



LOBE SCIENCES LTD.

Condensed Interim Consolidated Financial Statements

For the three and nine months ended May 31, 2023 and 2022

(Unaudited - Expressed in Canadian dollars)

Notice of Disclosure of Non-auditor Review of the Condensed Interim Consolidated Financial Statements for the Three and Nine Months ended May 31, 2023 and 2022.

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 May 31, 2023 and 2022, 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 unaudited condensed interim consolidated financial statements.

July 21, 2023

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

(Unaudited - Expressed in Canadian dollars)

	Note	May 31, 2023	August 31, 2022
		\$	\$
ASSETS			
Current			
Cash		754,898	907,537
Receivables	5	12,055	18,282
Inventory	4	41,569	-
Prepaid expenses and deposits	6	81,083	110,102
		889,605	1,035,921
Investment in Krysalis	10	665,524	681,996
Intangible assets	11	2,167,727	29,778
Total assets		3,722,856	1,747,695
LIABILITIES			
Current			
Accounts payable and accrued liabilities	17	1,319,264	1,302,005
Convertible notes	12	290,662	-
Derivative liability	13	34,865	-
Deferred revenue	4	842,706	-
Total liabilities		2,487,497	1,302,005
SHAREHOLDERS' EQUITY			
Share capital	14(b)	28,451,348	25,221,396
Shares to be issued	14(b)	-	671,000
Reserves	14(g)	7,088,900	5,528,320
Accumulated other comprehensive income		1,646	-
Deficit		(34,306,535)	(30,975,026)
Total shareholders' equity		1,235,359	445,690
Total liabilities and shareholders' equity		3,722,856	1,747,695

Nature of operations and going concern (Note 1)

Contingency (Note 7(c))

Subsequent events (Note 19)

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

/s/ "Philip J. Young"

Director

/s/ "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 number of shares)

	Note	Three months ended		Nine months ended	
		2023	May 31, 2022	2023	May 31, 2022
		\$	\$	\$	\$
Operating expenses					
Advertising		79,905	65,721	254,081	168,711
Amortization	11	17,339	-	19,106	-
Consulting fees	17	253,884	349,598	1,908,124	1,253,686
General and administrative		26,314	38,974	130,275	162,921
Insurance		93,900	82,638	274,806	248,799
Professional fees		136,621	86,874	277,362	304,330
Research	14(c)	(326,213)	-	255,121	323,537
Share-based compensation	14,17	76,848	164,303	173,010	499,282
Operating loss		358,598	788,108	3,291,885	2,961,266
Other income (expenses)					
Accretion expense	12	(14,554)	-	(14,701)	-
Dividend income	7(a)	-	213,047	-	1,806,712
Foreign exchange loss		(27,842)	(22,775)	(119,461)	(67,064)
Gain on change in fair value of derivative liability	13	14,309	-	37,277	-
Gain on debt settlement	14(b),14(c)	82,374	-	82,374	-
Interest expense	12	(7,790)	-	(8,641)	-
Interest income		-	3,314	-	3,314
Loss on change in fair value of common shares	7(b)	-	1,635,236	-	-
Impairment of dividend receivable	7(a)	-	(2,747,535)	-	(2,747,535)
Loss on change in fair value of preferred shares	7(a)	-	(244,881)	-	(5,437,753)
Loss on change in fair value of warrants	7	-	11,711	-	(183,605)
Other income		-	(2,193)	-	-
Share of loss on Krysalis	10	-	(19,450)	(16,472)	(61,587)
Net loss		(312,101)	(1,961,634)	(3,331,509)	(9,648,784)
Other comprehensive income					
Currency translation differences		1,450	-	1,646	-
Comprehensive loss		(310,651)	(1,961,634)	(3,329,863)	(9,648,784)
Net loss per share:					
Basic and diluted		(0.00)	(0.05)	(0.04)	(0.26)
Weighted average number of shares:					
Basic and diluted		114,291,584	38,087,284	86,310,827	37,666,039

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)

	Nine months ended	
	2023	May 31, 2022
	\$	\$
Operating activities		
Net loss	(3,331,509)	(9,648,784)
Items not affecting cash:		
Amortization	19,106	-
Consulting fees	1,029,088	-
Research	30,625	-
Share-based compensation	173,010	499,282
Accretion expense	14,701	-
Dividend income	-	(1,806,712)
Unrealized foreign exchange loss (gain)	1,646	(767)
Gain on change in fair value of derivative liability	(37,277)	-
Interest expense	8,641	-
Interest income	-	(3,314)
Impairment of dividend receivable	-	2,747,535
Loss on change in fair value of preferred shares	-	5,437,753
Loss on change in fair value of warrants	-	183,605
Share of loss on Krysalis	16,472	61,587
Changes in non-cash working capital items:		
Receivables	6,227	168,895
Prepaid expenses and deposits	29,019	(69,988)
Accounts payable and accrued liabilities	104,286	264,335
Deferred revenue	842,706	-
Cash used in operating activities	(1,093,259)	(2,166,573)
Investing activities		
Proceeds from sale of common shares	-	1,743,311
Cash provided by investing activities	-	1,743,311
Financing activities		
Shares issued - private placement	665,283	-
Shares issued - exercise of stock options	25,000	112,500
Shares issued - exercise of share purchase warrants	14,000	-
Share issue costs	(102,497)	(3,324)
Convertible notes issued	337,010	-
Cash provided by financing activities	938,796	109,176
Effect of exchange rate changes in cash	1,824	-
Change in cash	(154,463)	(314,086)
Cash, beginning of period	907,537	1,141,839
Cash, end of period	754,898	827,753

