LOBE SCIENCES LTD.

Consolidated Financial Statements

For the years ended August 31, 2023 and 2022

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Lobe Sciences Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Lobe Sciences Ltd. (the "Company"), which comprise the consolidated statements of financial position as at August 31, 2023 and 2022 and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' (deficiency) equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company incurred a net loss of $4,707,349 during the year ended August 31, 2023 and, as of that date, the Company's current liabilities exceeded its current assets by $2,140,263. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in our auditor's report.

Accounting for the Acquisition of Altemia & Company LLC (Altemia)

As described in Note 5 to the consolidated financial statements, during the year ended August 31, 2023, the Company acquired 100% of Altemia & Company LLC (the "Transaction") for total consideration of $2,034,995 to be settled by the issuance of common shares and warrants. Judgement is required by the Company to assess whether the Transaction constituted a business combination or an asset acquisition and determining the fair value of consideration paid.

The principal considerations for our determination that the accounting for the acquisition is a key audit matter are that the transaction is complex and requires management to exercise judgement to determine the appropriate accounting treatment, including whether the acquisition should be accounted for as an asset acquisition or business combination and assessing the fair value of consideration paid.

To address this key audit matter, we performed the following procedures:

- Obtained an understanding of the transaction, including management's assessment of whether the transaction constituted an asset acquisition or business combination.
- Reviewed the underlying purchase agreements and evaluated the contractual terms identified in connection with the transaction for consistency with amounts recorded in the consolidated financial statements.
- Evaluated management's calculation of the fair value of the consideration paid for the acquisition including the assessment of milestone achievement probabilities for shares to be issued and inputs into the warrant valuation.
- Utilizing professionals with specialized skill and knowledge in the field of valuation to assist in evaluating the appropriateness of management's valuation of consideration paid.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

February 6, 2024

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

	Note	**August 31, 2023**	August 31, 2022
		$	$
ASSETS			
Current			
Cash		**140,290**	907,537
Receivables	6	**14,915**	18,282
Inventory		**16,979**	-
Prepaid expenses and deposits	7	**147,171**	110,102
		319,355	**1,035,921**
Investment in Krysalis	11	**-**	681,996
Intangible assets	12	**1,980,136**	29,778
Total assets		**2,299,491**	**1,747,695**
LIABILITIES			
Current			
Accounts payable and accrued liabilities	13,20	**1,921,978**	1,302,005
Income tax payable	17	**205,000**	-
Convertible notes	14	**332,640**	-
Total liabilities		**2,459,618**	**1,302,005**
SHAREHOLDERS' (DEFICIENCY) EQUITY			
Share capital	16(b)	**27,623,599**	25,221,396
Shares to be issued	16(b)	**1,961,750**	671,000
Reserves	16(g)	**5,937,852**	5,528,320
Accumulated other comprehensive income		**(953)**	-
Deficit		**(35,682,375)**	(30,975,026)
Total shareholders' (deficiency) equity		**(160,127)**	445,690
Total liabilities and shareholders' (deficiency) equity		**2,299,491**	1,747,695

Nature of operations and going concern (Note 1)
Contingency (Note 8(c))
Subsequent events (Note 21)

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 consolidated financial statements.

LOBE SCIENCES LTD.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars, except number of shares)

