LOBE SCIENCES LTD.

Management Discussion & Analysis

For the years ended August 31, 2022 and 2021

This management discussion and analysis ("MD&A") of the financial condition and results of operations of Lobe Sciences Ltd. and its subsidiaries ("Lobe" or the "Company"), prepared as at December 22, 2022, is for the years ended August 31, 2022 and 2021. This MD&A is a supplement to and should be read in conjunction with the Company's consolidated financial statements for the years ended August 31, 2022 and 2021. The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). All amounts presented herein are stated in Canadian dollars unless otherwise indicated. The first, second, third and fourth quarters of the Company's fiscal years are referred to as "Q1", "Q3", "Q3" and "Q4", respectively. The years ended August 31, 2022 and 2021, are also referred to as "fiscal 2022" and "fiscal 2021", respectively.

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

Forward Looking Information

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

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

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

1. LOBE SCIENCES LTD.

Lobe was incorporated under the Business Corporations Act (British Columbia) on May 13, 2010. The head office, principal address and registered office of the Company are located at 1400 - 1199 West Hasting Street, Vancouver, B.C. V6E 3T5. On May 30, 2019, the Company completed a reverse takeover with Green Star Biosciences Inc. The transaction was accounted for as a reverse acquisition. On May 30, 2019, the Company changed its name to GreenStar Biosciences Corp. and on November 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 six old common shares for every one new post-consolidated common share. All current and comparative references to the number of common shares, weighted average number of common shares, loss per share, stock options and warrants have been restated to give effect to this share consolidation.

Lobe is a life sciences company focused on psychedelic medicines. The Company, through collaborations with industry-leading partners, is engaged in drug research and development using 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 ("PTSD"). The Company also owned acquired brands, intellectual property and leased office and production premises to a cannabis processor and retailer which were disposed of on March 5, 2021.

2. HIGHLIGHTS

AUGUST 31, 2022 CONSOLIDATED FINANCIAL HIGHLIGHTS

- Net loss from continuing operations of $12,252,852 or $0.32 per share, compared to net loss from continuing operations of $22,820,792 or $0.12 per share for fiscal 2021. The decrease in net loss is related to lower spend on operating expenses and a reduction in non-cash fair value changes on the consideration received from the sale of Cowlitz County Cannabis Cultivation, Inc. ("Cowlitz").
- Net income from discontinued operations of $nil, compared to net income from discontinued operations of $13,162,380 or $0.07 per share for fiscal 2021. The variance is the result of the disposal of Cowlitz.

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

- Cash was $907,537, compared to $1,141,839 at August 31, 2021, a decrease of 21%.
- Total assets were $1,747,695, compared to $12,097,948 at August 31, 2021, a decrease of 86% due to non-cash fair value changes on the consideration received from the sale of Cowlitz.
- Working capital deficit was $266,084, compared to working capital of $8,864,185 at August 31, 2021, a decrease of 103% due to non-cash fair value changes on the consideration received from the sale of Cowlitz.

3. 2022 BUSINESS DEVELOPMENT AND OVERVIEW

The Company, through collaborations with industry leading partners, is engaged in drug research and development using proprietary pislocin compounds to improve neurologic, brain and mental health and wellness. Lobe is currently working to develop effective psychedelic-based therapeutics for the treatment of severs forms of anxiety such as PTSD. The Company owned acquired brands, owns intellectual property, and leased office and production premises to a cannabis processor and retailer and had explored various other cannabis ventures. As at August 31, 2022, the Company has divested all cannabis related investments and will focus exclusively on psychedelic-based therapeutics.

Psychedelic-based therapeutics

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

Eleusian Biosciences Corp.

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

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

On June 21, 2022, the Company announced an exclusive agreement with Clearway Global LLC ("Clearway") to lead the Company's global regulatory and development strategy and its implementation. The Company and Clearway are preparing a pre-IND meeting request with the FDA to confirm its regulatory strategy and Phase I clinical protocols. We expect to have this meeting in the 2nd quarter of 2023. Following FDA's input, an IND will be filed and Phase 2 clinical trials in patients will be initiated thereafter.

At this time, after consultation with external experts and due to significantly increased regulatory requirements and cost for developing combination therapies delivered via a novel device, the Company has decided not to pursue psilocybin-based therapeutics in combination with N-acetylcysteine ("NAC") at this time. The Company has secured an exclusive source of L-130 (a molecular modification of naturally occurring psilocin, which is the active component of psilocybin) and a series of related compounds for use in clinical trials this year and for subsequent trials in the future. Affirming our access to cGMP pharmaceutical grade active pharmaceutical ingredients will enable us to efficiently conduct clinical trials and plan for further work using differentiated compounds. The Company will investigate the safety and tolerability of the drug candidate, L-130 and measure absolute pharmacokinetics of this new chemical entity ("NCE"). Following the successful completion of the first-in-man safety trials, a Phase Ib/IIa study will be implemented in healthy volunteers and patients.

