LOBE SCIENCES LTD.

Consolidated Financial Statements

For the years ended August 31, 2022 and 2021

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Lobe Sciences Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Lobe Sciences Ltd. (the "Company"), which comprise the consolidated statements of financial position as at August 31, 2022 and the consolidated statements of loss and comprehensive loss, changes in cash flows, and equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company incurred a net loss of $12,252,852 during the year ended August 31, 2022 and, as of that date, Company's accumulated deficit was $30,975,026. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matters

The consolidated financial statements of the Company for the year ended August 31, 2021 were audited by another auditor who expressed an unmodified opinion on those statements on December 23, 2021.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Dylan Connelly.

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

December 22, 2022

LOBE SCIENCES LTD.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Note	August 31, 2022	August 31, 2021
		$	$
ASSETS			
Current			
Cash		**907,537**	1,141,839
Receivables	6	**18,282**	195,707
Prepaid expenses and deposits	7	**110,102**	282,902
Common shares	8(b)	**-**	952,910
Preferred shares	8(a)	**-**	5,331,292
Warrants	9	**-**	200,926
Dividend receivable	8(a)	**-**	1,563,310
		1,035,921	9,668,886
Preferred shares	8(a)	**-**	1,362,145
Promissory note receivable	10	**-**	65,409
Investment in Krysalis	11	**681,996**	961,508
Intangible assets	12	**29,778**	40,000
Total assets		**1,747,695**	12,097,948
LIABILITIES			
Current			
Accounts payable and accrued liabilities	19	**1,302,005**	804,701
Total liabilities		**1,302,005**	804,701
EQUITY			
Share capital	15(c)	**25,221,396**	24,841,218
Shares to be issued	15(d)	**671,000**	115,000
Reserves	15(i)	**5,528,320**	5,059,203
Accumulated other comprehensive loss		**-**	(247,999)
Deficit		**(30,975,026)**	(18,474,175)
Total equity		**445,690**	11,293,247
Total liabilities and equity		**1,747,695**	12,097,948

Nature of operations and going concern (Note 1)
Contingency (Note 8)
Events after the reporting year (Note 20)

These consolidated financial statements were approved and authorized for issue by the Board of Directors on December 22, 2022.

They are signed on the Company's behalf by:

“Signed”	“Signed”
Philip J. Young, Director	Baxter Phillips III, Director

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

LOBE SCIENCES LTD.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended August 31, 2022 and 2021
(Expressed in Canadian dollars, except share numbers)

	Note	2022	2021
		$	$
Operating expenses			
Advertising		**248,134**	1,704,029
Amortization	12	**10,222**	-
Consulting fees	19	**1,621,825**	1,436,063
General and administrative		**198,861**	190,073
Insurance		**356,593**	148,547
Professional fees	19	**648,620**	603,133
Research		**418,343**	1,371,796
Share-based compensation	15,19	**620,612**	921,598
		4,123,210	6,375,239
Loss before other items		**(4,123,210)**	(6,375,239)
Other expense (income)			
Foreign exchange loss		**114,915**	107,613
Dividend income	8(a)	**(2,194,718)**	(1,563,310)
Other income	10	**(4,451)**	(2,293)
Loss on change in fair value of common shares	8(b)	**1,362,042**	1,045,315
Loss on change in fair value of preferred shares	8(a)	**5,655,373**	7,401,013
Loss on change in fair value of dividend receivable	8(a)	**2,643,649**	-
Loss on change in fair value of warrants	9	**200,926**	461,815
Impairment of promissory note receivable	10	**72,394**	-
Impairment of intangible assets	12	**-**	7,345,387
Consideration in excess of net assets acquired	5	**-**	2,594,023
Share of loss on Krysalis	11	**279,512**	92,053
Gain on debt settlement	15(c)	**-**	(12,375)
		8,129,642	17,469,241
Loss before tax from continuing operations		**(12,252,852)**	(23,844,480)
Current income tax recovery		**-**	1,023,688
Net loss from continuing operations		**(12,252,852)**	(22,820,792)
Income from discontinued operations, net of tax	4	**-**	13,162,380
Net loss		**(12,252,852)**	(9,658,412)
Other comprehensive loss			
Translation adjustment		**-**	(244,129)
Comprehensive loss		**(12,252,852)**	(9,902,541)
Net loss per share from continuing operations			
Basic		**(0.32)**	(0.12)
Diluted		**(0.32)**	(0.12)
Net income per share from discontinued operations			
Basic		-	0.07
Diluted		-	0.07
Weighted average number of shares outstanding			
Basic		**37,861,638**	32,493,654
Diluted		**37,861,638**	32,663,846

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

LOBE SCIENCES LTD.
Consolidated Statements of Cash Flows
For the years ended August 31, 2022 and 2021
(Expressed in Canadian dollars)

