



**LOBE SCIENCES LTD.**

**Condensed Interim Consolidated Financial Statements**

For the three months ended November 30, 2022 and 2021

(Unaudited - Expressed in Canadian dollars)

**Notice of Disclosure of Non-auditor Review of the Condensed Interim Consolidated Financial Statements for the Three Months Ended November 30, 2022 and 2021.**

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

The accompanying unaudited condensed interim consolidated financial statements of Lobe Sciences Ltd. for the interim periods ended November 30, 2022 and 2021, have been prepared in accordance with the International Accounting Standard 34 - *Interim Financial Reporting* as issued by the International Accounting Standards Board and are the responsibility of management.

The independent auditors, Davidson & Company LLP, have not performed a review of these condensed interim consolidated financial statements.

January 30, 2023

**LOBE SCIENCES LTD.****Condensed Interim Consolidated Statements of Financial Position**

(Unaudited - Expressed in Canadian dollars)

	Note	November 30, 2022	August 31, 2022
		\$	\$
<b>ASSETS</b>			
<b>Current</b>			
Cash		449,413	907,537
Receivables	4	34,625	18,282
Prepaid expenses and deposits	5	313,133	110,102
		797,171	1,035,921
Investment in Krysalis	9	673,024	681,996
Intangible assets	10	28,558	29,778
<b>Total assets</b>		<b>1,498,753</b>	<b>1,747,695</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	14	1,436,683	1,302,005
<b>Total liabilities</b>		<b>1,436,683</b>	<b>1,302,005</b>
<b>SHAREHOLDER'S EQUITY</b>			
Share capital	11(b)	26,101,614	25,221,396
Shares to be issued		-	671,000
Reserves	11(g)	6,952,917	5,528,320
Deficit		(32,992,461)	(30,975,026)
Total shareholder's equity		62,070	445,690
<b>Total liabilities and shareholder's equity</b>		<b>1,498,753</b>	<b>1,747,695</b>

Nature of operations and going concern (Note 1)

Contingency (Note 6(c))

Subsequent events (Note 15)

Approved and authorized for issue on behalf of the Board of Directors:

"Signed"

Philip J. Young, Director

"Signed"

Baxter Phillips III, Director

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

**LOBE SCIENCES LTD.****Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**

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

	Note	Three months ended November 30,	
		2022	2021
		\$	\$
<b>Operating expenses</b>			
Advertising		60,000	91,417
Amortization	10	1,220	-
Consulting fees	11(b),14	1,381,022	363,229
General and administrative		66,637	70,675
Insurance		90,121	82,452
Professional fees	14	46,469	61,689
Research		285,515	323,537
Share-based compensation	11,14	18,107	149,539
		<b>1,949,091</b>	<b>1,142,538</b>
Loss before other items		<b>(1,949,091)</b>	<b>(1,142,538)</b>
<b>Other expense (income)</b>			
Foreign exchange loss		59,372	27,980
Dividend income		(356,914)	(725,390)
Other income		-	(1,096)
Loss on change in fair value of common shares		-	376,455
Loss on change in fair value of dividends receivable		356,914	-
Loss on change in fair value of preferred shares		-	3,584,148
Loss on change in fair value of warrants		-	143,820
Share of loss on Krysalis	10	8,972	26,061
		<b>68,344</b>	<b>3,431,978</b>
<b>Net loss and comprehensive loss</b>		<b>(2,017,435)</b>	<b>(4,574,516)</b>
<b>Net loss per share</b>			
Basic		<b>(0.03)</b>	<b>(0.12)</b>
Diluted		<b>(0.03)</b>	<b>(0.12)</b>
<b>Weighted average number of shares outstanding</b>			
Basic		<b>70,575,069</b>	37,439,034
Diluted		<b>70,575,069</b>	37,439,034

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

**LOBE SCIENCES LTD.****Condensed Interim Consolidated Statements of Cash Flows**

(Unaudited - Expressed in Canadian dollars)