On July 7, 2022, the Company announced the acquisition of a second NCE, L-131, which is expected to enter preclinical rodent studies in late 2022 or early 2023 to evaluate its safety and pharmacokinetics. The initial trial will be a standard 28-day preclinical safety study to enable human Phase 1 trials planned later in 2023. The Company is also investigating filing a Pediatric Orphan Drug application with the FDA using L-131 in the first quarter of 2023. If approved by the FDA this Orphan Drug indication may qualify the Company for a Priority Review Voucher from the FDA.

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

On September 1, 2022, The Company announced that it had entered into a term sheet contemplating convertible note financing bearing interest at 15% per annum with a term of 12 months (the "Convertible Notes") with Cantheon Capital ("Cantheon") for aggregate proceeds to the Company of up to USD$1,500,000 to conduct three clinical trials in Australia with newly announced partner iNGENū Pty Ltd. ("iNGENū"). The Convertible Notes will help fund the design and conduct of three clinical trials evaluating Lobe's proprietary psilocin analogues L-130 or L-131. L-130 is regulated as a Schedule 1 substance in the United States and most countries around the world. The Company has received regulatory clearance to import L-130 for its first Phase 1 study in healthy volunteers.

On October 13, 2022, the Company completed the synthesis of bulk L-130, a proprietary form of psilocin, and of the clinical supplies to be used in upcoming trials. The L-130 was manufactured in compliance with U.S. cGMPs (Current Good Manufacturing Practices). The Company will soon announce the commencement of the first of this series of human studies.

Krysalis

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

The joint venture will be operated under a company to be owned 50% by Lobe and 50% by VPI called Krysalis VX Corp. ("Krysalis VX"). Lobe has contributed USD$250,000 in cash as well as 833,334 common shares of the Company. 333,334 of the Lobe shares were sold in order to generate cash to fund Krysalis VX initial business expenditures. As at August 31, 2022, Kysalis VX held 500,000 Lobe common shares. Lobe has also committed to providing USD$1,500,000 to Krysalis VX pursuant to a secured line of credit, which will only be drawn when the initial funding contributions are expended and after Krysalis VX has detailed plans to file provisional patents relating to the business. In connection with the agreement, each of the four VPI Principals were granted 25,000 non-transferable common share purchase warrants of Lobe, exercisable for a period of two years from the date of issuance at a price of $1.20 per share. Lobe also issued 83,334 common shares to certain finders in connection with the transaction, at a fair market value of $0.63 per share. All Lobe securities issued or issuable will be subject to a statutory hold period of four months and a day from the date of issuance and, as applicable, resale restrictions required under U.S. securities laws.

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

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

Vitamind

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

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

Management is evaluating the challenging functional mushroom marketplace as the cost to entry has substantially increased. In addition, the supply chain has become very unpredictable and costs have increased significantly. Management has expensed the consideration in excess of the net assets acquired equal to $2,594,023. 546,875 common shares issued pursuant to the transaction remain subject to escrow restrictions.

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Cannabis

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

Cowlitz County Cannabis Cultivation, Inc.

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

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

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

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

4. SELECTED ANNUAL INFORMATION

	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Net loss from continuing operations	**$(2,604,068)**	$(1,961,634)	$(3,112,634)	$(4,574,516)
Net loss from discontinued operations	**-**	-	-	-
Comprehensive loss	**$(2,604,068)**	$(1,961,634)	$(3,112,634)	$(4,574,516)
Basic and diluted net loss per share	**$(0.07)**	$(0.05)	$(0.08)	$(0.12)
Number of weighted average shares - Basic	**38,442,056**	38,087,284	37,438,997	37,438,997

	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Net loss from continuing operations	**$(2,604,068)**	$(1,961,634)	$(3,112,634)	$(4,574,516)
Net loss from discontinued operations	**-**	-	-	-
Comprehensive loss	**$(2,604,068)**	$(1,961,634)	$(3,112,634)	$(4,574,516)
Basic and diluted net loss per share	**$(0.07)**	$(0.05)	$(0.08)	$(0.12)
Number of weighted average shares - Basic	**38,442,056**	38,087,284	37,438,997	37,438,997

5. SUMMARY OF QUARTERLY RESULTS

			For the year ended July 31,	
	2022	2021	2020	2019
Revenue	**-**	-	-	-
Net loss	**(12,252,852)**	(9,658,412)	(754,431)	(4,625,259)
Comprehensive loss	**(12,252,852)**	(9,902,541)	(659,909)	(4,624,840)
Basic / diluted loss per share	**(0.32)**	(0.12)	(0.01)	(0.18)

				As at,
	August 31, 2022	August 31, 2021	August 31, 2020	August 31, 2019
Current assets	**1,035,921**	9,668,886	1,991,990	2,558,428
Total assets	**1,747,695**	12,097,948	6,721,072	7,067,113
Current liabilities	**1,302,005**	804,701	527,558	115,355
Total liabilities	**1,302,005**	804,701	527,558	3,548,999

The Company reported a net loss from continuing operations in Q4 2022 primarily related to operating expenses.