	Note	2023	Years ended August 31, 2022
		$	$
Revenues		**840,534**	-
Cost of sales		**24,012**	-
Gross profit		**816,522**	**-**
Advertising		**(289,031)**	(248,134)
Amortization	12	**(43,696)**	(10,222)
Consulting fees	20	**(1,280,460)**	(1,621,825)
General and administrative		**(173,762)**	(198,861)
Insurance		**(368,135)**	(356,593)
Professional fees	20	**(471,516)**	(648,620)
Research	16(c)	**(1,247,540)**	(418,343)
Share-based compensation	16,20	**(301,768)**	(620,612)
		(3,359,386)	(4,123,210)
Other income (expenses)			
Accretion expense	14	**(20,760)**	-
Agreement termination expense	16(b)	**(1,029,088)**	-
Dividend income	8(a)	**-**	2,194,718
Foreign exchange loss		**(120,311)**	(114,915)
Gain on change in fair value of derivative liability	15	**44,381**	-
Gain on debt settlement	13,16(b)	**682,693**	-
Impairment of investment in Krysalis	11	**(664,274)**	-
Impairment of promissory notes receivable	10	**-**	(72,394)
Interest expense	14	**(17,882)**	-
Loss on change in fair value of common shares	8(b)	**-**	(1,362,042)
Loss on change in fair value of dividend receivable	8(a)	**-**	(2,643,649)
Loss on change in fair value of preferred shares	8(a)	**-**	(5,655,373)
Loss on change in fair value of warrants	9	**-**	(200,926)
Other income		**-**	4,451
Share of loss of joint venture Krysalis	11	**(17,722)**	(279,512)
Loss before tax		**(4,502,349)**	(12,252,852)
Income tax expense	17	**(205,000)**	-
Net loss		**(4,707,349)**	(12,252,852)
Other comprehensive income			
Currency translation differences		**(953)**	-
Comprehensive loss		**(4,708,302)**	(12,252,852)
Net loss per share:			
Basic and diluted		**(0.05)**	(0.32)
Weighted average number of shares:			
Basic and diluted		**104,351,277**	37,861,638

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

LOBE SCIENCES LTD.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

		Years ended August 31,
	2023	2022
	$	$
Operating activities		
Net loss	**(4,707,349)**	(12,252,852)
Items not affecting cash:		
Amortization	**43,696**	10,222
Research paid in share purchase warrants	**30,362**	31,567
Share-based compensation	**301,768**	620,612
Accretion expense	**20,760**	-
Agreement termination expense paid in common shares	**1,029,088**	-
Dividend income	**-**	(2,194,718)
Unrealized foreign exchange loss (gain)	**(2,249)**	(2,534)
Gain on change in fair value of derivative liability	**(44,381)**	-
Gain on debt settlement	**(606,561)**	-
Impairment of investment in Krysalis	**664,274**	-
Impairment of promissory notes receivable	**-**	72,394
Interest expense	**17,882**	-
Loss on change in fair value of common shares	**-**	1,362,042
Loss on change in fair value of dividend receivable	**-**	2,643,649
Loss on change in fair value of preferred shares	**-**	5,655,373
Loss on change in fair value of warrants	**-**	200,926
Other income	**-**	(4,451)
Share of loss of joint venture Krysalis	**17,722**	279,512
Changes in non-cash working capital items:		
Receivables	**3,367**	177,425
Inventory	**23,947**	-
Prepaid expenses and deposits	**(37,069)**	172,800
Accounts payable and accrued liabilities	**1,321,099**	497,304
Income tax payable	**205,000**	
Cash used in operating activities	**(1,718,644)**	(2,730,729)
Investing activities		
Proceeds from sale of Ionic common shares	**-**	1,743,311
Cash provided by investing activities	**-**	1,743,311
Financing activities		
Units issued - private placement	**676,500**	-
Shares issued - exercise of share purchase options	**25,000**	125,000
Shares issued - exercise of share purchase warrants	**14,000**	-
Share issue costs	**(102,497)**	(42,884)
Shares to be issued	**-**	671,000
Convertible notes issued	**337,010**	-
Cash provided by financing activities	**950,013**	753,116
Effect of exchange rate changes in cash	**1,384**	-
Change in cash	**(768,631)**	(234,302)
Cash, beginning of year	**907,537**	1,141,839
Cash, end of year	**140,290**	907,537