	Three months ended	
	November 30,	
	2022	2021
	\$	\$
<b>Operating activities</b>		
Net loss and comprehensive loss	(2,017,435)	(4,574,516)
<b>Adjustments for non-cash items:</b>		
Amortization	1,220	-
Consulting fees	1,024,838	-
Share-based compensation	18,107	149,539
Unrealized foreign exchange	-	(767)
Dividend income	(356,914)	(725,390)
Interest income	-	(1,096)
Loss on change in fair value of common shares	-	376,455
Loss on change in fair value of dividend receivable	356,914	-
Loss on change in fair value of preferred shares	-	3,584,148
Loss on change in fair value of warrants	-	143,820
Share of loss on Krysalis	8,972	26,061
<b>Changes in non-cash working capital items:</b>		
Receivables	(16,343)	175,042
Prepaid expenses and deposits	(203,031)	(113,928)
Accounts payable and accrued liabilities	138,928	301,577
<b>Net cash used in operating activities of continuing operations</b>	<b>(1,044,744)</b>	<b>(659,055)</b>
<b>Investing activities</b>		
Proceeds from sale of common shares	-	961,120
<b>Net cash provided by investing activities</b>	<b>-</b>	<b>961,120</b>
<b>Financing activities</b>		
Common shares issued for cash - private placement	676,500	-
Common shares issued for cash - exercise of stock options	12,500	-
Share issue costs	(102,380)	-
<b>Net cash provided by financing activities</b>	<b>586,620</b>	<b>-</b>
(Decrease) increase in cash	(458,124)	302,065
Cash, beginning of period	907,537	1,141,839
<b>Cash, end of period</b>	<b>449,413</b>	<b>1,443,904</b>

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

**LOBE SCIENCES LTD.**
**Condensed Interim Consolidated Statements of Changes in Shareholder's Equity**

(Unaudited - Expressed in Canadian dollars, except number of shares)

	Note	Number of shares	Share capital	Shares to be issued	Reserves	Accumulated other comprehensive loss	Deficit	Total equity
		#	\$	\$	\$	\$	\$	\$
Balance, August 31, 2021		37,439,035	24,841,218	115,000	5,059,203	(247,999)	(18,474,175)	11,293,247
Share-based compensation		-	-	-	149,539	-	-	149,539
Cumulative translation adjustment reclassified to deficit		-	-	-	-	247,999	(247,999)	-
Comprehensive loss		-	-	-	-	-	(4,574,516)	(4,574,516)
Balance, November 30, 2021		37,439,035	24,841,218	115,000	5,208,742	-	(23,296,690)	6,868,270
Shares issued - service agreement	11(b)	166,667	115,000	(115,000)	-	-	-	-
Shares issued - exercise of stock options	11(b)	694,445	178,686	-	(53,686)	-	-	125,000
Shares issued - RSU vesting	11(b)	187,501	129,376	-	(129,376)	-	-	-
Share issue costs	11(b)	-	(42,884)	-	-	-	-	(42,884)
Shares to be issued - private placement		-	-	671,000	-	-	-	671,000
Share purchase warrants		-	-	-	31,567	-	-	31,567
Share-based compensation		-	-	-	471,073	-	-	471,073
Comprehensive loss		-	-	-	-	-	(7,678,336)	(7,678,336)
Balance, August 31, 2022		38,487,648	25,221,396	671,000	5,528,320	-	(30,975,026)	445,690
Shares issued - private placement	11(b)	26,950,000	-	(671,000)	1,347,500	-	-	676,500
Shares issued - exercise of options	11(b)	69,444	19,150	-	(6,650)	-	-	12,500
Shares issued - mutual separation agreement	11(b)	9,800,836	1,029,088	-	-	-	-	1,029,088
Share issue costs	11(b)	1,312,800	(168,020)	-	(65,640)	-	-	(168,020)
Share-based compensation		-	-	-	18,107	-	-	18,107
Comprehensive loss		-	-	-	-	-	(2,017,435)	(2,017,435)
<b>Balance, November 30, 2022</b>		<b>76,620,728</b>	<b>26,101,614</b>	<b>-</b>	<b>6,952,917</b>	<b>-</b>	<b>(32,992,461)</b>	<b>62,070</b>

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

## **LOBE SCIENCES LTD.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

#### **For the three months ended November 30, 2022 and 2021**

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

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## **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.

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 purchase options, share purchase warrants, performance warrants, restricted share units and deferred share units 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, cluster headaches, and an undisclosed pediatric Orphan disease associated with severe anxiety.