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

LOBE SCIENCES LTD.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

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

	Number of shares	Share capital	Shares to be issued	Reserves	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
	#	\$	\$	\$	\$	\$	\$
Balance, August 31, 2021	37,439,035	24,841,218	115,000	5,059,203	(247,999)	(18,474,175)	11,293,247
Shares issued - service agreement	166,667	115,000	(115,000)	-	-	-	-
Shares issued - exercise of stock options	625,000	159,536	-	(47,036)	-	-	112,500
Share issue costs	-	(3,324)	-	-	-	-	(3,324)
Share-based compensation	-	-	-	499,282	-	-	499,282
Cumulative translation adjustment reclassified to deficit	-	-	-	-	247,999	(247,999)	-
Net loss for the period	-	-	-	-	-	(9,648,784)	(9,648,784)
Balance, May 31, 2022	38,230,702	25,112,430	-	5,511,449	-	(28,370,958)	2,252,921
Shares issued - exercise of stock options	69,445	19,150	-	(6,650)	-	-	12,500
Shares issued - RSU vesting	187,501	129,376	-	(129,376)	-	-	-
Shares to be issued - private placement	-	-	671,000	-	-	-	671,000
Share issue costs	-	(39,560)	-	-	-	-	(39,560)
Share purchase warrants	-	-	-	31,567	-	-	31,567
Share-based compensation	-	-	-	121,330	-	-	121,330
Net loss for the period	-	-	-	-	-	(2,604,068)	(2,604,068)
Balance, August 31, 2022	38,487,648	25,221,396	671,000	5,528,320	-	(30,975,026)	445,690
Shares issued - private placement	26,950,000	-	(671,000)	1,347,500	-	-	676,500
Shares issued - exercise of stock options	138,888	38,301	-	(13,301)	-	-	25,000
Shares issued - mutual separation agreement	9,800,836	1,029,088	-	-	-	-	1,029,088
Shares issued - exercise of share purchase warrants	280,000	28,000	-	(14,000)	-	-	14,000
Shares issued - acquisition of Altemia	76,000,000	2,161,250	-	-	-	-	2,161,250
Shares issued - debt settlement	2,166,000	75,810	-	-	-	-	75,810
Share issue costs	1,312,800	(102,497)	-	-	-	-	(102,497)
Share purchase warrants	-	-	-	67,371	-	-	67,371
Share-based compensation	-	-	-	173,010	-	-	173,010
Currency translation adjustment	-	-	-	-	1,646	-	1,646
Net loss for the period	-	-	-	-	-	(3,331,509)	(3,331,509)
Balance, May 31, 2023	155,136,172	28,451,348	-	7,088,900	1,646	(34,306,535)	1,235,359

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 and nine months ended May 31, 2023 and 2022
(Unaudited - Expressed in Canadian dollars, except where noted)

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 (“CSE”) and under the symbol “LOBEF” on the OTCQB.

On June 10, 2022, the Company consolidated its issued share capital on the basis 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, share 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 biopharmaceutical company committed to discovering and developing patient-focused medicines for orphan and rare diseases. 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. With the acquisition of Altemia & Company LLC (“Altemia”) on April 17, 2023 (Note 4), the Company intend to commercialize a medical food named Altemia™ for the treatment of Sickle Cell Disease (“SCD”).

Going concern

These unaudited condensed interim consolidated financial statements for the three and nine months ended May 31, 2023 and 2022 (the “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. As at May 31, 2023, the Company had a working capital deficiency of \$1,597,892 (August 31, 2022 - \$266,084) and an accumulated deficit of \$34,306,535 (August 31, 2022 - \$30,975,026). During the nine months ended May 31, 2023, the Company incurred a net loss of \$3,331,509 (2022 - \$9,648,784). These factors form a material uncertainty that casts significant doubt over 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 financial statements were approved by the Board of Directors and authorized for issue on July 21, 2023.

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee applicable to the preparation of financial statements including International Accounting Standard 34 *Interim Financial Reporting*. These 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 financial statements have been prepared on a historical cost basis except for those financial instruments which have been classified at fair value through profit or loss. In addition, except for cash flow information, these financial statements have been prepared using the accrual method of accounting.

c) Basis of consolidation

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

LOBE SCIENCES LTD.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended May 31, 2023 and 2022
(Unaudited - Expressed in Canadian dollars, except where noted)

2. BASIS OF PRESENTATION (continued)

All intercompany balances, and transactions have been eliminated on consolidation.

A summary of the Company's subsidiaries included in these financial statements as at May 31, 2023 is as follows:

Name of subsidiary	Country of incorporation	Percentage ownership	Functional currency
Eleusian Biosciences Corp.	Canada	100%	CAD
Lobe Sciences Australia Pty Ltd. ⁽¹⁾	Australia	100%	AUD
Altemia & Company, LLC ⁽²⁾	United States	100%	USD

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

(2) Altemia was acquired on April 17, 2023 (Note 4).

d) Functional and presentation currency

These financial statements are presented in Canadian dollars ("CAD"), except as otherwise noted. The functional currency of the Company is CAD. See "Basis of Consolidation" for the functional currency of the Company's subsidiaries. References to "USD" or "US\$" are to United States dollars.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in the preparation of these financial statements are consistent with those applied and disclosed in Note 3 to the annual financial statements, with the exception of the following:

(a) Significant estimates and assumptions

Convertible instruments

Convertible notes are compound financial instruments which are accounted for separately by their components: a financial liability and a derivative liability. The derivative liability, which represents the conversion option is initially measured at fair value using the Black-Scholes option pricing model. The financial liability, which represents the obligation to pay the principal and coupon interest on the convertible notes in the future, is initially measured using the residual method as principal amount of the debt obligation less the initial fair value of the derivative liability at issuance.