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

LOBE SCIENCES LTD.
Consolidated Statements of Changes in Shareholders' (Deficiency) Equity
(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' (deficiency) 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 share purchase options	694,445	178,686	-	(53,686)	-	-	125,000
Shares issued - RSU vesting	187,501	129,376	-	(129,376)	-	-	-
Share issue costs	-	(42,884)	-	-	-	-	(42,884)
Shares to be issued - private placement	-	-	671,000	-	-	-	671,000
Shares purchase warrants	-	-	-	31,567	-	-	31,567
Share-based compensation	-	-	-	620,612	-	-	620,612
Cumulative translation adjustment reclassified to deficit	-	-	-	-	247,999	(247,999)	-
Net loss for the year	-	-	-	-	-	(12,252,852)	(12,252,852)
Balance, August 31, 2022	38,487,648	25,221,396	671,000	5,528,320	-	(30,975,026)	445,690
Units issued - private placement	26,950,000	1,347,500	(671,000)	-	-	-	676,500
Units issued - finders' fee	1,312,800	65,640	-	-	-	-	65,640
Shares issued - exercise of share purchase options	138,888	38,302	-	(13,302)	-	-	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	14,000	-	-	-	-	14,000
Shares issued - debt settlement	2,166,000	75,810	-	-	-	-	75,810
Unit issue costs	-	(65,640)	-	-	-	-	(65,640)
Share issue costs	-	(102,497)	-	-	-	-	(102,497)
Share purchase warrants - Altemia acquisition	-	-	-	73,245	-	-	73,245
Share purchase warrants - debt settlement	-	-	-	17,459	-	-	17,459
Share purchase warrants - research	-	-	-	30,362	-	-	30,362
Shares to be issued - Altemia acquisition Amendment	-	-	1,961,750	-	-	-	1,961,750
Share-based compensation	-	-	-	301,768	-	-	301,768
Currency translation adjustment	-	-	-	-	(953)	-	(953)
Net loss for the year	-	-	-	-	-	(4,707,349)	(4,707,349)
Balance, August 31, 2023	**79,136,172**	**27,623,599**	**1,961,750**	**5,937,852**	**(953)**	**(35,682,375)**	**(160,127)**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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

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 5), the Company intends to commercialize a medical food named Altemia™ for the treatment of Sickle Cell Disease ("SCD").

Going concern

These audited consolidated financial statements for the years ended August 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 August 31, 2023, the Company had a working capital deficiency of $2,140,263 (August 31, 2022 - $266,084) and an accumulated deficit of $35,682,375 (August 31, 2022 - $30,975,026). During the year ended August 31, 2023, the Company incurred a net loss of $4,707,349 (2022 - $12,252,852). 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 February 6, 2024.

These financial statements, including comparatives, 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.

b) Basis of presentation

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) 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$" are to United States dollars. References to "AUD" or "A$" are to Australian dollars.

2. BASIS OF PRESENTATION (continued)

d) Basis of consolidation

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

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

A summary of the Company's subsidiaries included in these financial statements as at August 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%	CAD
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 5).

3. SIGNIFICANT ACCOUNTING POLICIES

a) Foreign currency translation

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

b) Cash

Cash is comprised of cash at banks.

c) Inventory

Inventory is comprised of finished products. 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) Intangible assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Depreciation and amortization

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

Intangible assets	18 – 21 years

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

f) Investment in joint venture

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

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

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

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

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

g) Provisions

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

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

- by an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and,

- as a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) 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 probability weighted expected return method. 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 using the probability weighted expected return method. 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 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.

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.

i) Share-based payments

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

j) Deferred Share Units and Restricted Share Units

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

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

k) Issued capital

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

Proceeds from the issuance of units are allocated between common shares and share purchase warrants on a residual value basis, wherein the fair value of the common shares is based on the market value on the date of the placement and the balance, if any, is allocated to the attached warrants.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Financial instruments

Classification of financial assets

Amortized cost:

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

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

The Company has classified cash, accounts payable and accrued liabilities and promissory note receivable at amortized cost.

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

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

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and,

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Equity instruments designated as FVTOCI:

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity

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

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

Classification of financial liabilities

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

m) Impairment of financial assets

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

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

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

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

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

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

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

n) Impairment of non-financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

o) Taxes

Current tax expense

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax expense

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

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

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

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

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

p) Earnings(loss) per share

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Research and development expenditures

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

r) 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.

s) Related party transactions

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

t) Standards issued or amended but not yet effective

A number of amendments to standards and interpretations applicable to the Company are not yet effective for the year ended August 31, 2023 and have not been applied in preparing these financial statements nor does the Company expect these amendments to have a significant effect on its consolidated financial statements.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make estimates based on assumptions about future events that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively in the period in which the estimate is revised.

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

<u>Functional currency</u>

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Impairment

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

Valuation of investments

The Company's investments in common shares are measured at the quoted market price of Ionic Brands Corp ("Ionic") common shares (Note 8(b)).