The Company reported comprehensive income in Q4 2022 primarily related to a loss from fair value changes on Preferred Shares, a loss from fair value changes on common shares received as consideration for the sale of the Cowlitz Assets and an impairment loss on Eleusian's intangible assets.

6. COMPARISON OF RESULTS FOR THE THREE MONTHS ENDED AUGUST 31, 2022 AND 2021

	Q4 2022	Q4 2021
	$	$
Advertising	**79,423**	35,427
Amortization	**10,222**	-
Consulting fees	**368,139**	412,952
General and administrative	**35,940**	12,656
Insurance	**107,794**	81,231
Professional fees	**344,290**	193,288
Research	**94,806**	319,111
Share-based compensation	**121,330**	254,867
Other expense	**1,442,124**	10,929,068
Deferred income tax expense	**-**	179,527
Net loss from continuing operations	**2,604,068**	12,418,127
Net loss from discontinued operations	**-**	4,655,427

Advertising
During Q4 2022, the Company incurred advertising expenses of $79,423, compared to $35,427 during Q4 2021. The increase is due to higher spend since the prior year as Q4 2021 included expenses related to the rebranding of the Company.

Amortization
During Q4 2022, the Company incurred amortization expense of $10,222, compared to $nil during Q4 2021. The increase is due to amortization on the provisional patents acquired in the Eleusian acquisition.

Consulting fees
During Q4 2022, the Company incurred consulting fees of $368,139, compared to $412,952 during Q4 2021. The expense relates to consulting agreements with various advisors for corporate communications and business development and has decreased period over period.

General and administration
During Q4 2022, the Company incurred general and administration expenses of $35,940, compared to $12,656 during Q4 2021. The increase is a consequence of expenditure on patent applications.

Insurance
During Q4 2022, the Company incurred insurance expenses of $107,974, compared to $81,231 during Q4 2021. The expense relates to a director and officers insurance policy that was put in place during Q4 2021.

Professional fees
During Q4 2022, the Company incurred professional fees of $344,290, compared to $193,288 during Q4 2021. The increase is attributable to spend related to exploration of various financing activities and general corporate matters.

Research
During Q4 2022, the Company incurred research expense of $94,806, compared to $319,111 during Q4 2021. The balance relates to the preclinical study in collaboration with the University of Miami Miller School of Medicine.

Share-based compensation
During Q4 2022, the Company incurred share-based compensation of $121,330, compared to $254,867 during Q4 2021. The Company uses the Black-Scholes valuation model for options, restricted share units ("RSUs") and deferred share units ("DSUs") granted to officers, management, and consultants. The increase is the result of non-cash expenses associated with the grant of RSUs and DSUs subsequent to the implementation of the RSU and DSU plans in Q4 2021.

Other expense
Consists of foreign exchange movements, dividend income, interest income, loss on change in fair value of dividends receivable, loss on change in fair value of preferred shares, loss on changing fair value of warrants, impairment of dividend receivable, impairment of preferred shares, impairment of promissory notes receivable, impairment of short term investment, and share of loss on Krysalis. During Q4 2022, the Company incurred other expense of $1,442,124, compared to $10,929,068 during Q4 2021. The decrease in net loss is primarily the result of a reduction in impairment of intangible assets from $7,345,387 at Q4 2021 to $nil at Q4 2022 and a reduction of consideration in excess of net assets of $2,594,023 at Q4 2021 to $nil at Q4 2022.

Deferred income tax expense
During Q4 2022, the Company incurred current income tax recovery of $nil, compared to $179,527 during Q4 2021. The recovery in Q4 2021 was related to current income tax on the Ionic Preferred Shares.

Net income from discontinued operations
During Q4 2022, the Company recorded income from discontinued operations of $nil, compared to gain from discontinued operations of $4,655,427 during Q4 2021. The change over the prior year is due to the sale of the Cowlitz Disposal Group.

