office and production premises to a cannabis processor and retailer which were disposed of on March 5, 2021.

2. HIGHLIGHTS

Q3 2022 CONSOLIDATED FINANCIAL HIGHLIGHTS

- Net loss from continuing operations of \$1,961,634 or \$0.05 per share for Q3 2022, compared to net loss from continuing operations of \$6,585,685 or \$0.19 per share for Q3 2021. The decrease in net loss is related to lower spend on operating expenses and a reduction in non-cash fair value changes on the consideration received from the sale of Cowlitz County Cannabis Cultivation, Inc. ("Cowlitz").
- Net income from discontinued operations of \$nil for Q3 2022, compared to net loss from discontinued operations of \$17,788,170 or \$0.52 per share for Q3 2021. The variance is the result of the disposal of Cowlitz.

MAY 31, 2022 COMPARED TO AUGUST 31, 2021 CONSOLIDATED BALANCE SHEET HIGHLIGHTS

- Cash was \$827,753, compared to \$1,141,839 at August 31, 2021, a decrease of 28%.
- Total assets were \$3,321,957, compared to \$12,097,948 at August 31, 2021, a decrease of 73% due to non-cash fair value changes on the consideration received from the sale of Cowlitz.
- Working capital was \$1,313,000, compared to \$8,864,185 at August 31, 2021, a decrease of 85% due to non-cash fair value changes on the consideration received from the sale of Cowlitz.



3. 2022 BUSINESS DEVELOPMENT AND OVERVIEW

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 neurologic, brain and mental health and wellness. Lobe is currently working to develop effective psychedelic-based therapeutics for the treatment of mTBI and PTSD and devices for the efficient application of medications. The Company owned acquired brands, owns intellectual property, and leased office and production premises to a cannabis processor and retailer and had explored various other cannabis ventures. As at May 31, 2022, the Company has divested all cannabis related investments and will focus exclusively on psychedelic-based therapeutics.

Psychedelic-based therapeutics

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

Eleusian Biosciences Corp.

On July 27, 2020, the Company acquired a 100% interest in Eleusian Biosciences Corp. (“Eleusian”) which brings seasoned pharmaceutical leader and executive Maghsoud Dariani, Eleusian’s Chief Science Officer to join the Company’s executive team as Chief Science Officer and expands our intellectual property portfolio with five provisional patent applications filed by Eleusian in the United States. Subsequent to the acquisition of Eleusian, the Company hired Philip Young, a successful Biotech Executive, as the Company’s Chief Executive Officer.

Other than medicines that mask individual symptoms related to either condition, there are currently no effective or US Food and Drug Administration (“FDA”) approved drugs for the treatment of mTBI and PTSD. Eleusian, intends to prove that clinical and physiological outcomes in mTBI and PTSD are enhanced by administering doses of psilocybin derived compounds and NAC. It is believed that the combination therapy will elicit superior clinical results as measured by validated clinical endpoints. The Company expects this combination to elicit clinical outcomes that are superior to psilocybin or NAC alone and will alleviate symptoms of mTBI and PTSD. By alleviating one or more symptoms of mTBI with PTSD, it is meant to decrease severity of one or more of intrusive memories, nightmares, a sense of reliving the trauma, or psychological or physiological distress when reminded of the trauma, active avoidance of thoughts, feelings, or reminders of the trauma, inability to recall some aspect of the trauma, withdrawal from others, or emotional numbing, insomnia, irritability, difficulty concentrating, hypervigilance, or heightened startle response.

The Company, through a pre-clinical study conducted by the University of Miami Miller School of Medicine under the guidance of Michael E. Hoffer, M.D., intended to demonstrate that the outcomes and clinical symptoms of both mTBI and PTSD are improved in rodent models. The study commenced in January 2021 and has been completed. The study was delayed due to a significant shortage of psilocybin in North America. Despite the shortages, the University of Miami team was able to deliver data; however, the shortage has impacted the timing of the next planned studies. We responded to this supply shortage by working to identify a manufacturing company who supplied high purity current good manufacturing process (“cGMP”) psilocybin to the University of Miami to complete the remaining studies.