The Company's investment in preferred shares (Note 8a)) is measured using the Black-Scholes option pricing model due to the vesting terms and lack of marketability at the current market price of Ionic common shares which the preferred shares can be converted into and adjusted for the qualitative factors as noted below. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

The Company's investment in warrants (Note 9) is measured using the Black-Scholes option pricing model and adjusted for the qualitative factors as noted below. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price, volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

The Company's dividend receivable (Note 8(a)) is measured at the quoted market price of Ionic common shares, as the dividend may be settled in cash or Ionic common shares at the option of Ionic.

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

Equity-settled share-based payments

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

Current and deferred income taxes

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

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

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

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 probability weighted expected return method. 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 probability weighted expected return method for this measurement. The use of the this model requires management to make various estimates and assumptions that impact the value assigned to the derivative liability including the probability of future events, the event timing and future exchange rates. Changes in these assumptions can significantly affect the fair value estimate.

Assessment of the transactions as business combinations or asset acquisitions

Management has had to apply judgment relating to the acquisition of Altemia (Note 5) with respect to whether the acquisition was a business combination or an asset acquisition. As Lobe has acquired Altemia for the purpose of accessing Altemia™, it has elected to apply the optional concentration test in order to reach a conclusion. The Company has determined The acquisition of Altemia meets the requirements of the concentration test as the fair value of gross assets is substantially concentrated in the licensed intellectual property. As such, Altemia does not meet the definition of a business per IFRS 3 and the acquisition will be accounted for as an asset acquisition.

Share consideration estimates

The Company has determined the fair value of the common share consideration portion of the acquisition of Altemia (Note 5) by measuring the fair value of the equity instruments at the acquisition agreement date and considering management's assessment of the terms and conditions upon which those equity instruments were granted, that is, the performance conditions to the issuance of the equity instruments.

5. ALTEMIA ACQUISITION

On April 17, 2023, the Company completed the acquisition of 100% of the ownership interest in Altemia. Pursuant to a share exchange agreement, the registered and beneficial owners of all of the issued and outstanding securities of Altemia ("Selling Members") received an aggregate of 76,000,000 common shares of the Company (the "Consideration Shares"). The Consideration Shares were subject to certain restrictions on transfer.

In addition, contingent upon Altemia achieving $20,000,000 in cumulative sales, the Company will issue 3,000,000 warrants with an exercise price of $0.05 and a term of three years from issuance ("Contingent Warrants").

On August 30, 2023, the Company signed an amendment to its April 17, 2023 share purchase agreement to acquire a 100% interest in Altemia ("Amendment"). Pursuant to the Amendment, the 76,000,000 common shares of the Company (each a "Lobe Share") previously issued to the Selling Members were returned and cancelled by Lobe pursuant a share cancellation agreement.

Pursuant to the Amendment, the 76,000,000 Lobe Shares shall be reissued upon the later of:

1. Achievement of the following milestones:

a. 25% on or after the Amendment closing date;
b. 25% on delivery of inventory to a Lobe designated storage facility;
c. 25% on the first commercial sale allowing the trademark validation; and
d. 25% on successful completion transfer documentation and sample delivery to Lobe.

(Expressed in Canadian dollars, except where noted)

5. ALTEMIA ACQUISITION (continued)

2. Within ten days of Selling Members providing Lobe a written notice to release some or all of the then available shares with respect to which the applicable Milestone has been met. Each Altemia member may in such notice designate one or more third parties to receive some or all of any such Lobe Shares then available for release.

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 the sickle cell disease ("SCD") prescription drug for the pediatric orphan indication.

At the acquisition date, Altemia did not meet the definition of a business as it meets the concentration test requirements in accordance with IFRS 3 *Business Combinations* and as such has been accounted for as an asset acquisition. The identifiable assets were recorded based on the total amounts of the fair value of the common shares on the closing date of acquisition and the fair value of the contingent warrants.

A summary of the Company's allocation of the purchase price to the fair values of assets acquired is as follows:

	$
Consideration	
Fair value of 76,000,000 common shares to be issued (1)	1,961,750
Fair value of 3,000,000 Contingent Warrants (2)	73,245
	2,034,995
Fair values of acquired assets	
Inventory deposit	40,941
Intangible asset (Note 12)	1,994,054
	2,034,995

(1) The fair value of the common share consideration was determined using the share price at the agreement date (April 17, 2023 - $0.035) date and management's assessment of the milestone achievement probability. Probability of achieving milestone (a) and (b) are estimated to be 100%. Probability of achieving milestone (c) and (d) are estimated to be 95% and 30%, respectively.
(2) A fair value of $73,245 was assigned to the warrants 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 - 100%).