COMPARISON OF RESULTS FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021

	Fiscal 2022	Fiscal 2021
	$	$
Advertising	**248,134**	1,704,029
Amortization	**10,222**	-
Consulting fees	**1,621,825**	1,436,063
General and administrative	**198,861**	190,073
Insurance	**356,593**	148,547
Professional fees	**648,620**	603,133
Research	**418,343**	1,371,796
Share-based compensation	**620,612**	921,598
Other expense	**8,129,642**	17,469,241
Deferred income tax expense	**-**	(1,023,688)
Net loss from continuing operations	**12,252,852**	22,820,792
Net (income) from discontinued operations	**-**	(13,162,380)

Advertising
During fiscal 2022, the Company incurred advertising expenses of $248,134, compared to $1,704,029 during fiscal 2021. The decrease is due to lower spend since the prior year as fiscal 2021 included expenses related to the rebranding of the Company.

Amortization
During Q4 2022, the Company incurred amortization expense of $10,222, compared to $nil during Q4 2021. The increase is due to amortization on the provisional patents acquired in the Eleusian acquisition.

Consulting fees
During fiscal 2022, the Company incurred consulting fees of $1,621,825 compared to $1,436,063 during fiscal 2021. The increase is attributable to a consulting agreement with the Executive Chairman, monthly consulting fee for the CEO and consulting agreements with various advisors for corporate communications and business development.

General and administration
During fiscal 2022, the Company incurred general and administration expenses of $198,861, compared to $190,073 during fiscal 2021. The increase is consequence of expenditure on various conferences and brokerage fees on the sale of the Ionic common shares.

Insurance
During fiscal 2022, the Company incurred insurance expenses of $356,593, compared to $148,547 during fiscal 2021. The expense relates to a director and officers insurance policy that was put in place during Q4 2021.

Professional fees
During fiscal 2022, the Company incurred professional fees of $648,620, compared to $603,133 during fiscal 2021. The increase is attributable to lower legal fees incurred in relation to general corporate matters and financing in fiscal 2021.

Research
During fiscal 2022, the Company incurred research expense of $418,343, compared to $1,371,796 during fiscal 2021. The decrease relates to timing of contractual payments for the preclinical study in collaboration with the University of Miami Miller School of Medicine.

Share-based compensation
During fiscal 2022, the Company incurred share-based compensation of $620,612, compared to $921,598 during fiscal 2021. The Company uses the Black-Scholes valuation model for options, RSUs and DSUs granted to officers, management, and consultants. The decrease is the result of a reduction in stock options being granted during the period and a decline in the valuation of each stock option which was partially offset by a non-cash expense associated with the grant of RSUs and DSUs subsequent to the implementation of the RSU and DSU plans in Q4 2021.

Other expense
Other expense consists of foreign exchange movements, dividend income, interest income, loss on change in fair value of dividends receivable, loss on change in fair value of preferred shares, loss on changing fair value of warrants, impairment of dividend receivable, share of loss on Krysalis, and gain on debt settlement. During fiscal 2022, the Company incurred other income of $8,129,642, compared to $17,469,241 during fiscal 2021. The decrease in other expense is primarily the result of a reduction in impairment of intangible assets from $7,345,387 at fiscal 2021 to $nil at fiscal 2022 and a reduction of consideration in excess of net assets of $2,594,023 at fiscal 2021 to $nil at fiscal 2022.

Current income tax expense
During fiscal 2022, the Company incurred current income tax recovery of $nil, compared to $1,023,688 during fiscal 2021. The recovery in fiscal 2021 was related to current income tax on the Ionic Preferred Shares.

Net income from discontinued operations
During fiscal 2022, the Company recorded income from discontinued operations of $nil, compared to income from discontinued operations of $13,162,380 during fiscal 2021. The change over the prior year is due to the sale of the Cowlitz Disposal Group.

7. LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

7.1 Liquidity

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

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

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

As at August 31, 2022, the Company had working capital deficit of $249,242, as follows:

As at	**August 31, 2022**	August 31, 2021
	$	$
Cash	**907,537**	1,141,839
Receivables	**18,282**	195,707
Prepaid expenses and deposits	**110,102**	282,902
Short term investments	**-**	952,910
Preferred shares	**-**	5,331,292
Share purchase warrants	**-**	200,926
Dividends receivable	**-**	1,563,310
Total current assets	**1,035,921**	9,668,886
Accounts payable and accrued liabilities	**1,302,005**	804,701
Total current liabilities	**1,302,005**	804,701
Working capital	**(266,084)**	8,864,185

The current Company had a working capital deficit of $266,084 as at August 31, 2022, and incurred a net loss of $12,034,927 during the year ended August 31, 2022. As at August 31, 2022, the Company has an accumulated deficit of $30,757,101. These factors form a material uncertainty that may raise significant doubt regarding the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon the Company's ability to raise sufficient financing to acquire or develop a profitable business. The Company intends on financing its future development activities and operations from the sale of equity securities. Management will continue to monitor and assess its capital resources to meet operating requirements over the next twelve months.