### **a) Going concern**

These unaudited condensed interim consolidated financial statements for the three months ended November 30, 2022 and 2021 ("interim financial statements") have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for at least the next twelve months. During the three months ended November 30, 2022, the Company incurred a net loss of \$2,017,435 (2021 - \$4,574,516). As at November 30, 2022, the Company has an accumulated deficit of \$32,992,461 (August 31, 2022 - \$30,975,026). 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. There can be no certainty that future financing will be available on terms acceptable to the Company or at all.

## **2. BASIS OF PRESENTATION**

### **a) Statement of compliance**

These interim financial statements were approved by the Board of Directors and authorized for issue on January 30, 2023.

These interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") applicable to the preparation of interim financial statements including International Accounting Standard 34 - *Interim Financial Reporting*. These interim financial statements do not include all disclosures required for annual audited financial statements. Accordingly, they should be read in conjunction with the notes to the Company's audited financial statements for the years ended August 31, 2022 and 2021 ("annual financial statements").

### **b) Basis of measurement**

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

### **d) Basis of consolidation**

These interim financial statements include the financial statements of the Company and entities controlled by the Company. Control exists where the parent entity has power over the investee and is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are included in the financial statements from the date control commences until the date control ceases.

## LOBE SCIENCES LTD.

### Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended November 30, 2022 and 2021

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

## 2. BASIS OF PRESENTATION (continued)

All inter-company balances, transactions, revenues and expenses have been eliminated on consolidation. These interim financial statements incorporate the accounts of the Company and the following subsidiaries:

<b>Name of Subsidiary</b>	<b>Country of incorporation</b>	<b>Percentage ownership</b>	<b>Functional currency</b>
Green Star Biosciences Inc. <sup>(1)</sup>	Canada	100%	USD
Eleusian Biosciences Corp.	Canada	100%	CAD
Lobe Sciences Australia Pty Ltd. <sup>(2)</sup>	Australia	100%	AUD

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

(2) Lobe Sciences Australia Pty Ltd. was incorporated on September 7, 2022.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

## 4. RECEIVABLES

A summary of the Company's receivables is as follows:

	<b>November 30, 2022</b>	August 31, 2022
	\$	\$
Sales tax receivable	<b>34,625</b>	18,282
	<b>34,625</b>	18,282

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

## 5. PREPAID EXPENSES AND DEPOSITS

A summary of the Company's prepaid expenses and deposits is as follows:

	<b>November 30, 2022</b>	August 31, 2022
	\$	\$
Advertising	<b>127,500</b>	-
Insurance	<b>76,032</b>	84,453
Deposits	<b>86,014</b>	15,291
Other	<b>23,587</b>	10,358
	<b>313,133</b>	110,102

## 6. PREFERRED AND COMMON SHARES

### a) Preferred shares

On February 22, 2021, the Company signed a definitive binding asset purchase agreement (the "Agreement") with respect to the sale to Ionic Brands Corp ("Ionic") of certain assets relating to Washington-based Cowlitz County Cannabis Cultivators LLC (the "Cowlitz Disposal Group"). Pursuant to the Agreement, the Company received 100,406,705 Preferred Shares, from which 8,638,751 were paid as finder's fee. The Preferred Shares are convertible on a one-for-one basis into Ionic common shares but cannot be converted for a period of four years if that results in the Company holding 10% or more of the common shares of Ionic. The Preferred Shares are subject to trading restrictions whereby the Preferred Shares or converted Ionic common shares will be restricted from trading and released as follows: 20% of the total Preferred Shares on October 5, 2021, January 5, 2022, April 5, 2022, June 5, 2022, and September 5, 2022.