The intangible asset is comprised of a patent cooperation treaty application. During the year ended August 31, 2023, the Company recorded amortization of $41,156 (2022 - $nil).

6. RECEIVABLES

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

	August 31, 2023	August 31, 2022
	$	$
Sales tax receivable	**14,915**	18,282
	14,915	18,282

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

(Expressed in Canadian dollars, except where noted)

7. PREPAID EXPENSES AND DEPOSITS

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

	August 31, 2023	August 31, 2022
	$	$
Advertising	**7,350**	-
Insurance	**59,449**	84,453
Deposits	**71,174**	15,291
Other	**9,198**	10,358
	147,171	110,102

8. 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 August 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.

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 8(c)) and the probability of the completion of the plan of arrangement (Note 8(c)) completing as currently structured or without further significant delays. The common shares of Ionic have been suspended for trading since August 8, 2022.

(Expressed in Canadian dollars, except where noted)

8. IONIC PREFERRED AND COMMON SHARES (continued)

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, 2023 and August 31, 2022	**-**

During the year ended August 31, 2023, the Company recorded an impairment of dividend receivable of $nil (2022 - $2,643,649) due to the same qualitative factors as noted above in relation to the Ionic preferred shares. There have been no changes to these factors during the year ended August 31, 2023.

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, 2023 and August 31, 2022	**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 $1,114,379. The Company sold 106,549,397 Ionic common shares for 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 a 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. There have been no changes to these factors during the year ended August 31, 2023.

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 August 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.

(Expressed in Canadian dollars, except where noted)

8. 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.

9. 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, 2023 and August 31, 2022	**-**

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 8(a)). There have been no changes to these factors during the year ended August 31, 2023.

10. 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.

(Expressed in Canadian dollars, except where noted)

10. IONIC PROMISSORY NOTE RECEIVABLE (continued)

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, 2023 and August 31, 2022	**-**

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. There have been no change to this factor during the year ended August 31, 2023.

11. INVESTMENT IN KRYSALIS

On April 26, 2021, the Company entered into an agreement with Virtual Psychedelics Incorporated ("VPI"). Krysalis VX Innovations Corp. ("Krysalis"), a private company, was incorporated with the purpose of design, development and commercialization of a new psychedelic/virtual experience pod. 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.

Pursuant to the agreement with VPI, the Company is required to provide:

- Initial funding of $1,500,000. to be settled with cash or common shares of the Company. During the year ended August 31, 2021, the Company settled $322,394 (US$250,000) in cash and $525,000 (US$419,597) in common shares.
- Additional funding through a secured line of credit ("LOC") upon Krysalis providing evidence of the provisional patents being filed or in process filing. As at August 31, 2023 this condition has not been met.

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

	$
Balance, August 31 2021	961,508
Company's share of loss during the year	(279,512)
Balance, August 31 2022	681,996
Company's share of loss during the year	(17,722)
Impairment of investment in Krysalis	(664,274)
Balance, August 31, 2023	**-**

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

	August 31, 2023	August 31, 2022
	$	$
Cash	**37**	480
Prepaid expenses and deposits	**44,214**	44,214
Short term investments	**12,500**	47,500
Assets	**56,751**	92,194

(Expressed in Canadian dollars, except where noted)

11. INVESTMENT IN KRYSALIS (continued)

	August 31, 2023	Year ended August 31, 2022
	$	$
Consulting	**-**	122,788
General administrative expenses	**455**	1,341
Foreign exchange (gain) loss	**(12)**	(3,106)
Loss on change in fair value of short-term investments	**35,000**	438,000
Net loss for the year	**35,443**	559,023
Company ownership percentage	**50%**	50%
Net loss attributable to the Company	**17,722**	279,512

During the year ended August 31, 2023, the Company recognized an impairment of the investment in Krysalis in the amount of $664,274 after assessing the impairment indicators for the investment and concluding that it will not achieve its intended purpose and be recovered. Krysalis is a private company; therefore, no quoted market prices are available for its shares.