7.2 Cash Flows

Review of cash flow for the three months ended Q4 2022 compared to Q4 2021:

Net cash provided by (used in)	**Q4 2022**	Q4 2021
	$	$
Operating activities of continuing operations	**(564,156)**	(842,497)
Operating activities of discontinued operations	**-**	-
Investing activities	**-**	(367,751)
Financing activities	**643,940**	25,139
Effect of exchange rate changes on cash	**-**	1,744
Cash, beginning of period	**827,753**	2,325,204
Cash, end of period	**907,537**	1,141,839

Cash used in operating activities of continuing operations during Q4 2022 was $564,156, compared to cash used in operating activities of continuing operations of $842,497 during Q4 2021. The decrease in cash used in operating activities is attributable to the following:

- Net loss from continuing operations of $2,604,068, compared to net loss from continuing operations of $12,385,146 due primarily to non-cash changes in impairment of intangible assets, fair value of preferred shares, changes in fair value of short-term investments, share-based compensation. Included in net loss are non-cash items of $1,555,625 for the three months ended August 31, 2022, compared to $11,403,055 for the three months ended August 31, 2021.
- Movements in receivables increased cash by $8,530, compared to $11,719 decrease for the three months ended August 31, 2021.
- Movements in prepaid expenses increased cash by $242,788, compared to $106,404 decrease for the three months ended August 31, 2021.
- Movements in accounts payable and accrued liabilities increased cash by $232,969, compared to increasing cash by $257,717 for the three months ended August 31, 2021.

Cash provided by operating activities of discontinued operations for the three months ended August 31, 2022 and 2021 was $nil.

Cash used in investing activities for the three months ended August 31, 2022 was $nil as compared to $367,751 during the three months ended August 31, 2021. Cash used in investing activities during the three months ended August 31, 2021 were the result of the investment in Krysalis VX and Vitamind.

Cash provided by financing activities for the three months ended August 31, 2022 was $643,940 as compared to $25,139 during the three months ended August 31, 2021. Movements during Q4 2022 were the result of funds raised through private placements and on the exercise of stock options which were partially offset by share issue costs. Movements during Q4 2021 were the result share issue costs.

Review of cash flow for the year ended August 31, 2022 compared to August 31, 2021:

Net cash provided by (used in)	**Fiscal 2022**	Fiscal 2021
	$	$
Operating activities of continuing operations	**(2,730,729)**	(5,330,792)
Operating activities of discontinued operations	**-**	293,434
Investing activities	**1,743,311**	1,066,820
Financing activities	**753,116**	4,917,589
Effect of exchange rate changes on cash	**-**	22,681
Cash, beginning of year	**1,141,839**	172,107
Cash, end of year	**907,537**	1,141,839

Cash used in operating activities of continuing operations during fiscal 2022 was $2,730,729, compared to cash used in operating activities of continuing operations of $5,330,792 fiscal 2021. The decrease in cash used in operating activities is attributable to the following:

- Net loss from continuing operations of $12,252,852, compared to net loss from continuing operations of $22,820,792 due primarily to non-cash changes in impairment of intangible assets, fair value of preferred shares, changes in fair value of short-term investments, share-based compensation. Included in net loss are non-cash items of $8,674,594 for fiscal 2022, compared to $17,304,820 for fiscal 2021.
- Movements in receivables increased cash by $177,425, compared to decreasing cash by $143,192 for fiscal 2021.
- Movements in prepaid expenses increased cash by $172,800, compared to increasing cash by $86,795 for fiscal 2021.
- Movements in accounts payable and accrued liabilities increased cash by $497,304, compared to increasing cash by $241,577 for fiscal 2021.

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

Cash provided by investing activities for fiscal 2022, was $1,743,311 as compared to cash provided of $1,066,820 during the fiscal 2021. Cash provided by investing activities during fiscal 2022 was the result of sale of Ionic common shares. The movements during fiscal 2021 were the result of cash acquired on the sale of the Cowlitz Disposal Group which was partially offset by the investment in Krysalis VX and Vitamind.

Cash provided by financing activities for fiscal 2022, was $753,116 as compared to $4,917,589 during fiscal 2021. Cash provided by financing activities during fiscal 2022 relate to cash received through private placements and on the exercise of stock options. Movements during fiscal 2021 were the result of funds raised through private placements which were partially offset by share issue costs and lease payments.