On September 28, 2021, the Company announced interim data from its pre-clinical research study. Rodent models have been essential for revealing the normal and pathological processes that influence learning and memory. The University of Miami team has extensive experience and expertise in running these and other important models. In a standard model of normal behavior that assess the amount of time that rodents exhibit exploratory activity, rodents who underwent trauma and were treated with the combination therapy spent significantly more time exploring than they did with single agents or vehicle alone. The rodents treated with the combination of psilocybin and NAC performed statistically significantly better ($P < 0.000005$) than the rodents treated with monotherapy with psilocybin, NAC or placebo. The interim data from our preclinical studies validates our therapeutic hypothesis that NAC plus



psilocybin would provide superior efficacy over either agent used alone. NAC remains the only compound that has successfully completed a human phase 1 equivalent trial in a population of individuals who had acute mTBI. The initial data reported is supportive of our plans to advance into human clinical trials in the second half of 2022.

On June 21, 2022, the Company announced an exclusive agreement with Clearway Global LLC (“Clearway”) to lead the Company’s global regulatory and development strategy and its implementation. The Company and Clearway are preparing a pre-IND meeting request with the FDA to confirm its regulatory strategy and Phase I clinical protocols. We expect to have this meeting in the 3rd quarter of 2022. Following FDA's input, an IND will be filed and Phase I clinical trials in healthy subjects will be initiated immediately thereafter.

We have secured an exclusive source of L-130 (a molecular modification of naturally occurring psilocin, which is the active component of psilocybin) and a series of related compounds for use in clinical trials this year and for subsequent trials in the future. Affirming our access to cGMP pharmaceutical grade active pharmaceutical ingredients will enable us to efficiently conduct clinical trials and plan for further work using differentiated compounds. The Company will investigate the safety and tolerability of the drug candidate, L-130 and measure absolute pharmacokinetics of this new chemical entity (“NCE”) given alone and in conjunction with NAC. Following the successful completion of the first-in-man safety trials, a Phase Ib/IIa study will be implemented in healthy volunteers and patients.

On July 7, 2022, the Company announced the acquisition of a second NCE, L-131, which is expected to enter preclinical rodent studies in late 2022 or early 2023 to evaluate its safety and pharmacokinetics. The initial trial will be a standard 28-day preclinical safety study to enable human Phase 1 trials planned later in 2023.

Despite the results of the preclinical study, due to uncertainty in the timing and amount of future cash flows from operations and unobservable market values for comparable intellectual property the Company has written down its intellectual property to the estimated replacement value of \$40,000.

On September 1, 2020, Eleusian added another provisional patent application to the overall existing intellectual property portfolio of the Company. The provisional patent application entitled "Facial Worn Device for Administration of Pharmaceutical Agents in Combination with Virtual and Augmented Reality Simulations" was filed with the United States Patent and Trademark Office for a facial worn device combining virtual reality glasses for delivery of programmed virtual and augmented reality simulations. This device includes a nasal delivery system for administration of pharmaceutical agents and/or fragrances at preselected dosages and times. Uses include methods and kits for alleviating unwanted memories and emotions lined with PTSD or mTBI with PTSD. During the nine months ended May 31, 2022, the Company decided not to pursue patent rights in this subject matter in order to focus its efforts on the development of its remaining provisional patents.

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



Krysalis

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

The joint venture will be operated under a company to be owned 50% by Lobe and 50% by VPI called Krysalis VX Corp. ("Krysalis VX"). Lobe has contributed USD\$250,000 in cash as well as 833,334 common shares of the Company. 333,334 of the Lobe shares were sold in order to generate cash to fund Krysalis VX initial business expenditures. As at August 31, 2022, Kysalis VX held 500,000 Lobe common shares. Lobe has also committed to providing USD\$1,500,000 to Krysalis VX pursuant to a secured line of credit, which will only be drawn when the initial funding contributions are expended and after Krysalis VX has detailed plans to file provisional patents relating to the business. In connection with the agreement, each of the four VPI Principals were granted 25,000 non-transferable common share purchase warrants of Lobe, exercisable for a period of two years from the date of issuance at a price of \$1.20 per share. Lobe also issued 83,334 common shares to certain finders in connection with the transaction, at a deemed price of \$1.20 per share. All Lobe securities issued or issuable will be subject to a statutory hold period of four months and a day from the date of issuance and, as applicable, resale restrictions required under U.S. securities laws.