	2022	2021
	$	$
Operating activities		
Net loss from continuing operations	**(12,252,852)**	(22,820,792)
Adjustments for non-cash items:		
Amortization	**10,222**	-
Share-based compensation	**620,612**	921,598
Bad debt expense	**-**	59,040
Unrealized foreign exchange gain	**(2,534)**	(128,758)
Dividend income	**(2,194,718)**	(1,563,310)
Other income	**(4,451)**	(2,293)
Research warrants	**31,567**	-
Loss on change in fair value of common shares	**1,362,042**	1,045,315
Loss on change in fair value of preferred shares	**5,655,373**	7,401,013
Loss on change in fair value of dividend receivable	**2,643,649**	-
Loss on change in fair value of warrants	**200,926**	461,815
Impairment of intangible assets	**-**	7,345,387
Impairment of promissory note receivable	**72,394**	-
Consideration in excess of net assets acquired	**-**	2,594,023
Share of loss on Krysalis	**279,512**	92,053
Gain on debt settlement	**-**	(12,375)
Current income tax recovery	**-**	(1,023,688)
Shares to be issued - consulting fees	**-**	115,000
Changes in non-cash working capital items:		
Receivables	**177,425**	(143,192)
Prepaid expenses and deposits	**172,800**	86,795
Accounts payable and accrued liabilities	**497,304**	241,577
Net cash used in operating activities of continuing operations	**(2,730,729)**	(5,330,792)
Net cash provided by operating activities of discontinued operations	**-**	293,434
Investing activities		
Proceeds from sale of common shares	**1,743,311**	-
Cash on sale of assets, net	**-**	1,649,249
Investment in Krysalis	**-**	(445,406)
Acquisition of Vitamind	**-**	(137,023)
Net cash provided by investing activities	**1,743,311**	1,066,820
Financing activities		
Common shares issued for cash - private placement	**-**	5,173,734
Common shares issued for cash - exercise of stock options	**125,000**	30,000
Share issue costs	**(42,884)**	(198,330)
Shares to be issued	**671,000**	-
Repayment of lease liability	**-**	(87,815)
Net cash provided by financing activities	**753,116**	4,917,589
Effect of exchange rate changes on cash	**-**	22,681
(Decrease) increase in cash	**(234,302)**	969,732
Cash, beginning of year	**1,141,839**	172,107
Cash, end of year	**907,537**	1,141,839
Supplemental disclosures for cash flow information		
Interest paid in cash	**-**	-
Income taxes paid in cash	**-**	-

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

LOBE SCIENCES LTD.
Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars, except share numbers)

	Note	Number of shares	Share capital	Shares to be issued	Reserves	Accumulated other comprehensive 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	15(c)	9,342,844	3,456,746	(13,500)	1,716,988	-	-	5,160,234
Shares issued - debt settlement	15(c)	93,750	23,632	-	4,493	-	-	28,125
Shares issued - exercise of options	15(c)	83,334	45,814	-	(15,814)	-	-	30,000
Shares issued - asset acquisition	15(c)	3,150,000	2,457,000	-	-	-	-	2,457,000
Shares issued - joint venture	15(c)	916,667	577,500	-	-	-	-	577,500
Share issue costs		-	(243,983)	-	45,653	-	-	(198,330)
Share purchase warrants - Investment in Krysalis	11	-	-	-	30,655	-	-	30,655
Shares to be issued - service agreement	15(c)	-	-	115,000	-	-	-	115,000
Share-based compensation	15(f)(g)(h)	-	-	-	921,598	-	-	921,598
Comprehensive loss		-	-	-	-	(244,129)	(9,658,412)	(9,902,541)
Balance, August 31, 2021		**37,439,035**	**24,841,218**	**115,000**	**5,059,203**	**(247,999)**	**(18,474,175)**	**11,293,247**
Shares issued - service agreement	15(c)	166,667	115,000	(115,000)	-	-	-	-
Shares issued - exercise of options	15(c)	694,445	178,686	-	(53,686)	-	-	125,000
Shares issued - RSU vesting	15(c)	187,501	129,376	-	(129,376)	-	-	-
Share issue costs	15(d)	-	(42,884)	-	-	-	-	(42,884)
Shares to be issued - private placement	15(d)	-	-	671,000	-	-	-	671,000
Share purchase warrants		-	-	-	31,567	-	-	31,567
Share-based compensation	15(f)(g)(h)	-	-	-	620,612	-	-	620,612
Cumulative translation adjustment reclassified to deficit	2(d)	-	-	-	-	247,999	(247,999)	-
Comprehensive loss		-	-	-	-	-	(12,252,852)	(12,252,852)
Balance, August 31, 2022		**38,487,648**	**25,221,396**	**671,000**	**5,528,320**	**-**	**(30,975,026)**	**445,690**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Lobe Sciences Ltd. (the "Company" or "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 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 11, 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 sub-hallucinatory doses of proprietary psychedelic compounds to improve brain and mental health and wellness. Initially the Company will develop psilocin-based therapeutics for the treatment of severe forms of anxiety such as post-traumatic stress disorder. 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 (Note 4).

Going concern

During the year ended August 31, 2022, the Company incurred a net loss of $12,252,852 (2021 - $9,658,412). As at August 31, 2022, the Company has an accumulated deficit of $30,975,026 (August 31, 2021 - $18,474,175). These factors indicate that a material uncertainty exists that may cast significant doubt on 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. These consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the company be unable to continue in existence.

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

(b) Basis of measurement

These 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 financial statements have been prepared using the accrual method of accounting.

2. BASIS OF PRESENTATION (continued)

(c) Functional and presentation currency

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

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

(1) Green Star Biosciences Inc. was amalgamated with Lobe Sciences Ltd. on September 1, 2021 resulting in $247,999 being reclassified from accumulated other comprehensive loss to deficit.
(2) Acquired on July 27, 2020.
(3) Green Star Washington LLC ("Washington") was dissolved on March 17, 2021. Prior to dissolution, Washington was inactive and therefore the dissolution had nominal impact on the consolidated financial results.
(4) Green Star Biosciences Packing LLC ("Packing") was dissolved on March 8, 2021. Prior to dissolution, Packing was inactive and therefore the dissolution had nominal impact on the consolidated financial results.

(e) Reclassification of prior year amounts

Certain reclassifications have been made to prior year financial statements to conform to classifications used in the current year. These reclassifications had no impact on net loss, shareholders' equity or cash flows as previously reported.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Significant estimates and assumptions

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Functional currency

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

ii. Impairment

Long-lived assets, including intangible assets are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. Judgments and estimates are required in determining the indicators of impairment and the estimates required to measure an impairment, if any.

iii. Valuation of investments

The Company's investments in common shares are measured at the quoted market price of Ionic Brands Corp ("Ionic") common shares.