**LOBE SCIENCES LTD.****Notes to the Condensed Interim Consolidated Financial Statements****For the three months ended November 30, 2022 and 2021**

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

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

A summary of the Company's Preferred Shares for the three months ended November 30, 2022 and for the year ended August 31, 2022 is as follows:

	Number of shares	2022	Number of shares	2022
	#	\$	#	\$
Balance, beginning of period	36,707,180	-	81,737,325	6,693,437
Conversion to common shares	-	-	(45,030,145)	(1,038,064)
Loss on change in fair value of Preferred Shares	-	-	-	(5,655,373)
<b>Balance, end of period</b>	<b>36,707,180</b>	<b>-</b>	<b>36,707,180</b>	<b>-</b>

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 <sup>(1)</sup>	0.58 - 1.50	0.2350	125.0%	0.24%	0.00%	14,094,450
August 31, 2021	0.10 - 1.01	0.0950	105.0%	0.24%	0.00%	6,693,438
August 31, 2022	0.01	0.0050	105.0%	0.24%	0.00%	183,536

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

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 Voting Support and Lock-up Agreement ("VLA") (Note 6(c)) and the probability of the completion of the plan of arrangement (Note 6(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 summary of the Company's dividend receivable for the three months ended November 30, 2022 and for the year ended August 31, 2022 is as follows:

	2022	2022
	\$	\$
Balance, beginning of period	-	1,563,310
Dividend income	356,914	2,194,718
Converted to 72,011,555 common shares	-	(1,114,379)
Loss on change in fair value of dividends receivable	(356,914)	(2,643,649)
<b>Balance, end of period</b>	<b>-</b>	<b>-</b>

During the three months ended November 30, 2022, the Company recorded an impairment expense of \$356,914 with respect to the dividend receivable due to the lack of marketability of the Ionic common shares (year ended August 31, 2022 - \$2,643,649).

**LOBE SCIENCES LTD.****Notes to the Condensed Interim Consolidated Financial Statements****For the three months ended November 30, 2022 and 2021**

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

**6. PREFERRED AND COMMON SHARES (continued)****b) Common shares**

A summary of the Company's common shares for the three months ended November 30, 2022 and for the year ended August 31, 2022 is as follows:

	Number of shares	2022	Number of shares	2022
	#	\$	#	\$
Balance, beginning of period	20,522,811	-	10,030,629	952,910
Conversion of Preferred Shares	-	-	45,030,145	1,038,064
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 of common shares	-	-	-	(1,362,042)
Balance, end of period	20,522,811	-	20,522,811	-

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. 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**

On April 20, 2022, the Company entered a VLA with Ionic and Yourway Cannabis Brands Inc. ("Yourway"). The VLA is contingent on the execution of a plan of arrangement between Yourway and Ionic ("Plan of Arrangement") in which Yourway would acquire all Ionic issued and outstanding common shares and preferred shares. There is no expiry date for the Plan of Arrangement; however, it may be cancelled if Ionic and Yourway mutually consent or by either party if certain conditions are not met. As at November 30, 2022, the Plan of Arrangement had not been cancelled and had not been executed. Due to the contingent nature of the VLA, the Company has not reflected the impact of the VLA in these interim financial statements.

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.

**LOBE SCIENCES LTD.****Notes to the Condensed Interim Consolidated Financial Statements****For the three months ended November 30, 2022 and 2021**

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

**7. WARRANTS**

Pursuant to the sale of the Cowlitz Disposal Group, the Company received warrants to purchase up to 4,000,000 Ionic common shares, where each Warrant entitles the holder thereof to acquire one Ionic common share at \$0.30 per share for a period of five years from the date of issuance. The Warrants are measured at fair value through profit and loss.

A summary of the Company's Warrants is as follows:

	<b>November 30, 2022</b>	August 31, 2022
	<b>\$</b>	<b>\$</b>
Balance, beginning of period	-	200,926
Loss on change in fair value of Warrants	-	(200,926)
<b>Balance, end of period</b>	<b>-</b>	<b>-</b>

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	Unit price	Expected volatility	Risk-free rate	Dividend yield	Fair value
		Years	\$				\$
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.

**8. 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.

	<b>November 30, 2022</b>	August 31, 2022
	<b>\$</b>	<b>\$</b>
Balance, beginning of period	-	65,409
Interest income	-	4,451
Unrealized foreign exchange gain	-	2,534
Impairment of promissory note receivable	-	(72,394)
<b>Balance, end of period</b>	<b>-</b>	<b>-</b>

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.

**9. 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.

**LOBE SCIENCES LTD.****Notes to the Condensed Interim Consolidated Financial Statements****For the three months ended November 30, 2022 and 2021**

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

**9. INVESTMENT IN KRYSALIS (continued)**

The Company's initial investment was comprised of the following:

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

(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.