7.3 Capital Resources

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

	August 31, 2022	August 31, 2021
	$	$
Cash	**907,537**	1,141,839
Receivables	**18,282**	195,707
Less:		
Accounts payable and accrued liabilities	**(1,302,005)**	(804,701)
Net capital	**(376,186)**	532,845
Add:		
Equity	**445,690**	11,293,247
Net capital and equity	**69,504**	11,826,092

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

8. OFF-BALANCE SHEET ARRANGEMENTS

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

9. CONTIGENCY

On April 20, 2022, the Company entered a voluntary lock-up agreement ("VLA") with Ionic. The VLA is contingent on the execution of the plan of arrangement between Yourway Cannabis Brands Inc. ("Yourway") and Ionic ("Plan of Arrangement"). Pursuant to the VLA, the Company agreed to the following on the effective date of the Plan of Arrangement:

- convert 36,707,180 Preferred Shares to Ionic common shares resulting in the Company holding 57,229,991 Ionic common shares;
- convert 57,229,991 Ionic common shares to Yourway common shares at an exchange ratio of 0.0525 Yourway common shares for each Ionic common share resulting in the Company holding approximately 3,000,000 Yourway common shares;
- enter into an escrow agreement for the Yourway common shares held by the Company whereby the Yourway common shares will be released quarterly in 5 equal tranches commencing 12 months from the effective date of the Plan of Arrangement;

- accept 9,900,000 Ionic common share purchase warrants (the "Consideration Warrants") with each Consideration Warrant entitling the Company to acquire one Ionic common share at $0.05 per Ionic common share for three years from the date of issuance in exchange for forgiveness of the dividend receivable; and
- convert the 4,000,000 Warrants and 9,900,000 Consideration Warrants, at an exchange ratio of 0.0525, into warrants exercisable into approximately 720,000 Yourway common shares at an exercise price of $0.95.

Due to the contingent nature of the VLA, the Company has not reflected the impact of the VLA in the audited consolidated financial statements. As at the date of this MD&A, the Plan of Arrangement had not been completed.

10. RELATED PARTY DISCLOSURES

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

	Year ended August 31,	
	2022	2021
	$	$
Consulting fees	**814,309**	842,382
Professional fees	**137,766**	116,319
Directors' fees included in management 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 period for vesting of share purchase options, RSUs and DSUs.

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

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

As at August 31, 2022, included in accounts payable and accrued liabilities is $19,120 (August 31, 2021 - $24,919) payable to a Company owned by the Chief Executive Officer of the Company for consulting fees. The amount is unsecured, non-interest bearing and due on demand.

As at 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 $63,670 (August 31, 2021 - $22,756) payable to directors for director fees. The amounts are unsecured, non-interest bearing and due on demand.

11. FINANCIAL INSTRUMENTS

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

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

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

The fair value of cash 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.

12. OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company's authorized share capital consists of an unlimited number of common shares without par value. The Company had the following securities outstanding as at December 22, 2022.

Type of Security	**Number Outstanding**
Common Shares	76,690,172
Share Purchase Options	3,098,981
Performance Warrants	776,000
Share Purchase Warrants	31,330,796
Restricted Share Units	562,500
Deferred Share Units	360,006
Fully Diluted	**112,818,455**

13. INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB, effective as of August 31, 2022. The accounting policies applied in the preparation of the consolidated financial statements are consistent with those applied and disclosed in note 3 to the audited consolidated financial statements.

14. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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.

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.

Valuation of investments

The Company's investments in common shares are measured at the quoted market price Ionic Brands Corp ("Ionic") common shares and adjusted for the qualitative factors as noted below.

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.

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 lack of marketability of the asset, deteriorating credit quality of Ionic, the VLA and the probability of the Plan of Arrangement completing as currently structured or without further significant delays. Currently, the common shares of Ionic have been suspended for trading.

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.

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.

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.

LOBE SCIENCES

15. RISKS AND UNCERTAINTIES

Any investment in the securities of the Company is speculative, due to the nature of its business and its general stage of development. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward looking statements relating to the Company. In addition to the usual risks associated with investment in a business, investors should carefully consider the following risk factors as well as the risk factors set out in the Company's other public disclosure.

The Company's business and results of operations are subject to a number of risks and uncertainties, including but not limited to the following:

Limited operating history

The Company is subject to many risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources, history of losses and lack of substantial revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its relatively early stage of operations. Because the Company has a relatively limited operating history in emerging area of business, you should consider and evaluate its operating prospects in light of the risks and uncertainties frequently encountered by early-stage companies in rapidly evolving markets.

These risks may include:

- risks that it may not have sufficient capital to achieve its growth strategy;
- risks that it may not develop its product and service offerings in a manner that enables it to be profitable and meet its customers' requirements;
- risks that its growth strategy may not be successful;
- risks that fluctuations in its operating results will be significant relative to its revenues; and
- risks relating to an evolving regulatory regime.