The Company's investment in preferred shares is measured using the Black-Scholes option pricing model due to the vesting terms and lack of marketability at the current market price of Ionic common shares which the preferred shares can be converted into and adjusted for the qualitative factors as noted below. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

The Company's investment in warrants is measured using the Black-Scholes option pricing model and adjusted for the qualitative factors as noted below. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

The Company's dividend receivable is measured at the quoted market price of Ionic common shares, as the dividend may be settled in cash or Ionic common shares at the option of Ionic.

In addition, the fair value measurement is adjusted for qualitative factors related to the significant uncertainty of the Company recovering the value of the preferred shares due to the deteriorating credit quality of Ionic, the VLA (Note 8(c)) and the probability of the completion of the plan of arrangement between Yourway Cannabis Brands Inc. ("Yourway") and Ionic ("Plan of Arrangement") (Note 8(c)) completing as currently structured or without further significant delays. Currently, the common shares of Ionic have been suspended for trading.

iv. Equity-settled share-based payments

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

v. Current and deferred income taxes

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

(b) Foreign currency translation

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

(c) Cash

Cash is comprised of cash at banks.

(d) Intangible assets

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

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

(e) Depreciation and amortization

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

Right of use assets	3 years
Intangible assets	2 – 20 years

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

(f) Investment in joint venture

The Company accounts for its investment in its joint venture over which it has significant influence using the equity basis of accounting, whereby the investment is initially recorded at cost, adjusted to recognize the Company's share of earnings or losses. The consolidated statement of loss and comprehensive loss reflects the share of the results of operations of the associated company from the acquisition date forward. Where there has been a change recognized directly in the equity of the associated company, the Company recognizes its share of any changes.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Unrealized gains and losses resulting from transactions between the Company and the associated company are eliminated to the extent of the interest in the associated company.

The Company assesses its equity investments for impairment at each reporting date if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the equity investment and that the event or events has an impact on the estimated future cash flow of the investment that can be reliably estimated. Objective evidence of impairment of equity investments includes:

(i) significant financial difficulty of the associated companies;
(ii) becoming probable that the associated companies will enter bankruptcy or other financial reorganization; or
(iii) national or local economic conditions that correlate with defaults of the associated companies.

If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in profit or loss. Upon loss of significant influence over the associated company, the Company measures and recognizes any remaining investment at its fair value. Any difference between the carrying amount of the associated company upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss.

(g) Lease

A contract is a lease or contains a lease if it conveys the right to control the use of an asset for a time period in exchange for consideration.

To identify a lease, the Company (1) considers whether an explicit or implicit asset is specified in the contract and (2) determines whether the Company obtains substantially all the economic benefits from the use of the underlying asset by assessing numerous factors, including but not limited to substitution rights and the right to determine how and for what purpose the asset is used.

When assessing the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or to not exercise a termination option. This judgment is based on factors such as contract rates compared to market rates, economic reasons, significance of leasehold improvements, termination and relocation costs, installation of specialized assets, residual value guarantees, and any sublease term.

The Company has elected not to recognize right-of-use assets and lease liabilities for low-value assets or short-term leases with a term of 12 months or less. These lease payments are recognized in operating expenses over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid. The Company elected to not separate non-lease components from lease components and to account for the non-lease and lease components as a single lease component. Lease payments generally include fixed payments less any lease incentives receivable. The lease liability is discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company estimates the incremental borrowing rate based on the lease term, collateral assumptions, and the economic environment in which the lease is denominated. The lease liability is subsequently measured at amortized cost using the effective interest method. The lease liability is remeasured when the expected lease payments change as a result of new assessments of contractual options and residual value guarantees.

The right-of-use asset is recognized at the present value of the liability at the commencement date of the lease less any incentives received from the lessor. Added to the right-of-use asset are initial direct costs, payments made before the commencement date, and estimated restoration costs. The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

(h) Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

(i) Share-based payments

The Company grants share purchase options, share purchase options and performance warrants to directors, officers, employees and/or consultants. The fair value of share purchase options, share purchase options and performance warrants are measured on the grant date, using the Black-Scholes option pricing model and is recognized over the vesting period of the related share purchase options, share purchase options and performance warrants. Consideration paid for the shares on the exercise of share purchase options, share purchase options and performance warrants is credited to share capital. Share-based payments to nonemployees are measured at the fair value of goods or services received or the fair value of the equity instruments issued if it is determined that the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve.

(j) Deferred Share Units and Restricted Share Units

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

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

(k) Issued capital

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

The Company has adopted a residual value method with respect to the measurement of warrants attached to private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of warrants issued in the private placements to be the more easily measurable component and the warrants are valued at their fair value, as determined by Black-Scholes. The balance, if any, is allocated to share capital. Any fair value attributed to the warrants is recorded as reserves.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(l) Financial instruments

Classification of financial assets

Amortized cost:

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

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

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

The Company has classified cash and promissory note receivable at amortized cost.

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

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

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

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

Equity instruments designated as FVTOCI:

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

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

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

By default, all other financial assets are measured subsequently at FVTPL.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The Company has classified common shares, preferred shares, warrants, and dividends receivable at FVTPL.

(m) Financial liabilities and equity

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

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

Classification of financial liabilities

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

(n) Financial instruments designated as hedging instruments

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

(o) Impairment of financial assets

The expected loss model ("ECL") applies to financial assets measured at amortized cost, contract assets and debt investments measured at FVOCI. The ECL model applies to the Company's promissory note receivable (Note 10).