(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 Option Pricing Model (average volatility - 100%, expected life - 2.00 years, risk free rate - 0.32%, dividend yield - 0%).

The Company's investment for the three months ended November 30, 2022 and for the year ended August 31, 2022, recorded using the cost method, is as follows:

	2022	2022
	\$	\$
Balance, beginning of period	681,996	961,508
Company's share of loss during the period	(8,972)	(279,512)
<b>Balance, end of period</b>	<b>673,024</b>	<b>681,996</b>

A summary of Krysalis' financial information is set out below:

	November 30, 2022	August 31, 2022
	\$	\$
Cash	37	480
Prepaid expenses and deposits	44,214	44,214
Short term investments	30,000	47,500
<b>Assets</b>	<b>74,251</b>	<b>92,194</b>

	November 30, 2022	August 31, 2022
	\$	\$
Expenses	455	124,129
Foreign exchange gain	(12)	(3,106)
Loss on change in fair value of short term investments	17,500	438,000
Net loss for the year	17,943	559,023
Company ownership percentage	50%	50%
Net loss attributable to the Company	8,972	279,512

No dividends were received from Krysalis during the three months ended November 30, 2022 and year ended August 31, 2022.

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.

**LOBE SCIENCES LTD.****Notes to the Condensed Interim Consolidated Financial Statements****For the three months ended November 30, 2022 and 2021**

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

**10. INTANGIBLE ASSETS**

The Company's intangible assets for the three months ended November 30, 2022 and for the year ended August 31, 2022, is as follows:

	2022	2022
	\$	\$
<b>Cost</b>		
Balance, beginning of period	40,000	40,000
<b>Balance, end of period</b>	<b>40,000</b>	<b>40,000</b>
<b>Accumulated amortization</b>		
Balance, beginning of period	10,222	-
Amortization	1,220	10,222
<b>Balance, end of period</b>	<b>11,442</b>	<b>10,222</b>
<b>Carrying amount</b>	<b>28,558</b>	<b>29,778</b>

**11. SHARE CAPITAL****a) Authorized**

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

**b) Issued**

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

The Company had the following common share transactions during the three months ended November 30, 2022:

- On September 8, 2022, the Company issued 26,950,000 units pursuant to a non-brokered private placement at \$0.05 per unit for gross proceeds of \$1,347,500. 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 fair value of warrants was determined to be \$4,303,384 using the Black-Scholes option pricing model with the following inputs: share price of \$0.19, average volatility of 100%, expected life of 3 years, risk-free rate of 3.63% and dividend yield of 0.00%. As the fair value of warrants exceeded the cash proceeds of \$1,347,500, the value recorded in reserves was limited to the cash proceeds. No residual value remained to be allocated to the common share capital. The Company paid a finder's fee equal to 8% of funds raised in Australia. The total finder's 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 holder to acquire one additional common share at a price of \$0.05 per share purchase warrant until September 8, 2025. Using the Black-Scholes option pricing model, the warrants were determined to have a fair value of \$209,628 using the following inputs: share price of \$0.19, average volatility of 100%, expected life of 3 years, risk-free rate of 3.63% and dividend yield of 0.00%. As the fair value of warrants exceeded the fair value of services received of \$65,640, the amount recorded in reserves was limited to \$65,640. The Company incurred \$102,380 in cash share issuance costs.
- On September 9, 2022, the Company issued 69,444 common shares pursuant the exercise of 69,444 stock options with an exercise price of \$0.18 for proceeds of \$12,500.
- 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 were valued at \$0.11 per common share for total consideration of \$556,588 which was recorded as a consulting expense on the condensed interim consolidated statement of loss and comprehensive loss.

**LOBE SCIENCES LTD.****Notes to the Condensed Interim Consolidated Financial Statements****For the three months ended November 30, 2022 and 2021**

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

**11. SHARE CAPITAL (continued)**

- 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 were valued at \$0.11 per common share for total consideration of \$472,500 which was recorded as a consulting expense on the condensed interim consolidated statement of loss and comprehensive loss.

The Company had 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 9, 2022, the Company issued 69,445 common shares pursuant to 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 to 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 to the exercise of vested restricted share unit plan options with an exercise price of \$0.69 and fair value of \$129,376.