Historically the Company has financed its operations through equity financing. While the Company generates revenues, these revenues may not be sufficient to support future operations or plans for business development. There is no assurance that the Company will be able to maintain the current level of revenue or access further equity. Due to the fact the Company operates a cannabis-related business certain financing options may not be available to the Company. If the Company is unable to sustain or grow its revenue and not be able to attract further equity financing, the Company may not be able to pay liabilities as they become due and thereby would suffer significant financial damage.

The Company's future growth will depend substantially on its ability to address these and the other risks described in this section. If it does not successfully address these risks, its business may be significantly harmed.

There is no assurance that the Company will turn a profit

There is no assurance as to whether the Company will be profitable or pay dividends. The Company has incurred and anticipates that it will continue to incur substantial expenses relating to the development and initial operations of its business. The payment and amount of any future dividends will depend upon, among other things, the results of operations, cash flow, financial condition, and operating and capital requirements. There is no assurance that future dividends will be paid, and, if dividends are paid, there is no assurance with respect to the amount of any such dividends. In the event that any of the Company's investments, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such investments in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada.

The Company may not be able to effectively manage its growth and operations, which could materially and adversely affect its business.

If the Company implements it business plan as intended, it may in the future experience rapid growth and development in a relatively short period of time.

The management of this growth will require, among other things, continued development of financial and management controls, stringent control of costs, the ability to attract and retain qualified management personnel and the training of new personnel. The Company intends to utilize outsourced resources, and hire additional personnel, to manage its expected growth and expansion. Failure to successfully manage its possible growth and development could have a material adverse effect on the Company's business and the value of the Company's common shares.

The Company may be unable to adequately protect its proprietary and intellectual property rights, particularly in the U.S.

The Company's ability to compete may depend on the superiority, uniqueness and value of any intellectual property and technology that it may develop. To the extent the Company is able to do so, to protect any proprietary rights, the Company intends to rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with its employees and third parties, and protective contractual provisions. Despite these efforts, any of the following occurrences may reduce the value of any of the Company's intellectual property:

(1) the market for the Company's products and services may depend to a significant extent upon the goodwill associated with its trademarks and trade names, and its ability to register certain of its intellectual property under U.S. federal and state law is impaired by the illegality of cannabis under U.S. federal law;

(2) patents in the cannabis industry involve complex legal and scientific questions and patent protection may not be available for some or any products; the Company's applications for trademarks and copyrights relating to its business may not be granted and, if granted, may be challenged or invalidated;

(3) issued patents, trademarks and registered copyrights may not provide the Company with competitive advantages; the Company's efforts to protect its intellectual property rights may not be effective in preventing misappropriation of any its products or intellectual property;

(4) The Company's efforts may not prevent the development and design by others of products or marketing strategies similar to or competitive with, or superior to those the Company develops;

(5) another party may assert a blocking patent and the Company would need to either obtain a license or design around the patent in order to continue to offer the contested feature or service in its products; or

(6) the expiration of patent or other intellectual property protections for any assets owned by the Company could result in significant competition, potentially at any time and without notice, resulting in a significant reduction in sales. The effect of the loss of these protections on the Company and its financial results will depend, among other things, upon the nature of the market and the position of the Issuer's products in the market from time to time, the growth of the market, the complexities and economics of manufacturing a competitive product and regulatory approval requirements but the impact could be material and adverse.

The Company may be forced to litigate to defend its intellectual property rights, or to defend against claims by third parties against the Company relating to intellectual property rights.

The Company may be forced to litigate to enforce or defend its intellectual property rights, to protect its trade secrets or to determine the validity and scope of other parties' proprietary rights. Any such litigation could be very costly and could distract its management from focusing on operating the business. The existence and/or outcome of any such litigation could harm the business.

Further, because the content of much of the Company's intellectual property concerns cannabis and other activities that are not legal in some state jurisdictions or under federal law, the Company may face additional difficulties in defending its intellectual property rights.

The Company may become subject to litigation, including for possible product liability claims, which may have a material adverse effect on the Company's reputation, business, results from operations, and financial condition.

The Company may be named as a defendant in a lawsuit or regulatory action. The Company may also incur uninsured losses for liabilities which arise in the ordinary course of business, or which are unforeseen, including, but not limited to, employment liability and business loss claims. Any such losses could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition.

The Company faces competition from other companies where it will conduct business that may have higher capitalization, more experienced management or may be more mature as a business.

An increase in the companies competing in this industry could limit the ability of the Company to expand its operations. Current and new competitors may have better capitalization, a longer operating history, more expertise and able to develop higher quality equipment or products, at the same or a lower cost. The Company cannot provide assurances that it will be able to compete successfully against current and future competitors. Competitive pressures faced by the Company could have a material adverse effect on its business, operating results and financial condition.