On October 6, 2021, the Company announced that Krysalis VX appointed an advisory team. This advisory team will assist Krysalis VX through its first iteration of the Krysalis Pod. This advisory team will be pivotal in defining aesthetic and pragmatic attributes of Krysalis VX's treatment-oriented technology.

The initial prototype has been developed. The Company is exploring various funding and business development initiatives including but not limited to the sale of a portion of Krysalis VX and purchase of metaverse tokens to expand the presence into the metaverse.

Vitamind

The Company, through Eleusian, acquired the consumer goods product line, "Vitamind", pursuant to an asset purchase agreement (the "Purchase Agreement") dated April 30, 2021 between Eleusian and a holding corporation which holds the rights to Vitamind (the "Vendor"). Vitamind is a brand of non-psychedelic functional mushroom products that includes three product lines which are specifically focused on boosting immune response and increasing mental clarity. Assets being acquired include: the Vitamind brand and line of products and all intellectual property rights therein, including the exclusive use of the Vitamind tradename and trademark, and all associated branding and marketing materials; access to the Vendor's supply and distribution network and ongoing commercial assistance with such relationships.

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

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



Management has expensed the consideration in excess of the net assets acquired equal to \$2,594,023. 546,875 common shares issued pursuant to the transaction remain subject to escrow restrictions.

Cannabis

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

Cowlitz County Cannabis Cultivation, Inc.

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

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

Each Ionic Preferred Share is exchangeable into one Ionic Share on a one-for-one basis at any time at the Conversion Rate (as defined in the APA) but cannot be converted for a period of four years if that results in the Company holding 10% or more of the common shares of Ionic, and carries an annual, cumulative, preferential dividend on the issue price per share equal to 13% for a period of two years from the date of issuance. The Ionic Preferred Shares are retractable, such that any outstanding Ionic Preferred Shares will automatically be converted into to Ionic Shares four years from the issuance date at the Conversion Rate, and any accrued and unpaid dividends will be settled in cash or Ionic common shares at the option of Ionic at the closing market price of the of the Ionic Shares on the CSE on the trading day preceding such conversion. If there is a change of control prior to the automatic conversion date, Ionic may elect to convert the Ionic Preferred Shares into Ionic Shares by providing notice to the Company via news release.

All Ionic Preferred Shares and Ionic Shares issued will be subject to contractual restrictions on transfer, pursuant to which they will be released as follows: 20% on October 5, 2021, January 5, 2022, April 5, 2022, June 5, 2022, and September 5, 2022. Each Preferred Share carries an annual, cumulative, preferential dividend equal to 13% of the Preferred Shares on the issue price per share of \$0.30, accrued daily and with the first payment due January 1, 2022, for a period of two years from the date of issuance. The dividend may be settled in cash or Ionic common shares at the option of Ionic. Pursuant to the APA, the Company may not convert any Ionic Preferred Shares or exercise any warrants if such conversion or exercise, as the case may be, would result in the Company holding more than 9.99% of the issued and outstanding Ionic Shares at the time of such exercise or conversion. In connection with the APA, the Company dissolved its wholly-owned subsidiary, Green Star Biosciences Packing LLC and GreenStar Washington LLC. The transaction closed effective March 5, 2021 and the Company has no continuing involvement with Cowlitz.



4. SUMMARY OF QUARTERLY RESULTS

	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Net loss from continuing operations	\$(1,961,634)	\$(3,112,634)	\$(4,574,516)	\$(12,418,127)
Net loss from discontinued operations	-	-	-	\$(4,655,427)
Comprehensive loss	\$(1,961,634)	\$(3,112,634)	\$(4,574,516)	\$(17,072,942)
Basic and diluted net loss per share	\$(0.05)	\$(0.08)	\$(0.12)	\$(0.46)
Number of weighted average shares - Basic	38,087,284	37,438,997	37,438,997	37,438,997