**c) Share purchase warrants**

A summary of share purchase warrant activity is as follows:

	Number of warrants	Weighted average exercise price
	#	\$
Balance, August 31, 2021	7,959,921	1.48
Issued	833,333	0.05
Expired	(1,846,758)	1.20
Balance, August 31, 2022	6,946,496	1.31
Issued	28,262,800	0.05
<b>Balance, November 30, 2022</b>	<b>35,209,296</b>	<b>0.30</b>

On September 8, 2022, the Company granted 28,262,800 warrants during the three months ended November 30, 2022, pursuant to the non-brokered private placement (Note 11(b)).

The share purchase warrants outstanding and exercisable at November 30, 2022 and August 31, 2022 have the following expiry date and exercise prices:

Expiry date	Exercise price	November 30,	August 31,
		2022	2022
	\$	#	#
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
September 8, 2025	0.05	28,262,800	-
June 16, 2027	0.05	833,333	833,333
<b>Total</b>		<b>35,209,296</b>	<b>6,946,496</b>
<b>Weighted average remaining contractual life of warrants outstanding at period end</b>		<b>2.36 years</b>	<b>0.89 years</b>

**LOBE SCIENCES LTD.****Notes to the Condensed Interim Consolidated Financial Statements****For the three months ended November 30, 2022 and 2021**

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

**11. SHARE CAPITAL (continued)****d) 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 November 30, 2022:

Grant date	Expiry date	Number of performance warrants	Number of exercisable performance warrants	Weighted average exercise price	Weighted average remaining life
		#	#	\$	Years
May 18, 2018	May 18, 2026	776,000	776,000	2.10	3.47
<b>Total</b>		<b>776,000</b>	<b>776,000</b>	<b>2.10</b>	<b>3.47</b>

In connection with Performance Warrants, the Company recognized share-based compensation expense of \$40,001 during the three months ended November 30, 2022 (2021 - \$40,001).

**e) Share purchase options**

A summary of share purchase options activity is as follows:

	Number of share purchase options outstanding	Weighted average exercise price
	#	\$
Balance, August 31, 2021	3,127,330	\$0.84
Granted	2,356,669	0.13
Cancelled	(1,476,683)	0.86
Expired	(25,000)	1.20
Exercised	(694,446)	0.18
Balance, August 31, 2022	3,287,870	0.44
Expired	(50,001)	0.48
Exercised	(69,444)	0.18
<b>Balance, November 30, 2022</b>	<b>3,168,425</b>	<b>0.44</b>

As at November 30, 2022 there were 1,573,983 share purchase options vested and exercisable (August 31, 2022 - 1,503,150) at an average exercise price of \$0.73 (August 31, 2022 - \$0.77).

**LOBE SCIENCES LTD.****Notes to the Condensed Interim Consolidated Financial Statements****For the three months ended November 30, 2022 and 2021**

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**11. SHARE CAPITAL (continued)**

The following table summarizes the share purchase options outstanding as at November 30, 2022 and August 31, 2022:

Expiry date	Exercise price	November 30,	August 31,
		2022	2022
	\$	#	#
September 12, 2022	0.48	-	50,001
February 12, 2023	1.02	37,501	37,501
February 23, 2023	1.38	33,334	33,334
October 19, 2023	0.60	58,334	58,334
January 15, 2024	0.90	216,667	216,667
March 29, 2024	0.18	69,444	138,888
June 28, 2024	1.50	50,001	50,001
July 29, 2024	1.20	83,334	83,334
August 30, 2024	0.69	16,667	16,667
January 16, 2025	0.84	41,667	41,667
February 6, 2025	0.51	554,807	554,807
June 15, 2025	0.78	183,334	183,334
August 12, 2025	0.60	125,000	125,000
August 31, 2025	0.60	58,334	58,334
May 23, 2026	0.18	500,000	500,000
June 13, 2026	0.05	500,000	500,000
July 25, 2026	0.06	500,000	500,000
May 30, 2028	1.20	140,001	140,001
<b>Total</b>		<b>3,168,425</b>	<b>3,287,870</b>
<b>Weighted average remaining contractual life of share purchase options outstanding</b>		<b>2.85 years</b>	<b>3.02 years</b>

The Company recognized share-based compensation expense of \$15,593 during the three months ended November 30, 2022, respectively (2021 - \$39,366) with respect to the share purchase options.