12. INTANGIBLE ASSETS

The intangible assets are comprised of provisional patent applications and a patent cooperation treaty application. A summary of the Company's intangible assets is as follows:

	$
Cost	
Balance, August 31, 2022 and 2021	40,000
Addition (Note 5)	1,994,054
Balance, August 31, 2023	**2,034,054**
Accumulated amortization	
Balance, August 31, 2021	-
Amortization	10,222
Balance, August 31, 2022	10,222
Amortization	43,696
Balance, August 31, 2023	**53,918**
Carrying amount	
Balance, August 31, 2022	29,778
Balance, August 31, 2023	**1,980,136**

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

A summary of the Company's accounts payable and accrued liabilities is as follows:

	August 31, 2023	Year ended August 31, 2022
	$	$
Trade payables	**1,815,978**	1,244,749
Accrued liabilities	**106,000**	57,256
	1,921,978	1,302,005

On June 13, 2023, the Company entered into a debt settlement agreement with a vendor in which the Company paid $79,194, which consisted of cash, to settle $685,755 in trade payables. During the year ended August 31, 2023, the Company recognized a gain on debt settlement of $606,561 (2022 - $nil).

(Expressed in Canadian dollars, except where noted)

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (continued)

On April 28, 2023, the Company granted 900,000 share purchase warrants to a consultant with a weighted average fair value at grant date of $0.02 per warrant with fair value of $17,459 as settlement of $61,101 in accounts payables (Note 15(c)). During the year ended August 31, 2023, the Company recognized a gain on debt settlement of $43,642 (2022 - $nil).

14. CONVERTIBLE NOTES

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

	$
Balance, August 31, 2022 and 2021	-
Convertible notes issued	337,010
Derivative liability	(44,381)
Interest expense	17,882
Accretion expense	20,760
Foreign exchange loss	1,369
Balance, August 31, 2023	**332,640**

During the year end August 31, 2023, the Company issued a series of US dollar convertible notes to a private investor for total gross proceeds of $337,010 (US$250,000) The convertible notes bears interest at 11% per annum and mature on February 1, 2024.The notes are convertible into common shares upon listing the Company's common shares on the Australian Stock Exchange ("IPO") or another recognized securities exchange in the United States or Australia before maturity at a 20% to the listing price ("IPO share price"), or if there is a change in control while it is still outstanding.

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 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 IPO 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.

Upon the issuance of the convertible notes, the Company measured the fair value of the debt and conversion option using probability weighted expected return method. The Company determined that the fair value of the debt and the conversion option at initial recognition to be $292,629 (US$217,076) and $44,381 (US$32,924), respectively. This fair value measurement was based on significant inputs that are not observable in the market, and represent a level 3 fair value measurement, including those relating to discount factors and probabilities of achievement of listing the Company's common shares on the Australian Stock Exchange or another recognized securities exchange in the United States or Australia before maturity. These assumptions include an expected probability of an IPO on the debt issuance date being 50%, that a conversion would occur on February 1, 2024 and that the foreign exchange rate would remain consistent over the life of the loan.

During the year ended August 31, 2023, the Company incurred accretion expense of $20,760 (2022 - $nil) in relation to these convertible notes.

During the year ended August 31, 2023, the Company incurred interest expense of $17,882 (US$13,305) (2022 - $nil) in relation to these convertible notes. This interest compounds daily.

(Expressed in Canadian dollars, except where noted)

15. DERIVATIVE LIABILITY

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

	$
Balance, August 31, 2022 and 2021	-
Derivative conversion features	44,381
Gain on change in fair value of derivative conversion feature	(44,381)
Balance, August 31, 2023	**-**

The Company remeasured the fair value of the conversion option using probability weighted expected return method at August 31, 2023 and recorded a gain of $44,381 (2022 - $nil) in the consolidated statements of loss and comprehensive loss. The assumptions as at the August 31, 2023 remeasurement date included an expected probability of an IPO on the debt issuance date being 0%, and that the foreign exchange rate would remain consistent.

16. 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, share purchase options and warrants have been restated to give effect to this share consolidation.