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Impairment of non-financial assets

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

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

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

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

(q) Taxes

i. Current tax expense

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

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

ii. Deferred tax expense

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income (loss) per share

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

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

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

(s) Research and development expenditures

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

(t) Revenue recognition

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

License royalties

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

Leases

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

(u) Related party transactions

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

(v) Discontinued operations

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

(Expressed in Canadian dollars, except where noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Standards issued or amended but not yet effective

A number of amendments to standards and interpretations applicable to the Company are not yet effective for the year ended August 31, 2022 and have not been applied in preparing these consolidated financial statements nor does the Company expect these amendments to have a significant effect on its financial statements.

4. SALE OF COWLITZ DISPOSAL GROUP

On February 22, 2021, the Company signed a definitive binding asset purchase agreement (the "Agreement") with Ionic (CSE:IONC) with respect to the sale to Ionic of certain assets relating to Washington-based Cowlitz County Cannabis Cultivators LLC ("Cowlitz") including license and rental income receivable (Note 6), Intellectual Property Purchase Agreement ("IPPA") (Note 12), lease deposit (Note 13) and Lease Purchase Agreement (Note 13). Management has determined that the assets and associated lease liability (Note 14) 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 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, 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:

Consideration received	**Note**	**$**
100,406,705 Series E Nonvoting preferred shares	8(a)	17,582,307
4,000,000 common share purchase warrants	9	662,741
Cash		1,750,000
Promissory note receivable (USD$50,000)	10	63,340
		20,058,388
Assets disposed		
License and rental income receivable		556,925
Deposit	13	76,008
Intellectual Property Purchase Agreement	12(b)	3,493,808
Lease	13	204,825
Right of use asset	13	187,531
		4,519,097
Liabilities disposed		
Lease liability	14	(207,522)
Total net assets disposed		**4,311,575**
Legal fees		100,750
Finder's fee	8(a)	1,489,632
Gain on sale		**14,156,431**
Current income tax expense		(1,023,688)
Gain on sale, net of tax		**13,132,743**

(Expressed in Canadian dollars, except where noted)

4. 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 years ended August 31, 2022, and 2021 are summarized below:

	Note	**2022**	2021
		$	$
Revenues			
License royalties	12	**-**	104,306
Lease	13	**-**	218,515
		-	322,821
Operating expenses			
Rent expense	13	**-**	9,724
Interest expense	14	**-**	13,211
Amortization	12	**-**	102,825
Depreciation	13	**-**	166,402
		-	292,162
Other items			
Gain on sale, net of tax		**-**	(13,132,743)
Foreign exchange loss		**-**	1,022
Net income from discontinued operations		**-**	13,162,380

The cash flows associated with the discontinued operations for the years ended August 31, 2022, and 2021 are summarized below:

	2022	2021
	$	$
Operating activities		
Net income from discontinued operations	**-**	13,162,380
Adjustments for non-cash items:		
Amortization	**-**	102,825
Depreciation	**-**	166,402
Gain on sale, net of tax	**-**	(13,132,743)
Changes in non-cash working capital items:		
Receivables	**-**	(5,430)
Net cash provided by discontinued operations	**-**	293,434

(Expressed in Canadian dollars, except where noted)

5. 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:

	$
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
Total consideration	**2,594,023**

This intellectual property is not ready for its intended use and future cash flows remain uncertain. During the year ended August 31, 2021 management expensed the consideration in excess of the net assets acquired equal to $2,594,023.

6. RECEIVABLES

	August 31, 2022	August 31, 2021
	$	$
Sales tax receivable	**18,282**	195,707
	18,282	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 4).

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

7. PREPAID EXPENSES AND DEPOSITS

	August 31, 2022	August 31, 2021
	$	$
Advertising	**-**	33,333
Insurance	**84,453**	77,332
Deposits	**15,291**	166,481
Other	**10,358**	5,756
	110,102	282,902

8. 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.

(Expressed in Canadian dollars, except where noted)

8. PREFERRED AND COMMON SHARES (continued)

A continuity of the preferred shares is as follows:

	Number of shares	**August 31, 2022**	Number of shares	August 31, 2021
	#	**$**	#	$
Balance, beginning of year	**81,737,325**	**6,693,437**	-	-
Addition (Note 4)	**-**	**-**	100,406,705	17,582,307
Finders' fee (Note 4)	**-**	**-**	(8,638,751)	(1,489,632)
Conversion to common shares	**(45,030,145)**	**(1,038,064)**	(10,030,629)	(1,998,225)
Loss on change in fair value of preferred shares	**-**	**(5,655,373)**	-	(7,401,013)
Balance, end of year	**36,707,180**	**-**	81,737,325	6,693,437
Less: Non-current portion	**-**	**-**	(18,353,591)	1,362,145
Current portion of preferred shares	**36,707,180**	**-**	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 Ionic common shares which the preferred shares can be converted into. The Company used the following assumptions for the Black-Scholes option pricing model on the respective revaluation dates:

Date	Expected life (years)	Unit price ($)	Expected volatility	Risk-free rate	Dividend yield	Fair value ($)
March 5, 2021 (1)	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
August 31, 2022	**0.01**	**0.0050**	**105.0%**	**0.24%**	**0.00%**	**183,536**

(1) 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.

As at and during the year ended August 31, 2022, the Company recorded and loss on the change of the fair value of the preferred shares of $5,655,373. This loss was based on the fair value measurement as noted in the table above and adjusted for qualitative factors related to the significant uncertainty of the Company recovering the value of the preferred shares due to the deteriorating credit quality of Ionic, the VLA (Note 8(c)) and the probability of the completion of the Plan of Arrangement (Note 8(c)) completing as currently structured or without further significant delays. Currently, the common shares of Ionic have been suspended for trading.