The Company granted no options during the three months ended November 30, 2022 (2021 - 6,667) with a weighted average fair value at grant date of \$nil (2021 - \$0.02) per stock option. The fair value of stock options was calculated using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	2022	2021
Risk-free rate	-	1.31%
Expected life of options	-	4 years
Annualized volatility	-	100%
Dividend rate	-	0%

**f) Restricted share unit plan and deferred share unit plan**

On May 28, 2021, the Company adopted a restricted share unit plan (the "RSU Plan") and a deferred share unit plan (the "DSU Plan"). In addition, the Company increased the cumulative available incentive awards to be issued under the share purchase plan, the RSU Plan and the DSU Plan to 15% of the aggregate issued and outstanding common shares of the Company.



**LOBE SCIENCES LTD.**

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**11. SHARE CAPITAL (continued)**

A summary of RSU options activity is as follows:

	Number of RSU options	Weighted average issue price
	#	\$
Balance, August 31, 2021	750,001	0.69
Exercised	(187,501)	0.69
Balance, August 31, 2022	562,500	0.69
Cancelled	(187,500)	0.69
<b>Balance, November 30, 2022</b>	<b>375,000</b>	<b>0.69</b>
<b>RSUs outstanding and exercisable</b>	<b>-</b>	<b>-</b>

The following table summarizes the RSU options outstanding as at November 30, 2022:

Grant date	Issue price	RSU outstanding at November 30, 2022	Last vesting	RSU vested and issued at November 30, 2022
	\$	#		#
15-Jun-21	0.69	375,000	30-Jun-25	-
<b>Total</b>		<b>375,000</b>		<b>-</b>
<b>Weighted average remaining contractual life of RSUs outstanding</b>				<b>2.58 years</b>

The Company recognized share-based compensation recovery of \$32,739 during the three months ended November 30, 2022, (2021 - \$65,358) with respect to the RSU options, due to the cancellation of unvested RSU options. Over their vesting terms the Company will record compensation expense of \$29,087 for fiscal 2023, \$44,987 for fiscal 2024 and \$17,706 for fiscal 2025.

A summary of DSU options is as follows:

	Number of DSU options	Weighted average issue price
	#	\$
Balance, August 31, 2021	50,004	0.60
Granted	410,003	0.22
Cancelled	(100,001)	0.29
Balance, August 31, 2022	360,006	0.25
Cancelled	(120,002)	0.25
<b>Balance, November 30, 2022</b>	<b>240,004</b>	<b>0.25</b>
<b>DSUs outstanding and exercisable</b>	<b>50,002</b>	<b>0.25</b>

**LOBE SCIENCES LTD.**
**Notes to the Condensed Interim Consolidated Financial Statements**
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**11. SHARE CAPITAL (continued)**

The following table summarizes the DSU options outstanding as at November 30, 2022:

Grant date	Issue price	DSU outstanding at November 30, 2022	Last vesting	DSU vested and issued at November 30, 2022
	\$	#		#
15-Jun-21	0.69	16,668	30-Jun-25	4,168
31-Aug-21	0.42	8,334	31-Aug-25	2,084
30-Nov-21	0.24	175,000	30-Nov-25	43,750
28-Feb-22	0.18	13,334	28-Feb-26	-
31-May-22	0.06	13,334	31-May-26	-
31-August-22	0.10	13,334	31-Aug-26	-
<b>Total</b>		<b>240,004</b>		<b>50,002</b>
<b>Weighted average remaining contractual life of DSUs outstanding</b>				<b>3.05 years</b>

The Company recognized share-based compensation recovery of \$4,748 during the three months ended November 30, 2022, respectively (2021 - \$3,814) with respect to the DSU options, due to the cancellation of unvested DSU options. Over their vesting terms the Company will record compensation expense of \$12,700 for fiscal 2023, \$10,492 for fiscal 2024, \$7,255 for fiscal 2025 and, \$4,837 for fiscal 2026.