The identification of convertible note components is based on interpretations of the substance of the contractual arrangement and therefore requires judgement from management. The separation of the components affects the initial recognition of the convertible notes at issuance and the subsequent recognition of accretion on the liability component. The determination of the fair value of the derivative liability is based on a number of assumptions as the Company utilizes the Black-Scholes option pricing model for this measurement. The use of the Black-Scholes option pricing model requires management to make various estimates and assumptions that impact the value assigned to the derivative liability including the forecasted future volatility of the stock price, the risk-free interest rate, dividend yield and the expected life of the conversion option. Changes in these assumptions can significantly affect the fair value estimate.

(b) Convertible notes

The convertible notes were determined to be compound instruments, comprising a financial liability (debt obligation) and a derivative liability (conversion option). The derivative liability is recognized at fair value using the Black-Scholes option pricing model. Using the residual method, the carrying amount of the debt obligation represents the difference between the principal amount and the derivative liability. The convertible notes, net of the conversion option, are accreted to the principal balance using the effective interest rate method over the term of the convertible notes, such that the carrying amount of the debt obligation will equal the principal balance at maturity.

The derivative liability associated with the conversion option of the convertible notes is measured using the Black-Scholes option pricing model. The derivative liability is initially measured on the transaction date, remeasured on each balance sheet date, and on such a date that the conversion option is exercised. The change in fair value is recognized as a gain or loss on the condensed interim consolidated statements of loss and comprehensive loss. Upon exercise of a conversion option, the conversion option's fair value is de-recognized and allocated to equity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Upon exercise of the convertible debentures, the conversion option and the carrying value of debt obligation are reclassified to share capital. Transaction costs are allocated on a pro-rata basis between the debt obligation and the conversion option.

(c) Inventories

Finished products, and supplies inventories are valued at the lower of weighted average cost and net realizable value. For finished product inventories, cost includes all direct costs incurred in production, including direct labour and materials, freight, depreciation and amortization and directly attributable overhead costs. When inventories have been written down to net realizable value, a new assessment of net realizable value in each subsequent period is made. If the circumstances that caused the write-down no longer exist, the remaining amount of the write-down is reversed. Supplies inventory is valued at the lower of weighted average cost and net realizable value. Cost includes acquisition, freight and other directly attributable costs.

(d) Revenue recognition

Revenue comprises the fair value of consideration received or receivable, for the sale of goods in the ordinary course of the Company's activities, taking into account contractually defined terms of payment and excluding taxes or duty. Revenue is measured based on the consideration specified in a contract with a customer. The Company recognizes revenue when performance obligations under the terms of a contract with a customer are satisfied and collectability has been reasonably assured.

The Company does not have performance obligations subsequent to delivery on the sale of goods to customers and revenues from sale of goods are recognized at a "point in time", which is upon passing of control to the customer. The Company transfers control and satisfies its performance obligation upon delivery.

4. ACQUISITION OF ALTEMIA

On April 17, 2023, the Company completed the acquisition of 100% of Altemia. Pursuant to a share purchase agreement, Altemia shareholders will receive an aggregate of 76,000,000 common shares of the Company ("Lobe Shares"). All Lobe Shares to be issued will be subject to contractual restrictions on transfer, pursuant to which 25% of the Lobe Shares were issued on the closing of the Transaction and further 25% were issued on delivery of inventory to a Lobe designated storage facility; 25% will be delivered on the first commercial sale allowing the trademark validation; and 25% will be delivered on successful completion of SAN100 tech transfer documentation (batch records for R&D batch) and samples of SAN100 are delivered to Lobe. In addition, Lobe will issue 3,000,000 warrants contingent on Altemia achieving \$20,000,000 in cumulative sales ("Contingent Warrants"). Pricing of the Contingent Warrants will be determined in accordance with the relevant CSE policy.

Altemia holds a licensing agreement which grants Altemia a worldwide, nontransferable, non-sublicensable, exclusive right to make, have made, use, offer to sell, sell, and import licensed products which utilize a patent used in the formulation of Altemia™ over the life of the underlying patent which expires on March 11, 2041. Pursuant to the licensing agreement, Lobe will pay a tiered royalty on annual sales. In addition, the Company will pay 5% of the net sales revenue received for the sale of a pediatric priority review voucher for the approval of our SCD prescription drug for the pediatric orphan indication.

LOBE SCIENCES LTD.**Notes to the Condensed Interim Consolidated Financial Statements****For the three and nine months ended May 31, 2023 and 2022**

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

4. ACQUISITION OF ALTEMIA (continued)

Management elected to apply the optional concentration test and determined that Altemia meets the concentration test requirements and did not qualify as a business according to the definition in IFRS 3 *Business Combinations* and, therefore, assigned the value to the assets and liabilities identified, with the fair value of the common shares issued by Lobe based on the fair value of the common shares on the closing date of the acquisition and the fair value of the contingent warrants, net of restricted stock discount as follows:

	\$
Consideration	
Fair value of 76,000,000 common shares issued ⁽¹⁾	2,161,250
Fair value of 3,000,000 Contingent Warrants ⁽²⁾	36,746
	2,197,996
Fair values of acquired assets	
Inventory	40,941
Intangible assets (Note 11)	2,157,055
	2,197,996

(1) The fair value was discounted for lack of marketability and the 25% to be delivered on the first commercial sale allowing the trademark validation and 25% to be delivered on successful completion of SAN100 tech transfer documentation (batch records for R&D batch) and samples of SAN100 are delivered to Lobe as described above.