If the Company is unable to attract and retain key personnel, it may not be able to compete effectively in the cannabis market.

The Company's success has depended and continues to depend upon its ability to attract and retain key management, including its Chief Executive Officer. The Company will attempt to enhance its management and technical expertise by continuing to recruit qualified individuals who possess desired skills and experience in certain targeted areas. The Company's inability to retain employees and attract and retain sufficient additional employees could have a material adverse effect on its business, results of operations, sales, cash flow or financial condition. Shortages in qualified personnel or the loss of key personnel could adversely affect the financial condition of the Company and results of operations of the business. The loss of any of the Company's senior management could materially adversely affect its ability to execute its business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis, or at all.

Failure to successfully integrate acquired businesses, its products and other assets into the Company, or if integrated, failure to further the business strategy, may result in the Company's inability to realize any benefit from such acquisition

The Company expects to grow by acquiring businesses. The consummation and integration of any acquired business, product or other assets into the Company may be complex and time consuming and, if such businesses and assets are not successfully integrated, the Company may not achieve the anticipated benefits, cost-savings or growth opportunities. Furthermore, these acquisitions and other arrangements, even if successfully integrated, may fail to further the Company's business strategy as anticipated, expose the Company to increased competition or other challenges with respect to the Company's products or geographic markets, and expose the Company to additional liabilities associated with an acquired business, technology or other asset or arrangement.

Future offerings and dilution

If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution. The Company's articles permit the issuance of an unlimited number of common shares, and shareholders will have no pre-emptive rights in connection with such further issuance. The directors of the Company have discretion to determine the price and the terms of issue of further issuances. Moreover, additional common shares will be issued on the exercise of options under the Option Plan and upon the exercise of outstanding Warrants. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows. Negative cash flow may restrict the Company's ability to pursue its business objectives.

The Company continues to sell shares for cash to fund operations, capital expansion, mergers and acquisitions that will dilute the current shareholders.

The Company could be liable for fraudulent or illegal activity by its contractors and consultants resulting in significant financial losses to claims against the Company

The Company is exposed to the risk that its independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violate government regulations. It is not always possible for the Company to identify and deter misconduct by its contractors and consultants and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on its business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on its business, financial condition and results of operations.

The Company's officers and directors may be engaged in a range of business activities resulting in conflicts of interest

Although certain officers and board members of the Company are bound by anti-circumvention agreements limiting their ability to enter into competing and/or conflicting ventures or businesses, the Company may be subject to various potential conflicts of interest because some of its officers and directors may be engaged in a range of business activities. In addition, Company's executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Company. In some cases, the Company's executive officers and directors may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to the Company's business and affairs and that could adversely affect the Company's operations. These business interests could require significant time and attention of the Company's executive officers and directors.

In addition, the Company may also become involved in other transactions which conflict with the interests of its directors and the officers who may from time to time deal with persons, firms, institutions or companies with which the Company may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the Company. In addition, from time to time, these persons may be competing with the Company for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, if such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

The Company's contracts may not be legally enforceable in the U.S.

Because the Company's contracts involve cannabis and other activities that are not legal under U.S. federal law and in some jurisdictions, the Company may face difficulties in enforcing its contracts in U.S. federal and certain state courts.

The market price for the Company's common shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control.

The market price for the Company's common shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following:

(1) actual or anticipated fluctuations in the Company's quarterly results of operations;
(2) recommendations by securities research analysts;
(3) changes in the economic performance or market valuations of companies in the industry in which the Company operates;
(4) addition or departure of the Company's executive officers and other key personnel;
(5) release or expiration of lock-up or other transfer restrictions on outstanding Company common shares;
(6) sales or perceived sales of additional Company common shares;
(7) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or the Company's competitors;
(8) operating and share price performance of other companies that investors deem comparable to the Company; fluctuations to the costs of vital production materials and services;
(9) changes in global financial markets and global economies and general market conditions, such as interest rates;
(10) operating and share price performance of other companies that investors deem comparable to the Company or from a lack of market comparable companies;
(11) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets; and
(12) regulatory changes in the cannabis industry.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Company's common shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which might result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely affected and the trading price of the Company's common shares might be materially adversely affected.

Currency fluctuations

The Company's revenues and expenses are expected to be primarily denominated in U.S. dollars, and therefore may be exposed to significant currency exchange fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar may have a material adverse effect on the Company's business, financial condition and operating results. The Company may, in the future, establish a program to hedge a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if the Company develops a hedging program, there can be no assurance that it will effectively mitigate currency risks.