**g) Reserves**

The following is a summary of changes in reserves:

	Share Purchase Options	RSU options	DSU Performance options	Performance warrants	Share purchase warrants	Contributed surplus	Total
	\$	\$	\$	\$	\$	\$	\$
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	39,366	65,358	3,814	-	-	-	108,538
Reclassified on expiration of options	(9,274)	-	-	-	-	9,274	-
Performance Warrants	-	-	-	41,001	-	-	41,001
Balance, November 30, 2021	1,528,799	120,661	6,272	577,684	1,720,071	1,255,255	5,208,742
Share-based payments	140,316	175,684	32,070	-	-	-	348,070
Exercise of share purchase options	(53,686)	(129,376)	-	-	-	-	(183,062)
Reclassified on expiration of options	(14,228)	-	-	-	-	14,228	-
Share purchase warrants	-	-	-	-	31,567	-	31,567
Performance Warrants	-	-	-	123,003	-	-	123,003
Reclassified on expiry of warrants	-	-	-	-	(1,616,567)	1,616,567	-
Balance, August 31, 2022	1,601,201	166,969	38,342	700,687	135,071	2,886,050	5,528,320
Share-based compensation	15,593	(32,739)	(5,748)	41,001	-	-	18,107
Exercise of share purchase options	(6,650)	-	-	-	-	-	(6,650)
Reclassified on expiration of options	(8,147)	-	-	-	-	8,147	-
Share purchase warrants	-	-	-	-	1,413,140	-	1,413,140
<b>Balance, November 30, 2022</b>	<b>1,601,997</b>	<b>134,230</b>	<b>32,594</b>	<b>741,688</b>	<b>1,548,211</b>	<b>2,894,197</b>	<b>6,952,917</b>

## LOBE SCIENCES LTD.

### Notes to the Condensed Interim Consolidated Financial Statements

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## 12. FINANCIAL RISK MANAGEMENT

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

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

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and

Level 3 - Inputs for the asset or liability that are not based on observable market data.

The fair value of cash 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 2 inputs and are measured at fair value through profit or loss. The valuation methodology and significant assumptions for the Preferred Shares is disclosed in Note 6(a) and Warrants is disclosed in Note 7.

## 13. 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 period. The Company is not subject to externally imposed capital requirements.

## 14. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having the authority and responsibility of planning, directing and executing the activities of the Company. The Company has determined that its key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers. Key management personnel compensation for the three months ended November 30, 2022 and 2021 were as follows:

	2022	2021
	\$	\$
Consulting fees	129,678	142,583
Directors' fees included in consulting fees	40,500	34,000
Professional fees	33,825	30,750
Share-based compensation	(38,487)	18,262
	165,516	225,595

Share-based compensation represents the expense recognized during the period for vesting of share purchase options, RSUs and DSUs. Share-based compensation was a recovery for the three months ended November 30, 2022 due to the reversal of expenses associated with unvested RSUs and DSUs which were cancelled pursuant to the mutual separation agreement with a former Director.

**LOBE SCIENCES LTD.****Notes to the Condensed Interim Consolidated Financial Statements****For the three months ended November 30, 2022 and 2021**

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

Due to related parties as at November 30, 2022 and August 31, 2022 were as follows:

	<b>November 30, 2022</b>	August 31, 2022
	<b>\$</b>	<b>\$</b>
Accounts payable and accrued liabilities	<b>84,881</b>	106,664
	<b>84,881</b>	106,664

As at November 30, 2022, included in accounts payable and accrued liabilities is \$14,241 (August 31, 2022 - \$27,561) payable to a Company owned by the Chief Executive Officer for consulting fees. The amount is unsecured, non-interest bearing and due on demand.

As at November 30, 2022, included in accounts payable and accrued liabilities is \$nil (August 31, 2022 - \$13,111) 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 November 30, 2022, included in accounts payable and accrued liabilities is \$14,538 (August 31, 2022 - \$10,763) 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 November 30, 2022, included in accounts payable and accrued liabilities is \$56,102 (August 31, 2022 - \$55,229) payable to directors for director fees. The amounts are unsecured, non-interest bearing and due on demand.

**15. SUBSEQUENT EVENTS**

On December 7, 2022, the Company issued 69,444 common shares pursuant the exercise of 69,444 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 11(c)).

On January 5, 2023, a total of 1,864,580 share purchase warrants expired unexercised (Note 11(c)).

On January 11, 2022, the company issued 280,000 common shares pursuant to the exercise of share purchase warrants.