(2) A fair value of \$36,745 was assigned to the warrant issued using the Black-Scholes option pricing model (exercise price - \$0.05, annualized volatility - 141.06%, expected life - 3.00 years, risk free rate - 3.75%, dividend yield - 0%, milestone probability - 50%).

The intangible asset is comprised of a patent cooperation treaty application. During the three and nine months ended May 31, 2023, the Company recorded amortization of \$16,952 and \$16,952, respectively (2022 - \$nil and \$nil, respectively).

On May 5, 2023, Lobe entered into a commercial distribution agreement for the supply and distribution of Altemia™ in the United States and US territories. As at May 31, 2023, Lobe has received \$842,706 (US\$619,500) as an advance payment for products shipped and not yet sold, which were recorded as deferred revenue on the condensed interim consolidated statement of financial position.

5. RECEIVABLES

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

	May 31, 2023	August 31, 2022
	\$	\$
Sales tax receivable	12,055	18,282
	12,055	18,282

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

LOBE SCIENCES LTD.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended May 31, 2023 and 2022
(Unaudited - Expressed in Canadian dollars, except where noted)

6. PREPAID EXPENSES AND DEPOSITS

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

	May 31, 2023	August 31, 2022
	\$	\$
Advertising	32,500	-
Insurance	29,790	84,453
Deposits	4,713	15,291
Other	14,080	10,358
	81,083	110,102

7. IONIC 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 Ionic preferred shares, of which 8,638,751 were distributed as a finder's fee. The preferred shares are convertible on a one-for-one basis into common shares of Ionic but cannot be converted for a period of four years from issuance, if that results in the Company holding 10% or more of the common shares of Ionic. The preferred shares and common shares from conversion are restricted from trading. The trading restriction is lifted 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.

A summary of the Company's Ionic preferred shares is as follows:

	Number of preferred shares	Total
	#	\$
Balance, August 31 2021	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)
Balance, August 31, 2022 and May 31, 2023	36,707,180	-

The Ionic preferred shares are classified as and measured at fair value through profit or loss. The fair value of the preferred shares was calculated using a Black-Scholes option pricing model. A summary of the Company's assumptions for the Black-Scholes option pricing model on the respective revaluation dates is as follows:

Date	Expected life	Unit price	Expected volatility	Risk-free rate	Dividend yield	Fair value
	Years	\$	%	%	%	\$
March 5, 2021 ⁽¹⁾	0.58 - 1.50	0.235	125%	0.24%	0%	14,094,450
August 31, 2021	0.10 - 1.01	0.095	105%	0.24%	0%	6,693,438
August 31, 2022	0.01	0.005	105%	0.24%	0%	183,536

(1) The fair value of \$14,094,450 represents the total value of the preferred shares issued of \$17,582,307 less a finder's fee of \$1,489,632 and the March 5, 2021 conversion of 10,030,629 preferred shares to common shares valued at \$1,998,225.

LOBE SCIENCES LTD.**Notes to the Condensed Interim Consolidated Financial Statements****For the three and nine months ended May 31, 2023 and 2022**

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

7. IONIC PREFERRED AND COMMON SHARES (continued)

As at and during the year ended August 31, 2022, the Company recorded a loss on change of the fair value of 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 Ionic preferred shares due to the deteriorating credit quality of Ionic, the voting support and lock-up agreement ("VLA") (Note 7(c)) and the probability of the completion of the plan of arrangement (Note 7(c)) completing as currently structured or without further significant delays. Currently, the common shares of Ionic have been suspended for trading.

Each Ionic 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 Ionic 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 is as follows:

	\$
Balance, August 31 2021	1,563,310
Dividend income	2,194,718
Converted to 72,011,555 Ionic common shares	(1,114,379)
Impairment of dividend receivable	(2,643,649)
Balance, August 31, 2022 and May 31, 2023	-

During the nine months ended May 31, 2023, the Company recorded an impairment of dividend receivable of \$nil (2022 - \$2,747,535) due to the same qualitative factors as noted above in relation to the Ionic preferred shares.

b) Common shares

A summary of the Company's Ionic common shares is as follows:

	Number of shares	Total
	#	\$
Balance, August 31 2021	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
Ionic common shares sold	(106,549,397)	(1,743,311)
Loss on change in fair value of common shares	-	(1,362,042)
Balance, August 31, 2022 and May 31, 2023	20,522,811	-

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

During the year ended August 31, 2022, the Company recorded and loss on the change of the fair value of the Ionic 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.

c) Contingency

On April 20, 2022, the Company entered into 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 May 31, 2023, the Plan of Arrangement has not been cancelled or executed. Due to the contingent nature of the VLA, the Company has not reflected the impact of the VLA in these financial statements.

LOBE SCIENCES LTD.**Notes to the Condensed Interim Consolidated Financial Statements****For the three and nine months ended May 31, 2023 and 2022**

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

7. IONIC PREFERRED AND COMMON SHARES (continued)

Pursuant to the VLA, the Company agreed to the following on the effective date of the Plan of Arrangement:

- convert 36,707,180 Ionic 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.

8. IONIC 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 or loss.

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

	\$
Balance, August 31 2021	200,926
Loss on change in fair value of warrants	(200,926)
Balance, August 31, 2022 and May 31, 2023	-

A summary of the Company's assumptions for the Black-Scholes option pricing model on the respective revaluation dates is as follows:

Date	Expected life	Unit price	Expected volatility	Risk-free rate	Dividend yield	Fair value
	Years	\$	%	%	%	\$
March 5, 2021	5.00	0.2350	100.0%	0.24%	0.00%	662,741
August 31, 2021	4.50	0.0950	100.0%	0.24%	0.00%	200,926
August 31, 2022	3.50	0.0050	231.8%	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 value as noted in the table above and adjusted for the same qualitative factors as noted above in relation to the preferred shares (Note 7 (a)).