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

A continuity of the dividend receivable is as follows:

	August 31, 2022	August 31, 2021
	$	$
Balance, beginning of year	**1,563,310**	-
Dividend income	**2,194,718**	1,563,310
Converted to 72,011,555 common shares	**(1,114,379)**	-
Loss on change in fair value of dividend receivable	**(2,643,649)**	-
Balance, end of year	**-**	1,563,310

During the year ended August 31, 2022, the Company recorded a fair value adjustment of $2,643,649 with respect to the dividend receivable due to same qualitative factors as noted above in relation to the preferred shares.

(Expressed in Canadian dollars, except where noted)

8. PREFERRED AND COMMON SHARES (continued)

(b) Common shares

A continuity of the common shares is as follows:

	Number of shares	**August 31, 2022**	Number of shares	August 31, 2021
	#	**$**	#	$
Balance, beginning of year	**10,030,629**	**952,910**	-	-
Conversion of preferred shares	**45,030,145**	**1,038,064**	10,030,629	1,998,225
Conversion of dividend receivable	**72,011,434**	**1,114,379**	-	-
Common shares sold	**(106,549,397)**	**(1,743,311)**	-	-
Loss on change in fair value	**-**	**(1,362,042)**	-	(1,045,315)
Balance, end of year	**20,522,811**	**-**	10,030,629	952,910

During the year ended August 31, 2022, the Company converted 45,030,145 preferred shares into common shares which were valued at $1,038,064. In addition, the Company received 72,011,434 common shares as payment of dividend receivable of $1,340,609. The Company sold 106,549,397 common shares gross proceeds of $1,743,311. At August 31, 2022, the Company held 20,522,811 common shares.

As at and during the year ended August 31, 2022, the Company recorded and loss on the change of the fair value of the common shares of $1,362,042. This loss was based on the last quoted market price Ionic common shares and adjusted for the same qualitative factors as noted above in relation to the preferred 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 4). 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.

(c) Contingency

The VLA is contingent on the execution of 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 financial statements. As at August 31, 2022, the Plan of Arrangement had not been completed.

9. 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.

(Expressed in Canadian dollars, except where noted)

9. WARRANTS (continued)

A continuity of the warrants is as follows:

	August 31, 2022	August 31, 2021
	$	$
Balance, beginning of year	**200,926**	-
Addition	**-**	662,741
Loss on change in fair value of warrants	**(200,926)**	(461,815)
Balance, end of year	**-**	200,926

Fair value of the warrants is based on the following assumptions for the Black-Scholes option pricing model 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
August 31, 2022	**3.50**	**0.0050**	**231.75%**	**3.65%**	**0.00%**	**16,842**

During the year ended August 31, 2022, the Company recorded a fair value adjustment of $200,926 with respect to the warrants. The loss was based on the fair measurement as noted in the table above and adjusted for the same qualitative factors as noted above in relation to the preferred shares.

10. PROMISSORY NOTE RECEIVABLE

The balance represents a secured promissory note of $65,555 (USD$50,000) related to the sale of the Cowlitz Disposal Group. The promissory note matures on March 5, 2023, and accrues interest at a rate of 7% per annum.

	August 31, 2022	August 31, 2021
	$	$
Balance, beginning of year	**65,409**	-
Addition	**-**	63,340
Interest income	**4,451**	2,293
Unrealized foreign exchange gain (loss)	**2,534**	(224)
Impairment of promissory note receivable	**(72,394)**	-
Balance, end of year	**-**	65,409

During the year ended August 31, 2022, the Company recorded an impairment expense of $72,394 with respect to the promissory notes receivable due to the deteriorated credit profile of Ionic and the VLA.

11. 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 (1)	525,000
83,334 common shares of the Company (1)	52,500
100,000 share purchase warrants (2)	30,655
Legal fees	123,012
Cash contribution	322,394
	1,053,561

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

(Expressed in Canadian dollars, except where noted)

11. INVESTMENT IN KRYSALIS (continued)

(2) 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 pricing model (average volatility – 100%, expected life – 2.00 years, risk free rate – 0.32%, dividend yield – 0%).

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

	August 31, 2022	August 31, 2021
	$	$
Balance, beginning of year	**961,508**	-
Initial investment	**-**	1,053,561
Company's share of loss during the year	**(279,512)**	(92,053)
Balance, end of year	**681,996**	961,508

Summarized financial information for Krysalis is set out below:

	August 31, 2022	August 31, 2021
	$	$
Cash	**480**	84,019
Prepaid expenses and deposits	**44,214**	46,769
Short term investments	**47,500**	-
Total assets	**92,194**	130,788
Accounts payable	**-**	5,073
Total liabilities	**-**	5,073
Net assets	**92,194**	125,715

	August 31, 2022	August 31, 2021
	$	$
Expenses	**124,129**	183,818
Foreign exchange (gain) loss	**(3,106)**	289
Loss on change in fair value of short term investments	**438,000**	-
Net loss for the year	**559,023**	184,107
Company ownership percentage	**50%**	50%
Net loss attributable to the Company	**279,512**	92,053

No dividends were received from Krysalis during the years ended August 31, 2022 and 2021.

Krysalis is a private company; therefore, no quoted market prices are available for its shares.

As per the agreement with VPI, the Company is required to make cumulative contributions of $1,500,000. The Company is committed to further cash contributions of $664,678.

(Expressed in Canadian dollars, except where noted)

12. INTANGIBLE ASSETS

	August 31, 2022	August 31, 2021
	$	$
Cost		
Balance, beginning of year	**40,000**	11,558,827
Disposal	**-**	(4,054,511)
Impairment	**-**	(7,345,387)
Unrealized foreign exchange loss	**-**	(118,929)
Balance, end of year	**40,000**	40,000
Accumulated amortization		
Balance, beginning of year	**-**	473,054
Amortization	**10,222**	102,825
Disposal	**-**	(560,703)
Unrealized foreign exchange loss	**-**	(15,176)
Balance, end of year	**10,222**	-
Carrying amount	**29,778**	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 year ended August 31, 2022, the Company recognized $nil (2021 - $104,306 (USD $80,071)) in licensing royalties earned pursuant to the License Agreement.