The Company had the following common share transactions during the year ended August 31, 2023:

- On April 17, 2023, pursuant the agreement to acquire Altemia, the Company issued 76,000,000 common shares for total consideration of $2,161,250 (Note 5), and pursuant to the subsequently executed amendment of the agreement, on August 30, 2023, the Company cancelled 76,000,000 common shares and recorded shares to be issued with consideration of $1,961,750 (Note 5).

- On April 14, 2023, pursuant to a debt settlement agreement, 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 fair value 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 January 10, 2023, the Company issued 280,000 common shares pursuant to the exercise of share purchase warrants. As a result of the warrant exercise, $nil were reallocated from reserves to share capital (Note 16(d)).

- On December 7, 2022, the Company issued 69,444 common shares pursuant to the exercise of 69,444 share purchase 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 October 3, 2022, the Company and an arm's length independent consultant (the "Consultant") entered into a 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 values 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 agreement termination expense.

- On October 3, 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 values 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 agreement termination expense.

(Expressed in Canadian dollars, except where noted)

16. SHARE CAPITAL (continued)

- On September 9, 2022, the Company issued 69,444 common shares pursuant to the exercise of 69,444 share purchase 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 7 and 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. On initial recognition, the warrants had a fair value of $nil. 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. On initial recognition, the warrants had a fair value of $nil. The Company incurred $102,380 in cash share issuance costs.

The Company had the following common share transactions during the year ended August 31, 2022:

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

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

- On March 15, 2022, the Company issued 555,555 common shares pursuant to the exercise of 555,555 share purchase options with an exercise price of $0.18 for proceeds of $100,000.

- On May 5, 2022, the Company issued 69,445 common shares pursuant the exercise of 69,445 share purchase options with an exercise price of $0.18 for proceeds of $12,500.

- 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.

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	1.42
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	(5,843,080)	1.49
Balance, August 31, 2023	**30,986,216**	**0.06**

On April 28, 2023, the Company granted 900,000 share purchase warrants to a consultant with a weighted average fair value at grant date of $0.02 per warrant with fair value of $17,459 as settlement of $61,101 in accounts payables, which resulted in a gain on debt settlement of $43,642. The fair value of warrants was calculated using the Black-Scholes option pricing model (annualized volatility - 150%, expected life - 2.00 years, risk free rate - 3.72%, dividend yield - 0%).

On February 2, 2023, the Company granted 1,000,000 share purchase warrants to a consultant with a weighted average fair value at grant date of $0.03 per warrant for total compensation of $30,362 which has been included in research expense. The fair value of warrants was calculated using the Black-Scholes option pricing model (annualized volatility - 172%, expected life - 2.00 years, risk free rate - 3.79%, dividend yield - 0%).

(Expressed in Canadian dollars, except where noted)

16. SHARE CAPITAL (continued)

On September 8, 2022, pursuant to a non-brokered private placement, the Company issued 26,950,000 share purchase warrants. The fair value of warrants was determined to be $nil as the market value of common shares exceeded the cash proceeds.

On September 8, 2022, pursuant to a non-brokered private placement, the Company issued 1,312,800 finder's fee share purchase warrants. The fair value of warrants was determined to be $nil as the market value of common shares exceeded the cash proceeds.

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

Expiry date	Number of Warrants	Weighted average exercise price	Weighted average remaining life
		$	Years
October 2, 2023	270,083	1.20	0.09
February 2, 2025	1,000,000	0.05	1.43
April 28, 2025	900,000	0.05	1.66
September 8, 2025	27,982,800	0.05	2.02
June 16, 2027	833,333	0.05	3.79
	30,986,216	**0.06**	**2.02**

During the year ended August 31, 2023, the weighted average share price on the date of exercise of the share purchase warrants was $0.04 per share (2022 - $nil).