9. IONIC PROMISSORY NOTE RECEIVABLE

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

A summary of the Company's promissory note receivable is as follows:

	\$
Balance, August 31 2021	65,409
Interest income	4,451
Unrealized foreign exchange gain	2,534
Impairment of promissory note receivable	(72,394)
Balance, August 31, 2022 and May 31, 2023	-

LOBE SCIENCES LTD.**Notes to the Condensed Interim Consolidated Financial Statements****For the three and nine months ended May 31, 2023 and 2022**

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

9. IONIC PROMISSORY NOTE RECEIVABLE (continued)

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

10. 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 was accounted as an investment in joint venture in accordance with International Accounting Standard 28 *Investments in Associates and Joint Ventures*, and as such, the Company is using the equity method to account for its investment.

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

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

(1) The Company issued 833,334 common shares with a fair value of \$0.63 per share and 83,334 common shares with a fair value of \$0.63 per 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 warrants using the Black-Scholes option pricing model with the following assumptions: annualized volatility - 100%, expected life - 2.00 years, risk free rate - 0.32%, dividend yield - 0%.

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

	\$
Balance, August 31 2021	961,508
Company's share of loss during the period	(279,512)
Balance, August 31 2022	681,996
Company's share of loss during the period	(16,472)
Balance, May 31, 2023	665,524

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

	May 31, 2023	August 31, 2022
	\$	\$
Cash	37	480
Prepaid expenses and deposits	44,214	44,214
Short term investments	15,000	47,500
Assets	59,251	92,194

LOBE SCIENCES LTD.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended May 31, 2023 and 2022
(Unaudited - Expressed in Canadian dollars, except where noted)

10. INVESTMENT IN KRYSALIS (continued)

	Nine months ended	
	May 31, 2023	May 31, 2022
	\$	\$
Consulting	-	122,789
General administrative expenses	455	275
Foreign exchange (gain) loss	(12)	110
Loss on change in fair value of short-term investments	32,500	-
Net loss for the period	32,943	123,174
Company ownership percentage	50%	50%
Net loss attributable to the Company	16,472	61,587

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.

11. INTANGIBLE ASSETS

A summary of the Company's intangible assets is as follows:

	\$
Cost	
Balance, August 31, 2021 and 2022	40,000
Addition (Note 4)	2,157,055
Balance, May 31, 2023	2,197,055
Accumulated amortization	
Balance, August 31, 2021	-
Amortization	10,222
Balance, August 31, 2022	10,222
Amortization	19,106
Balance, May 31, 2023	29,328
Carrying amount	
Balance, August 31, 2022	29,778
Balance, May 31, 2023	2,167,727

12. CONVERTIBLE NOTES

A summary of the Company's convertible notes is as follows:

	\$
Balance, August 31, 2022	-
Convertible notes issued	337,010
Derivative liability	(72,142)
Interest expense	8,641
Accretion expense	14,701
Foreign exchange loss	2,452
Balance, May 31, 2023	290,662

LOBE SCIENCES LTD.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended May 31, 2023 and 2022

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

12. CONVERTIBLE NOTES (continued)

In accordance with IFRS 9 *Financial Instruments*, the convertible notes were determined to be compound instruments, comprising separate financial instruments, being the debt obligation and the conversion option, which are bifurcated and are presented separately on the condensed interim consolidated statement of financial position. As the number of common shares to be issued on exercise of the conversion option is contingent on the variable share price of the Company and in the case of these US dollar denominated instruments, the variable foreign exchange rate, the conversion option has been classified as a derivative liability.

On February 8, 2023, the Company issued a convertible note to a private investor for gross proceeds of \$134,290 (US\$100,000). The convertible note bears interest at 11% per annum and matures on February 1, 2024. The note is convertible at a conversion price of \$0.05 per common share upon listing the Company's common shares on the Australian Stock Exchange or another recognized securities exchange in the United States or Australia before maturity, or if there is a change in control while it is still outstanding. Upon the issuance of the convertible note, the Company measured the fair value of the conversion option using a Black-Scholes option pricing model. The Company determined that the fair value of the conversion option to be \$34,728 (Note 13), the residual of \$99,562 was allocated to the convertible note.

On February 27, 2023, the Company issued a convertible note to a private investor for gross proceeds of \$135,730 (US\$100,000). The convertible note bears interest at 11% per annum and matures on February 1, 2024. The note is convertible at a conversion price of \$0.05 per common share upon listing the Company's common shares on the Australian Stock Exchange or another recognized securities exchange in the United States or Australia before maturity, or if there is a change in control while it is still outstanding. Upon the issuance of the convertible note, the Company measured the fair value of the conversion option using a Black-Scholes option pricing model. The Company determined that the fair value of the conversion option to be \$26,068 (Note 13), the residual of \$109,662 was allocated to the convertible note.

On April 17, 2023, the Company issued a convertible note to a private investor for gross proceeds of \$66,990 (US\$50,000). The convertible note bears interest at 11% per annum and matures on February 1, 2024. The note is convertible at a conversion price of \$0.05 per common share upon listing the Company's common shares on the Australian Stock Exchange or another recognized securities exchange in the United States or Australia before maturity, or if there is a change in control while it is still outstanding. Upon the issuance of the convertible note, the Company measured the fair value of the conversion option using a Black-Scholes option pricing model. The Company determined that the fair value of the conversion option to be \$11,346 (Note 13), the residual of \$55,644 was allocated to the convertible note.

During the three and nine months ended May 31, 2023, the Company incurred accretion expense of \$14,554 and \$14,701, respectively (US\$10,726 and US\$10,836) (2022 - \$nil and \$nil, respectively in relation to these convertible notes).