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

(Expressed in Canadian dollars, except where noted)

13. 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 was being amortized over the term of the lease which expires on June 30, 2022.

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

During the year ended August 31, 2022, the Company recognized $nil, (2021 - $218,515 (USD $168,627)) in lease revenues earned pursuant to the Lease Purchase Agreement.

During the year ended August 31, 2022, the company recognized rent expense of $nil (2021 -$9,724 (USD $8,024)) related a short-term lease for office space and variable common area costs.

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

14. LEASE LIABILITY

	August 31, 2022	August 31, 2021
	$	$
Balance, beginning of year	**-**	302,020
Repayment of lease obligation	**-**	(101,026)
Interest expense	**-**	13,211
Disposal	**-**	(207,522)
Unrealized foreign exchange loss	**-**	(6,683)
Balance, end of year	**-**	-
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 4).

15. 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 common shares subject to trading restrictions and escrow which are released in tranches subject to certain conditions. As at August 31, 2022, nil common shares were subject to these escrow restrictions (August 31, 2021 - 2,187,500).

(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.

15. SHARE CAPITAL (continued)

The Company has the following common share transactions during the year ended August 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 5, 2022, the Company issued 69,445 common shares pursuant the exercise of 69,445 stock options with an exercise price of $0.18 for proceeds of $12,500.

- On June 1, 2022, the Company issued 69,445 common shares pursuant the exercise of 69,445 stock options with an exercise price of $0.18 for proceeds of $12,500.

- On June 22, 2022, the Company issued 187,501 common shares pursuant the exercise of vested restricted share unit plan options with an exercise price of $0.69 and fair value of $129,376.

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 $32,625 as settlement of trade payables in the amount of $45,000. The transaction resulted in a gain on debt settlement of $12,375. 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%).

- 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%).

(Expressed in Canadian dollars, except where noted)

15. SHARE CAPITAL (continued)

- 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 5).

- 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 11).

(d) Shares to be issued

As at August 31, 2022 the Company had received a total deposit of $671,000(2021 - $115,000) for shares and warrants to be issued (Note 20). The Company had share issue costs of $42,884 related to the shares and warrants to be issued as at August 31, 2022.

(e) 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	$1.42
Issued	833,333	$0.05
Expired	(1,846,758)	$1.20
Balance, August 31, 2022	**6,946,496**	**$1.31**

The Company granted 833,333 warrants to a consultant during the year ended August 31, 2022 with a weighted average fair value at grant date of $0.04 per warrant for total compensation of $31,567 which has been included in research on the consolidated statement of loss and comprehensive loss. The fair value of warrants was calculated using the Black-Scholes option pricing model (average volatility – 100%, expected life – 5.00 years, risk free rate – 3.29%, dividend yield – 0%).

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

Expiry date	**Exercise price**	**August 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	3,878,500	3,878,500
January 5, 2023	$1.50	1,864,580	1,864,580
June 9, 2023	$1.20	100,000	100,000
October 2, 2023	$1.20	270,083	270,083
June 16, 2027	$0.05	833,333	-
Total		**6,946,496**	7,959,921
Weighted average remaining contractual life of warrants outstanding at year end		**0.89 years**	3.01 years

(Expressed in Canadian dollars, except where noted)

15. SHARE CAPITAL (continued)

(f) 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.

The following table summarizes performance warrants outstanding as at August 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	3.71
Total		**776,000**	**776,000**	**$2.10**	**3.71**

The Company recognized share-based compensation expense of $164,004 during the year ended August 31, 2022 (2021 - $164,004) with respect to the Performance Warrants.

(g) Share purchase options

The Company has adopted a stock option plan (the "Plan") for its directors, officers, employees and consultants to acquire common shares of the Company at a price determined by the fair market value of the shares at the date immediately preceding the date on which the option is granted. The terms and conditions of the stock options are determined by the Board of Directors. The cumulative available incentive awards to be issued under the stock option plan, restricted share unit plan (the "RSU Plan") and a deferred share unit plan (the "DSU Plan") shall not exceed 30% of the aggregate issued and outstanding common shares of the Company, with no one individual being granted more than 5% of the issued and outstanding common shares. In addition, the exercise price of stock options granted under the Plan shall not be lower than the exercise price permitted by the Canadian Securities Exchange, and all stock options granted under the Plan will have a maximum term permitted by the Canadian Securities Exchange. 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	2,356,669	$0.13
Cancelled	(1,476,684)	$0.86
Expired	(25,000)	$1.20
Exercised	(694,445)	$0.18
Balance, August 31, 2022	**3,287,870**	**$0.44**

As at August 31, 2022 there were 1,565,654 (August 31, 2021 - 2,598,140) share purchase options vested and exercisable at an average exercise price of $0.78 (August 31, 2021 - $0.72).