	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Net loss from continuing operations	\$(6,585,685)	\$(2,573,243)	\$(1,276,718)	\$(1,446,349)
Net income (loss) from discontinued operations	\$17,788,170	\$(1,889)	\$31,526	\$10,753
Comprehensive income (loss)	\$11,083,403	\$(2,674,216)	\$(1,271,767)	\$(1,723,048)
Basic and diluted income (loss) per share	\$0.32	\$(0.09)	\$(0.05)	\$(0.11)
Number of weighted average shares - Basic	34,384,468	28,243,324	23,852,404	16,082,730

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

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

5. COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED MAY 31, 2022 AND 2021

	Q3 2022	Q3 2021
	\$	\$
Advertising	65,721	215,838
Bad debt expense	-	62,040
Consulting fees	221,108	217,684
General and administrative	38,974	55,460
Insurance	82,638	21,607
Management fees	128,490	138,514
Professional fees	86,874	148,264
Research	-	320,843
Share-based compensation	164,303	95,693
Other expense	1,173,526	6,512,957
Current income tax recovery	-	(1,203,215)
Net loss from continuing operations	(1,961,634)	(6,585,685)
Net loss from discontinued operations	-	17,788,170

Advertising

During Q3 2022, the Company incurred advertising expenses of \$65,721, compared to \$215,838 during Q3 2021. The decrease is due to lower spend since the prior year as Q3 2021 included expenses related to the rebranding of the Company.

Bad debt expense

During Q3 2021, the Company incurred bad debt expense of \$nil, compared to \$62,040 during Q3 2021. The expense related to an allowance for credit losses on the initial advance from a non-binding LOI.

**Consulting fees**

During Q3 2022, the Company incurred consulting fees of \$221,108, compared to \$217,684 during Q3 2021. The expense relates to consulting agreements with various advisors for corporate communications and business development and has remained consistent period over period.

General and administration

During Q3 2022, the Company incurred general and administration expenses of \$38,974, compared to \$55,460 during Q3 2021. The decrease is a consequence of expenditure on patent applications during Q3 2021 which did not recur in Q2 2022.

Insurance

During Q3 2022, the Company incurred insurance expenses of \$82,638, compared to \$21,607 during Q3 2021. The expense relates to a director and officers insurance policy that was put in place during Q3 2021.

Management fees

During Q3 2022, the Company incurred management fees of \$128,490, compared to \$138,514 during Q3 2021. The expense relates to advisory fees and has remained consistent period over period.

Professional fees

During Q3 2022, the Company incurred professional fees of \$86,874, compared to \$148,264 during Q3 2021. The decrease is attributable to lower spend since the prior year as Q3 2021 included legal fees incurred in relation to general corporate matters and rebranding of the Company.

Research

During Q3 2022, the Company incurred research expense of \$nil, compared to \$320,843 during Q3 2021. The balance relates to payments for the preclinical study in collaboration with the University of Miami Miller School of Medicine.

Share-based compensation

During Q3 2022, the Company incurred share-based compensation of \$164,303, compared to \$95,693 during Q3 2021. The Company uses the Black-Scholes valuation model for options, restricted share units ("RSUs") and deferred share units ("DSUs") granted to officers, management, and consultants. The increase is the result of non-cash expenses associated with the grant of RSUs and DSUs subsequent to the implementation of the RSU and DSU plans in Q4 2021.

Other expense

Other expense consists of foreign exchange movements, dividend income, interest income, loss on change in fair value of short-term investments, loss on change in fair value of Preferred Shares, Loss on changing fair value of Warrants, impairment of dividend receivable, and share of loss on Krysalis. During Q3 2022, the Company incurred other expense of \$1,173,526, compared to \$6,512,957 during Q3 2021. The decrease in net loss is the result of a reduction in loss on change in value of Preferred Shares due to a decrease in the number of Preferred Shares held from 91,767,950 at Q3 2021 to 36,707,180 at Q3 2022. The reduction was partially offset by an increase in loss on fair value of short-term investments as a result of a decrease in the Ionic share price and an impairment of dividend receivable as the Company anticipates a reduction in the amount collectible due to lack of liquidity in the Ionic common shares.