During the three and nine months ended May 31, 2023, the Company incurred interest expense of \$7,790 and \$8,641, respectively (US\$5,741 and US\$6,374) (2022 - \$nil and \$nil, respectively in relation to these convertible notes). This interest compounds daily.

13. DERIVATIVE LIABILITY

A summary of the Company's derivative liability is as follows:

	\$
Balance, August 31, 2022 and 2021	-
Derivative conversion features	72,142
Gain on change in fair value of derivative conversion feature	(37,277)
Balance, May 31, 2023	34,865

Upon the issuance of the convertible notes (Note 12), the Company measured the fair value of the conversion option using a Black-Scholes option pricing model. The Company determined that the fair value of the conversion option at initial recognition was \$72,142. The fair value was subsequently remeasured at May 31, 2023 as \$34,865 (August 31, 2022 - \$nil), resulting in a gain of \$14,309 and \$37,277 during the three and nine months ended May 31, 2023, respectively (2022 - \$nil and \$nil, respectively).

LOBE SCIENCES LTD.**Notes to the Condensed Interim Consolidated Financial Statements****For the three and nine months ended May 31, 2023 and 2022**

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

13. DERIVATIVE LIABILITY (continued)

A summary of the assumptions used in the Black-Scholes option pricing model is as follows:

	May 31, 2023	April 17, 2023	February 27, 2023	February 8, 2023
Risk-free interest rate	4.2%	4.0%	4.3%	4.0%
Share price	\$0.03	\$0.04	\$0.04	\$0.04
Exercise price	\$0.05	\$0.05	\$0.05	\$0.05
Expected life (years)	0.67	0.79	0.93	0.98
Expected volatility	100%	100%	100%	100%
Dividend rate	0%	0%	0%	0%

14. 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 nine months ended May 31, 2023:

- 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 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, annualized 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, annualized 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 to the exercise of 69,444 stock options with an exercise price of \$0.18 for proceeds of \$12,500. As a result of the option exercise, \$6,651 were reallocated from reserves to share capital.
- 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 \$0.105 per common share using the market price on the date of the issuance 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 and nine months ended May 31, 2023 and 2022**

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

14. 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 \$0.105 per common share using the market price on the date of the issuance for total consideration of \$472,500 which was recorded as a consulting expense on the condensed interim consolidated statement of loss and comprehensive loss.
- On December 7, 2022, the Company issued 69,444 common shares pursuant to the exercise of 69,444 stock options with an exercise price of \$0.18 for proceeds of \$12,500. As a result of the option exercise, \$6,651 were reallocated from reserves to share capital.
- On January 11, 2023, the Company issued 280,000 common shares pursuant to the exercise of share purchase warrants. As a result of the warrant exercise, \$14,000 were reallocated from reserves to share capital.
- On April 14, 2023, the Company issued 2,166,000 common shares at a price of \$0.035 per common share representing the market price on the date of issuance for total consideration of \$75,810 as settlement of \$108,300 in accounts payables to directors which resulted in a gain on debt settlement of \$32,490.
- On April 17, 2023, pursuant to the agreement to acquire Altemia, the company issued 76,000,000 common shares for total consideration of \$2,161,250 (Note 4).

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 the Company's 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	30,162,800	0.05
Exercised	(280,000)	0.05
Expired	(5,743,080)	1.50
Balance, May 31, 2023	31,086,216	0.06

LOBE SCIENCES LTD.**Notes to the Condensed Interim Consolidated Financial Statements****For the three and nine months ended May 31, 2023 and 2022**

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

14. SHARE CAPITAL (continued)

On February 2, 2023, the Company granted 1,000,000 warrants to a consultant with a weighted average fair value at grant date of \$0.02 per warrant for total compensation of \$19,408 which has been included in research on the consolidated statement of loss and comprehensive loss. The fair value of warrants was calculated using the Black-Scholes option pricing model (annualized volatility - 100%, expected life - 2.00 years, risk free rate - 3.79%, dividend yield - 0%).

On April 14, 2023, the Company granted 900,000 warrants to a consultant with a weighted average fair value at grant date of \$0.01 per warrant with fair value of \$11,217 as settlement of \$61,101 in accounts payables resulted in a gain on debt settlement of \$49,884. The fair value of warrants was calculated using the Black-Scholes option pricing model (annualized volatility - 100%, expected life - 2.00 years, risk free rate - 3.72%, dividend yield - 0%).

On April 14, 2023, the Company granted 900,000 common shares at a price of \$0.035 per common share representing the market price on the date of issuance for total consideration of \$75,810 as settlement of \$108,300 in accounts payables to directors which resulted in a gain on debt settlement of \$32,490.

A summary of the Company's outstanding share purchase warrants as at May 31, 2023, is as follows:

Expiry date	Number of Warrants	Weighted average exercise price	Weighted average remaining years
	#	\$	Years
June 9, 2023	100,000	1.20	0.02
October 2, 2023	270,083	1.20	0.34
February 2, 2025	1,000,000	0.05	1.68
April 28, 2025	900,000	0.05	1.91
September 8, 2025	27,982,800	0.05	2.28
June 16, 2027	833,333	0.05	4.05
	31,086,216	0.06	2.27

d) Performance warrants

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

A summary of the Company's outstanding Performance Warrants as at May 31, 2023, is as follows:

Expiry date	Number of Performance Warrants outstanding	Number of Performance Warrants exercisable	Weighted average exercise price	Weighted average remaining life
	#	#	\$	Years
May 18, 2026	776,000	776,000	2.10	2.97
	776,000	776,000	2.10	2.97

In connection with the Performance Warrants, the Company recognized share-based compensation expense of \$40,001 and \$123,003 during the three and nine months ended May 31, 2023, respectively (2022 - \$41,001 and \$123,003, respectively).