(Expressed in Canadian dollars, except where noted)

15. SHARE CAPITAL (continued)

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

Expiry date	**Exercise price**	**August 31, 2022**	August 31, 2021
September 6, 2021	$1.20	-	25,000
September 12, 2022	$0.48	50,001	50,001
February 12, 2023	$1.02	37,501	37,501
February 23, 2023	$1.38	33,334	33,334
May 19, 2023	$0.84	-	33,334
October 19, 2023	$0.60	58,334	191,669
January 15, 2024	$0.90	216,667	1,233,338
March 29, 2024	$0.18	138,888	-
June 28, 2024	$1.50	50,001	91,668
July 29, 2024	$1.20	83,334	83,334
August 30, 2024	$0.69	16,667	25,001
January 16, 2025	$0.84	41,667	58,335
February 6, 2025	$0.51	554,807	563,141
June 15, 2025	$0.78	183,334	363,337
August 12, 2025	$0.60	125,000	125,000
August 31, 2025	$0.60	58,334	65,002
May 23, 2026	$0.18	500,000	-
June 13, 2026	$0.05	500,000	-
July 25, 2026	$0.06	500,000	-
May 30, 2028	$1.20	140,001	148,335
Total		3,287,870	3,127,330
Weighted average remaining contractual life of share purchase options outstanding at year end		**3.02 years**	2.98 years

The Company recognized share-based compensation expense of $179,682 during the year ended August 31, 2022, respectively (2021 - $699,833) with respect to the share purchase options.

The Company granted 2,356,669 options during the year ended August 31, 2022 (2021 - 2,140,834) with a weighted average fair value at grant date of $0.13 (2021 - $0.36) per stock option. The fair value of stock options was calculated using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	2022	2021
Risk-free rate	**2.62%**	0.43%
Expected life of options	**3.29 years**	3.21 years
Annualized volatility	**100%**	100%
Dividend rate	**0%**	0%

(h) Restricted share unit plan and deferred share unit plan

On May 28, 2021, the Company adopted a RSU Plan and a DSU Plan. In addition, the Company increased the cumulative available incentive awards to be issued under the stock option 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:

	Number of RSU options	**Weighted average issue price**
Balance, August 31, 2020	-	-
Granted	750,001	0.69
Balance, August 31, 2021	750,001	0.69
Exercised	(187,501)	0.69
Balance, August 31, 2022	**562,500**	**0.69**
RSUs exercisable	**-**	**-**

(Expressed in Canadian dollars, except where noted)

15. SHARE CAPITAL (continued)

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

Grant date	Issue price	RSU outstanding at August 31, 2022	Last vesting	RSU vested and issued at August 31, 2022
15-Jun-21	$0.69	562,500	30-Jun-25	-
Total		**562,500**		**-**
Weighted average remaining contractual life of RSUs outstanding at year end				**2.79 years**

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

A summary of DSU options is as follows:

	Number of DSU options	Weighted average issue price
Balance, August 31, 2020	-	-
Granted	50,004	0.60
Balance, August 31, 2021	50,004	0.60
Granted	410,003	0.22
Cancelled	(100,001)	0.29
Balance, August 31, 2022	**360,006**	**0.26**
DSUs exercisable	**-**	**-**

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

Grant date	Issue price	DSU outstanding at August 31, 2022	Last vesting	DSU vested and issued at August 31, 2022
15-Jun-21	$0.69	25,002	30-Jun-25	-
31-Aug-21	$0.42	12,501	31-Aug-25	-
30-Nov-21	$0.24	262,500	30-Nov-25	-
28-Feb-22	$0.18	20,001	28-Feb-26	-
31-May-22	$0.06	20,001	31-May-26	-
31-August-22	$0.10	20,001	31-Aug-26	-
Total		**360,006**		**-**
Weighted average remaining contractual life of DSUs outstanding at year end				**3.29 years**

The Company recognized share-based compensation expense of $35,884 during the year ended August 31, 2022, respectively (2021 - $2,458) with respect to the DSU options. Over their vesting terms the Company will record compensation expense of $29,599 for fiscal 2023, $15,738 for fiscal 2024, $7,255 for fiscal 2025 and, $1,267 for fiscal 2026.

(Expressed in Canadian dollars, except where noted)

15. SHARE CAPITAL (continued)

(i) 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	179,682	241,042	35,884	-	-	-	456,608
Exercise of share purchase options	(53,686)	(129,376)	-	-	-	-	(183,062)
Reclassified on expiration of options	(7,688)	-	-	-	-	7,688	-
Share purchase warrants	-	-	-	-	31,567	-	31,567
Performance Warrants	-	-	-	164,004	-	-	164,004
Reclassified on expiry of warrants	-	-	-	-	(42,949)	42,949	-
Balance, August 31, 2022	**1,617,015**	**166,969**	**38,342**	**700,687**	**1,708,689**	**1,296,618**	**5,528,320**

16. INCOME TAXES

(a) Rate reconciliation

Income tax expense differs from the amount that would result by applying the combined Canadian federal and provincial income tax rates to earnings before income taxes. The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 27% (2021 - 27%) to the effective tax rate is as follows:

		Year ended August 31,		
		2022		2021
Net loss before income taxes	**$**	**(12,252,852)**	$	(9,658,412)
Canadian statutory income tax rate		**27%**		27%
Expected income tax recovery at statutory rate	**$**	**(3,308,000)**	$	(2,616,000)
Permanent differences and other		**1,207,000**		962,312
True-up of prior period		**(529,000)**		227,000
Change in deferred income tax assets not recognized		**2,630,000**		403,000
Current income tax recovery	**$**	**-**	$	(1,023,688)

(b) Unrecognized deferred tax assets and liabilities

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

	August 31, 2022	August 31, 2021
	$	$
Non-capital loss carry forwards	**3,496,000**	3,321,000
Share issuance cost	**59,000**	66,000
Preferred shares	**1,039,000**	(1,423,000)
Deferred income tax assets not recognized	**(4,594,000)**	(1,964,000)
Deferred income tax asset	**-**	-

16. INCOME TAXES (Continued)

(c) Expiration of income tax loss carry forwards

As at August 31, 2022, the Company has approximately $12,300,000 of Canadian non-capital income tax losses (unrecognized) which will expire over 2039 through 2042.

17. FINANCIAL RISK MANAGEMENT

(a) Fair value measurement of financial assets and liabilities

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

The three levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and
Level 3 - Inputs for the asset or liability that are not based on observable market data.