Current income tax expense

During Q3 2022, the Company incurred current income tax recovery of \$nil, compared to \$1,203,215 during Q3 2021. The recovery in Q3 2021 was related to current income tax on the Ionic Preferred Shares.

Net income from discontinued operations

During Q3 2022, the Company recorded income from discontinued operations of \$nil, compared to gain from discontinued operations of \$17,788,170 during Q3 2021. The change over the prior year is due to the sale of the Cowlitz Disposal Group.

COMPARISON OF RESULTS FOR THE NINE MONTHS ENDED MAY 31, 2022 AND 2021

	YTD 2022	YTD 2021
	\$	\$
Advertising	168,711	1,668,602
Bad debt expense	-	62,040
Consulting fees	885,523	787,796
General and administrative	162,921	110,353
Insurance	248,799	67,316
Management fees	368,163	235,315
Professional fees	304,330	409,845
Rent expense	-	8,024
Research	323,537	1,052,685
Share-based compensation	499,282	666,731
Other expense	6,687,518	6,570,154
Current income tax recovery	-	(1,203,215)
Net loss from continuing operations	(9,648,784)	(10,435,646)
Net income from discontinued operations	-	17,817,807

Advertising

During YTD 2022, the Company incurred advertising expenses of \$168,711, compared to \$1,668,602 during YTD 2021. The decrease is due to lower spend since the prior year as YTD 2021 included expenses related to the rebranding of the Company.

Bad debt expense

During YTD 2022, the Company incurred bad debt expense of \$nil, compared to \$62,040 during YTD 2021. The expense related to an allowance for credit losses on an initial advance from a non-binding LOI.

Consulting fees

During YTD 2022, the Company incurred consulting fees of \$885,523, compared to \$787,796 during YTD 2021. The increase is attributable to a consulting agreement with the Executive Chairman, monthly consulting fee for the CEO and consulting agreements with various advisors for corporate communications and business development.

General and administration

During YTD 2022, the Company incurred general and administration expenses of \$162,921, compared to \$110,353 during YTD 2021. The increase is consequence of expenditure on various conferences and brokerage fees on the sale of the Ionic common shares.

**Insurance**

During YTD 2022, the Company incurred insurance expenses of \$248,799, compared to \$67,316 during YTD 2021. The expense relates to a director and officers insurance policy that was put in place during Q3 2021.

Management fees

During YTD 2022, the Company incurred management fees of \$368,163, compared to \$235,315 during YTD 2021. The expense relates to advisory fees incurred in the period.

Professional fees

During YTD 2022, the Company incurred professional fees of \$304,330, compared to \$409,845 during YTD 2021. The decrease is attributable to higher legal fees incurred in relation to general corporate matters and rebranding of the Company in YTD 2021.

Rent expense

During YTD 2022, the Company incurred rent expense of \$nil, compared to \$8,024 during YTD 2021. The expense relates to office space which was vacated during YTD 2021. The Company has no further obligation with respect to the premises.

Research

During YTD 2022, the Company incurred research expense of \$323,537, compared to \$1,052,685 during YTD 2021. The decrease relates to timing of contractual payments for the preclinical study in collaboration with the University of Miami Miller School of Medicine.

Share-based compensation

During YTD 2022, the Company incurred share-based compensation of \$499,282, compared to \$666,731 during YTD 2021. The Company uses the Black-Scholes valuation model for options, restricted share units (“RSUs”) and deferred share units (“DSUs”) granted to officers, management, and consultants. The decrease is the result of a reduction in stock options being granted during the period and a decline in the valuation of each stock option which was partially offset by a non-cash expense associated with the grant of RSUs and DSUs subsequent to the implementation of the RSU and DSU plans in Q4 2021.

Other expense

Other expense consists of foreign exchange movements, dividend income, interest income, loss on change in fair value of short-term investments, loss on change in fair value of Preferred Shares, Loss on changing fair value of Warrants, impairment of dividend receivable, share of loss on Krysalis, and gain on debt settlement. During YTD 2022, the Company incurred other expense of \$6,687,518, compared to \$6,570,154 during Q3 2021. The increase in net loss is the result of an increase in loss on fair value of short-term investments as a result of a decrease in the Ionic share price to \$0.005 per common share on May 31, 2022 and an impairment of dividend receivable as the Company anticipates a reduction in the amount collectible due to lack of liquidity in the Ionic common shares. These increases were partially offset by reduction in loss on change in value of Preferred Shares and an increase in dividend income as the Preferred Shares were issued in Q3 2021.