LOBE SCIENCES LTD.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended May 31, 2023 and 2022
(Unaudited - Expressed in Canadian dollars, except where noted)

14. SHARE CAPITAL (continued)

e) Share purchase options

A summary of the Company's 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
Exercised	(694,446)	0.18
Expired	(25,000)	1.20
Balance, August 31, 2022	3,287,870	0.44
Exercised	(138,888)	0.18
Expired	(120,836)	0.90
Balance, May 31, 2023	3,028,146	0.43

As at May 31, 2023, there were 1,744,816 share purchase options vested and exercisable (August 31, 2022 - 1,503,150) at an average exercise price of \$0.61 (August 31, 2022 - \$0.78).

A summary of the Company's outstanding share purchase options as at May 31, 2023 as follows:

Expiry date	Number of options outstanding	Number of options exercisable	Weighted average exercise price	Weighted average remaining years
	#	#	\$	Years
October 19, 2023	58,334	58,334	0.60	0.39
January 15, 2024	216,667	216,667	0.90	0.63
June 28, 2024	50,001	50,001	1.50	1.08
July 29, 2024	83,334	83,334	1.20	1.17
August 30, 2024	16,667	16,667	0.69	1.25
January 16, 2025	41,667	41,667	0.84	1.63
February 6, 2025	554,807	554,807	0.51	1.69
June 15, 2025	183,334	100,001	0.78	2.05
August 12, 2025	125,000	62,500	0.60	2.20
August 31, 2025	58,334	37,501	0.60	2.26
May 23, 2026	500,000	83,336	0.18	2.98
June 13, 2026	500,000	150,000	0.05	3.04
July 25, 2026	500,000	150,000	0.06	3.15
May 30, 2028	140,001	140,001	1.20	5.00
	3,028,146	1,744,816		

The Company recognized share-based compensation expense of \$8,366 and \$33,981 during the three and nine months ended May 31, 2023, respectively (2022 - \$45,593 and \$155,408, respectively) with respect to the share purchase options.

LOBE SCIENCES LTD.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended May 31, 2023 and 2022
(Unaudited - Expressed in Canadian dollars, except where noted)

14. SHARE CAPITAL (continued)

The Company did not grant any options during the nine months ended May 31, 2023 (2022 - 1,356,669). The fair value of share purchase options was calculated using the Black-Scholes option pricing model using the following weighted average assumptions:

	2023	2022
Risk-free rate	-	2.20%
Expected life of options	-	2.77 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.

A summary of the Company's RSU options activity is as follows:

	Number of RSUs	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
Balance, May 31, 2023	375,000	0.69

A summary of the Company's RSUs outstanding as at May 31, 2023 is as follows:

	Number of RSUs outstanding	Number of RSUs vested and unissued	Weighted average issue price	Weighted average remaining years
	#	#	\$	Years
Last vesting date				
June 30, 2025	375,000	375,000	0.69	2.08
Total	375,000	375,000	0.69	2.08

The Company recognized share-based compensation expense of \$23,169 and \$13,096 during the three and nine months ended May 31, 2023, respectively (2022 - \$66,076 and \$196,074, respectively) with respect to the RSUs, due to the cancellation of unvested RSUs. Over their vesting terms the Company will record compensation expense of \$15,991 for fiscal 2023, \$44,987 for fiscal 2024 and \$17,706 for fiscal 2025.

A summary of Company's DSU options activity is as follows:

	Number of DSUs	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
Balance, May 31, 2023	240,004	0.25

LOBE SCIENCES LTD.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended May 31, 2023 and 2022

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

14. SHARE CAPITAL (continued)

A summary of the Company's DSUs outstanding as at May 31, 2023 is as follows:

Last vesting date	Number of DSUs outstanding	Number of DSUs vested and unissued	Weighted average issue price	Weighted average remaining years
	#	#	\$	Years
June 30, 2025	16,668	4,168	0.69	2.08
August 31, 2025	8,334	2,084	0.42	2.25
November 30, 2025	175,000	43,750	0.24	2.50
February 28, 2026	13,334	3,334	0.18	2.75
May 31, 2026	13,334	3,334	0.06	3.00
August 31, 2026	13,334	-	0.10	3.25
Total	240,004	56,670	0.25	2.55

The Company recognized share-based compensation expense of \$4,312 and \$2,930 during the three and nine months ended May 31, 2023, respectively (2022 - \$11,633 and \$24,797, respectively) with respect to the DSUs, due to the cancellation of unvested DSUs. Over their vesting terms the Company will record compensation expense of \$4,022 for fiscal 2023, \$10,492 for fiscal 2024, \$7,255 for fiscal 2025 and, \$4,837 for fiscal 2026.

g) Reserves

A summary of the Company's reserves activity is as follows:

	Share purchase options	RSUs	Performance DSUs	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 compensation	155,408	196,074	24,797	-	-	-	376,279
Exercise of share purchase options	(47,036)	-	-	-	-	-	(47,036)
Reclassified on expiration of options	(23,502)	-	-	-	-	23,502	-
Performance Warrants	-	-	-	123,003	-	-	123,003
Reclassified on expiry of warrants	-	-	-	-	(1,616,567)	1,616,567	-
Balance, May 31, 2022	1,583,577	251,377	27,255	659,686	103,504	2,886,050	5,511,449
Share-based compensation	24,274	44,968	11,087	-	-	-	80,329
Exercise of share purchase options	(6,650)	(129,376)	-	-	-	-	(136,026)
Share purchase warrants	-	-	-	-	31,567	-	31,567
Performance Warrants	-	-	-	41,001	-	-	41,001
Balance, August 31, 2022	1,601,201	166,969	38,342	700,687	135,071	2,886,050	5,528,320
Share-based compensation	33,981	13,096	2,930	123,003	-	-	173,010
Exercise of share purchase options	(13,301)	-	-	-	-	-	(13,301)
Exercise of share purchase warrants	-	-	-	-	(14,000)	-	(14,000)
Reclassified on expiration of options	(47,308)	-	-	-	-	47,308	-
Issuance of share purchase warrants	-	-	-	-	1,414,871	-	1,414,871
Balance, May 31, 2023	1,574,573	180,065	41,272	823,690	1,5350,942	2,933,358	7,088,900

LOBE SCIENCES LTD.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended May 31, 2023 and 2022
(Unaudited - Expressed in Canadian dollars, except where noted)

15. 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 Ionic common shares, dividend receivable, promissory note receivable, Ionic preferred shares and Warrants are measured using Level 2 inputs and are measured at fair value through profit or loss. The valuation methodology and significant assumptions for the Ionic preferred shares and dividend receivable are disclosed in Note 7(a), Ionic common shares is disclosed in Note 7(b), warrants are disclosed in Note 8 and promissory note receivable in Note 9.

The convertible notes and derivative liability are measured using Level 3 inputs as disclosed in Note 12 and Note 13.

16. 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 financing is 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.

17. RELATED PARTY TRANSACTIONS

Key management personnel include those who have the authority and responsibility of planning, directing and executing the activities of the Company. Key management includes directors of the Company, Chief Executive Officer, Executive Chairman, Chief Financial Officer, Chief Science Officer, Chief Operating Officer and former Executive Chairman. Other than the amounts disclosed above, there was no other compensation paid or payable to key management for employee services for the reported periods.

A summary of the Company's related party transactions is as follows:

	Three months ended		Nine months ended	
	2023	May 31, 2022	2023	May 31, 2022
	\$	\$	\$	\$
Consulting fees	104,941	188,231	792,924	625,225
Directors' fees included in consulting fees	40,500	44,300	121,500	143,694
Professional fees	34,030	30,750	96,043	104,813
Share-based compensation	27,481	91,758	16,026	264,973
	206,952	355,039	1,026,493	1,138,705

For the three and nine months ended May 31, 2023, included in consulting fees is \$nil and \$502,673, respectively (2022 - \$87,598 and \$356,674, respectively) in consulting fees charged by the former executive chairman as per an executive consulting agreement.

LOBE SCIENCES LTD.**Notes to the Condensed Interim Consolidated Financial Statements****For the three and nine months ended May 31, 2023 and 2022**

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

17. RELATED PARTY TRANSACTIONS (continued)

For the three and nine months ended May 31, 2023, included in consulting fees is \$59,338 and \$177,211, respectively (2022 - \$37,000 and \$204,918, respectively) in consulting fees charged by the Chief Executive Officer and executive chairman as per an executive consulting agreement.

For the three and nine months ended May 31, 2023, included in consulting fees is \$40,442 and \$107,880, respectively (2022 - \$50,862 and \$63,634, respectively) in consulting fees charged by the Chief Science Officer as per an executive consulting agreement.

For the three and nine months ended May 31, 2023, included in consulting fees is \$5,160 and \$5,160, respectively (2022 - \$nil and \$nil, respectively) in consulting fees charged by the Chief Operating Officer as per an executive consulting agreement.

For the three and nine months ended May 31, 2023, included in professional fees is \$34,030 and \$96,043, respectively (2022 - \$30,750 and \$104,813, respectively) in consulting fees charged by a Company related to the Chief Financial Officer.

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

A summary of the Company's amounts due to related parties is as follows:

	May 31, 2023	August 31, 2022
	\$	\$
Accounts payable and accrued liabilities	131,239	106,664

As at May 31, 2023, included in accounts payable and accrued liabilities is \$nil (August 31, 2022 - \$27,561) payable to a Company owned by the Chief Executive Officer and executive chairman for consulting fees. The amount is unsecured, non-interest bearing and due on demand.

As at May 31, 2023, included in accounts payable and accrued liabilities is \$68,129 (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 May 31, 2023, included in accounts payable and accrued liabilities is \$17,435 (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 May 31, 2023, included in accounts payable and accrued liabilities is \$5,175 (August 31, 2022 - \$nil) payable to a Company related to the Chief Operating Officer for consulting fees. The amount is unsecured, non-interest bearing and due on demand.

As at May 31, 2023, included in accounts payable and accrued liabilities is \$40,500 (August 31, 2022 - \$55,229) payable to directors for director fees. The amounts are unsecured, non-interest bearing and due on demand.

18. RECLASSIFICATION OF COMPARATIVE FIGURES

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations. An adjustment has been made to the Condensed Interim Consolidated Statements of Loss and Comprehensive Loss for the quarter ended May 31, 2022, to reclassify \$368,163 from management fees to consulting fees.

19. SUBSEQUENT EVENTS

On June 9, 2023, 100,000 share purchase warrants expired unexercised.

On June 30, 2023, the Company granted a total of 5,800,000 stock options to directors, officers and consultants of the Company. Each stock option has a three-year life and an exercise price of \$0.05. The options are subject to vesting provisions where 50% of the options granted vest immediately on the grant date and 50% of the options vest on June 30, 2024.

On June 30, 2023, the Company issued 1,000,000 DSUs to a director of the company and 4,800,000 RSUs to officers of the Company. Of the total DSUs and RSUs, 50% vest on June 30, 2024 and 50% on June 30, 2025.