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

The fair value of common shares, dividend receivable, promissory note receivable, preferred shares and warrants is measured using Level 3 inputs and are measured at fair value through profit or loss. The valuation methodology and significant assumptions is disclosed in Note 8, 9, and 10.

(b) Risk management

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

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

i. Credit risk

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

The Company’s credit risk is predominantly related to cash balances held in financial institutions, receivables, and promissory note receivable. The maximum exposure to the credit risk is equal to the carrying value of such financial assets. During the year ended August 31, 2022, the Company recorded expected credit losses of $nil (2021 - $nil) with respect to receivables and $72,394 (2021 - $nil) with respect to the promissory note receivable.

Cash is held as cash deposits on hand and deposits with financial institutions. The Company does not invest in asset-backed deposits or investments and does not expect any credit losses. The Company periodically assesses the credit quality of its financial institutions and is satisfied with the credit ratings of its banks.

17. FINANCIAL RISK MANAGEMENT (continued)

ii. Currency risk

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

The table below summarizes the net monetary assets and liabilities held in foreign currencies:

	August 31, 2022	August 31, 2021
	$	$
US dollar net monetary liabilities	**101,278**	$163,990

A 10% increase or decrease in the US dollar relative to the Canadian dollar would result in a change of approximately $10,128 in the Company's comprehensive loss for the year.

iii. Liquidity risk

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

As at August 31, 2022, the Company had a cash balance of $907,537 and current liabilities of $1,311,016 (August 31, 2021 - $1,141,839 and $804,701, respectively). The Company's current cash resources are insufficient to settle its current liabilities.

iv. Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's is not exposed to interest rate risk.

18. CAPITAL RISK MANAGEMENT

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The Company's capital structure consists of all components of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the current operations including corporate and administrative functions to support operations. The Company obtains funding primarily through issuing common stock. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future.

There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

19. RELATED PARTY TRANSACTIONS

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

(Expressed in Canadian dollars, except where noted)

19. RELATED PARTY TRANSACTIONS (continued)

Key management personnel compensation for the years ended August 31, 2022 and 2021 were as follows:

	Years ended August 31,	
	2022	2021
	$	$
Consulting fees	**814,309**	842,382
Professional fees	**137,766**	116,319
Directors' fees included in consulting fees	**187,994**	97,500
Share-based compensation	**321,027**	347,914
	1,461,096	1,404,115

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

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

	August 31, 2022	August 31, 2021
	$	$
Accounts payable and accrued liabilities	**106,664**	59,300
	106,664	59,300

As at August 31, 2022, included in accounts payable and accrued liabilities is $27,561 (August 31, 2021 - $24,919) payable to the Chief Executive Officer of the Company for consulting fees. The amount is unsecured, non-interest bearing and due on demand.

As at August 31, 2022, included in accounts payable and accrued liabilities is $13,111 (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 August 31, 2022, included in accounts payable and accrued liabilities is $10,763 (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 August 31, 2022, included in accounts payable and accrued liabilities is $55,229 (August 31, 2021 - $22,756) payable to directors for director fees. The amounts are unsecured, non-interest bearing and due on demand.

20. EVENTS AFTER THE REPORTING YEAR

On September 8, 2022, the Company issued 28,262,800 units pursuant to a non-brokered private placement at $0.05 per unit for gross proceeds of $1,347,500 of which $671,000 had been collected as at August 31, 2022 (Note 15(d)). Each unit consists of one common share and one common share purchase warrant. Each share purchase warrant entitles the subscriber to acquire one additional common share at a price of $0.05 per share purchase warrant until September 8, 2025. The Company paid finders fee equal to 8% of funds raised in Australia. The total finders fee was $65,640 which was settled through the issuance of 1,312,800 units. Each unit consists of one common share and one common share purchase warrant.

Each share purchase warrant entitles the subscriber to acquire one additional common share at a price of $0.05 per share purchase warrant until September 8, 2025.

On September 7, 2022, the Company incorporated of Australian subsidiary named Lobe Sciences Australia Pty Ltd. which is 100% owned by the Company.

On September 9, 2022, the Company issued 69,444 common shares pursuant the exercise of 69,445 stock options with an exercise price of $0.18 for proceeds of $12,500.

On September 12, 2022, a total of 50,001 share purchase option expired unexercised (Note 15(g)).

20. EVENTS AFTER THE REPORTING YEAR (continued)

On September 30, 2022, the Company entered into a mutual separation agreement whereby, Mr. Gilbert agreed to resign as Executive Chairman of the board of directors of the Company, effective immediately. As part of the agreement, the Company agreed to issue to Mr. Gilbert an aggregate of 5,300,836 common shares of the Company. The common shares to be issued to Mr. Gilbert will be subject to a statutory hold period of four months and one day from the date of issuance, in accordance with applicable securities legislation, and further, subject to escrow restrictions whereby 1,325,209 shares will be released on each of the following dates: four months and 1 day after October 3, 2022, March 31, 2023, June 30, 2023, and September 30, 2023.

On October 3, 2022, the Company and an arm's length independent consultant (the "Consultant") entered into a separate mutual separation agreement, whereby the Consultant and the Company agreed to terminate a consulting agreement entered into by the parties, effective immediately. As part of the agreement, the Company agreed to issue to the Consultant an aggregate of 4,500,000 common shares of the Company. The common shares to be issued to the Consultant will be subject to a statutory hold period of four months and one day from the date of issuance, in accordance with applicable securities legislation.

On December 7, 2022, the Company issued 69,444 common shares pursuant the exercise of 69,445 stock options with an exercise price of $0.18 for proceeds of $12,500.

On December 22, 2022, a total of 3,878,500 share purchase warrants expired unexercised (Note 15(e)).