Current income tax expense

During YTD 2022, the Company incurred current income tax recovery of \$nil, compared to \$1,203,215 during YTD 2021. The recovery in YTD 2021 was related to current income tax on the Ionic Preferred Shares.



Net income from discontinued operations

During YTD 2022, the Company recorded income from discontinued operations of \$nil, compared to income from discontinued operations of \$17,817,807 during YTD 2021. The change over the prior year is due to the sale of the Cowlitz Disposal Group.

6. LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

6.1 Liquidity

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

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

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

At May 31, 2022, the Company had working capital of \$1,313,000, as follows:

<i>As at</i>	May 31, 2022	August 31, 2021
	\$	\$
Cash	827,753	1,141,839
Receivables	26,812	195,707
Prepaid expenses and deposits	352,890	282,902
Common shares	102,615	952,910
Preferred Shares	176,354	5,331,292
Warrants	17,321	200,926
Dividend receivable	808,801	1,563,310
Promissory note receivable	69,490	-
Total current assets	2,382,036	9,668,886
<i>Accounts payable and accrued liabilities</i>	1,069,036	804,701
Total current liabilities	1,069,036	804,701
Working capital	1,313,000	8,864,185

Despite the current working capital surplus of \$1,313,000 as at May 31, 2022, the Company incurred a net loss of \$9,648,784 during the nine months ended May 31, 2022. 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. Management will continue to monitor and assess its capital resources to meet operating requirements over the next twelve months.



6.2. Cash Flows

Review of cash flow for the three months ended May 31, 2022 compared to May 31, 2021:

<i>Net cash provided by (used in)</i>	Q3 2022	Q3 2021
	\$	\$
Operating activities of continuing operations	(712,938)	(939,914)
Operating activities of discontinued operations	-	4,245
Investing activities	303,559	1,434,571
Financing activities	109,176	33,150
Effect of exchange rate changes on cash	-	(4,984)
Cash, beginning of period	1,127,956	1,798,136
Cash, end of period	827,753	2,325,204

Cash used in operating activities of continuing operations during Q3 2022 was \$712,938, compared to cash used in operating activities of continuing operations of \$939,914 during Q3 2021. The decrease in cash used in operating activities is attributable to the following:

- Net loss from continuing operations of \$1,961,634, compared to net loss from continuing operations of \$6,585,685 due primarily to non-cash changes in fair value of Preferred Shares, changes in fair value of short-term investments, share-based compensation. Included in net loss are non-cash items of \$1,315,054 for the three months ended May 31, 2022, compared to \$5,362,988 for the three months ended May 31, 2021.
- Movements in receivables decreased cash by \$9,879, compared to \$30,754 for the three months ended May 31, 2021.
- Movements in prepaid expenses increased cash by \$141,731, compared to \$28,757 for the three months ended May 31, 2021.
- Movements in accounts payable and accrued liabilities decreased cash by \$198,210, compared to increasing cash by \$284,780 for the three months ended May 31, 2021.

Cash provided by operating activities of discontinued operations for the three months ended May 31, 2022 was \$nil as compared to \$4,245 during the three months ended May 31, 2021. The movements during Q3 2021 relates to collection of rental and license revenues from Cowlitz which was partially offset by rent expense.

Cash provided by investing activities for the three months ended May 31, 2022 was \$303,559 as compared to cash provided of \$1,434,571 during the three months ended May 31, 2021. Cash provided by investing activities during the three months ended May 31, 2022 was the result of sale of Ionic common shares. Cash provided by investing activities during the three months ended May 31, 2022 were the result of cash acquired on the sale of the Cowlitz Disposal Group which was partially offset by the investment in Krysalis VX and Vitamind.

Cash provided by financing activities for the three months ended May 31, 2022 was \$109,176 as compared to \$33,150 during the three months ended May 31, 2021. Movements during Q3 2021 were the result of funds raised through private placements which were partially offset by share issue costs and lease payments. Movements during Q3 2021 were the result of funds raised through private placements and exercise of stock options which were partially offset by share issue costs.



Review of cash flow for the nine months ended May 31, 2022 compared to May 31, 2021:

<i>Net cash provided by (used in)</i>	YTD 2022	YTD 2021
	\$	\$
Operating activities of continuing operations	(2,166,573)	(4,488,295)
Operating activities of discontinued operations	-	293,434
Investing activities	1,743,311	1,434,571
Financing activities	109,176	4,892,450
Effect of exchange rate changes on cash	-	20,937
Cash, beginning of period	1,141,839	172,107
Cash, end of period	827,753	2,325,204

Cash used in operating activities of continuing operations during YTD 2022 was \$2,166,573, compared to cash used in operating activities of continuing operations of \$4,488,295 YTD 2021. The decrease in cash used in operating activities is attributable to the following:

- Net loss from continuing operations of \$9,648,784, compared to net loss from continuing operations of \$10,435,646 due primarily to non-cash changes in fair value of Preferred Shares, changes in fair value of short-term investments, share-based compensation. Included in net loss are non-cash items of \$7,118,969 for the nine months ended May 31, 2022, compared to \$5,901,765 for the nine months ended May 31, 2021.
- Movements in receivables increased cash by \$168,895, compared to decreasing cash by \$131,473 for the nine months ended May 31, 2021.
- Movements in prepaid expenses decreased cash by \$69,988, compared to increasing cash by \$193,199 for the nine months ended May 31, 2021.
- Movements in accounts payable and accrued liabilities increased cash by \$264,335, compared to decreasing cash by \$16,140 for the nine months ended May 31, 2021.

Cash provided by operating activities of discontinued operations for the nine months ended May 31, 2022 was \$nil as compared to \$293,434 during the nine months ended May 31, 2021. The movements during YTD 2021 relates to collection of rental and license revenues from Cowlitz which was partially offset by rent expense.

Cash provided by investing activities for the nine months ended May 31, 2022, was \$1,743,311 as compared to cash provided of \$1,434,571 during the three months ended May 31, 2021. Cash provided by investing activities during YTD 2022 was the result of sale of Ionic common shares. The movements during YTD 2021 were the result of cash acquired on the sale of the Cowlitz Disposal Group which was partially offset by the investment in Krysalis VX and Vitamind.

Cash provided by financing activities for the nine months ended May 31, 2022, was \$109,176 as compared to \$4,892,450 during the nine months ended May 31, 2021. Cash provided by financing activities during YTD 2022 relate to cash received on the exercise of stock options. Movements during YTD 2021 were the result of funds raised through private placements which were partially offset by share issue costs and lease payments.



6.3 Capital Resources

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

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

7. OFF-BALANCE SHEET ARRANGEMENTS

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

8. CONTIGENVY

On April 20, 2022, the Company entered a voluntary lock-up agreement ("VLA") with Ionic. 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 the interim financial statements. As at the date of this MD&A, the Plan of Arrangement had not been completed.

9. RELATED PARTY DISCLOSURES

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 payables 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.

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.

10. FINANCIAL INSTRUMENTS

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) of the interim financial statements and warrants is disclosed in note 10 of the interim financial statements.

11. OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company's authorized share capital consists of an unlimited number of common shares without par value. The Company had the following securities outstanding as at July 20, 2022.

Type of Security	Number Outstanding
Common Shares	38,487,648
Share Purchase Options	2,787,870
Performance Warrants	776,000
Share Purchase Warrants	6,113,163
Restricted Share Units	562,500
Deferred Share Units	340,005
Fully Diluted	49,067,186

12. INTERNATIONAL FINANCIAL REPORTING STANDARDS

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



13. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

Fair value of Preferred Shares

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

Share-based payments

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

Income taxes

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

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

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



of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

Useful lives of intangibles

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

Impairment

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

Promissory note receivable

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

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

Business combinations

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

14. RISKS AND UNCERTAINTIES

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