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 August 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	2.72
	776,000	**776,000**	**2.10**	**2.72**

During the year ended August 31, 2023, the Company recognized share-based compensation expense of $123,003 (2022 - $164,004) in connection with the Performance Warrants.

e) Share purchase options

The Company has adopted a share purchase option plan (the "Plan") for its directors, officers, employees and consultants to acquire common shares of the Company at a price determined by the fair market value of the shares at the date immediately preceding the date on which the option is granted. The terms and conditions of the share purchase options are determined by the Board of Directors. The cumulative available incentive awards to be issued under the share purchase option plan, restricted share unit plan (the "RSU Plan") and a deferred share unit plan (the "DSU Plan") shall not exceed 30% of the aggregate issued and outstanding common shares of the Company, with no one individual being granted more than 5% of the issued and outstanding common shares. In addition, the exercise price of share purchase options granted under the Plan shall not be lower than the exercise price permitted by the Canadian Securities Exchange, and all share purchase options granted under the Plan will have a maximum term permitted by the Canadian Securities Exchange.

(Expressed in Canadian dollars, except where noted)

16. SHARE CAPITAL (continued)

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
Granted	5,800,000	0.05
Exercised	(138,888)	0.18
Expired	(120,836)	0.90
Balance, August 31, 2023	**8,828,146**	**0.18**

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

Expiry date	**Number of options outstanding**	**Number of options exercisable**	**Weighted average exercise price**	**Weighted average remaining life**
			$	Years
October 19, 2023	58,334	58,334	0.60	0.13
January 15, 2024	216,667	216,667	0.90	0.38
June 28, 2024	50,001	50,001	1.50	0.83
July 29, 2024	83,334	83,334	1.20	0.91
August 30, 2024	16,667	16,667	0.69	1.00
January 16, 2025	41,667	41,667	0.84	1.38
February 6, 2025	554,807	554,807	0.51	1.44
June 15, 2025	183,334	141,668	0.78	1.79
August 12, 2025	125,000	93,750	0.60	1.95
August 31, 2025	58,334	47,918	0.60	2.00
May 23, 2026	500,000	104,169	0.18	2.73
June 13, 2026	500,000	200,000	0.05	2.79
June 30, 2026	5,800,000	2,900,000	0.05	2.83
July 25, 2026	500,000	200,000	0.06	2.90
May 30, 2028	140,001	140,001	1.20	4.75
	8,828,146	**4,848,983**	**0.18**	**2.61**

During the year ended August 31, 2023, the Company recognized share-based compensation expense of $124,295 (2022 - $179,682) with respect to the share purchase options.

During the year ended August 31, 2023, the Company granted 5,800,000 options (2022 - 2,356,669) with a weighted average fair value at grant date of $0.02 (2022 - $0.13) per share purchase option. A summary of the Company's assumptions used in the Black-Scholes option pricing model for share purchase option granted during the years ended August 31, 2023 and 2022 is as follows:

	2023	2022
Risk-free rate	**3.77%**	2.62%
Expected life of options	**3.00 years**	3.29 years
Annualized volatility	**171%**	100%
Dividend rate	**0%**	0%

(Expressed in Canadian dollars, except where noted)

16. SHARE CAPITAL (continued)

During the year ended August 31, 2023, the weighted average share price on the date of exercise of the share purchase options was $0.12 per share (2022 - $0.14).

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 option plan, the RSU Plan and the DSU Plan to 15% of the aggregate issued and outstanding common shares of the Company.

A summary of the Company's RSU 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
Granted	4,800,000	0.03
Cancelled	(187,500)	0.69
Balance, August 31, 2023	**5,175,000**	**0.07**

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

Grant date	Number of RSUs outstanding	Number of RSUs vested and unissued	Weighted average issue price	Weighted average remaining life
			$	Years
June 15, 2021	375,000	125,001	0.69	1.79
June 30, 2023	4,800,000	-	0.03	2.83
Total	**5,175,000**	**125,001**	**0.07**	**2.76**

During the year ended August 31, 2023, the Company recognized share-based compensation expense of $44,340 (2022 - $241,042) with respect to the RSUs, due to the cancellation of unvested RSUs. Over their vesting terms the Company will record compensation expense of $109,038 for fiscal 2024 and $51,215 for fiscal 2025.

A summary of Company's DSU 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	0.26
Granted	1,000,000	0.03
Cancelled	(120,002)	0.26
Balance, August 31, 2023	**1,240,004**	**0.07**

(Expressed in Canadian dollars, except where noted)

16. SHARE CAPITAL (continued)

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

Grant date	Number of DSUs outstanding	Number of DSUs vested and unissued	Weighted average issue price	Weighted average remaining life
	#	#	$	Years
June 15, 2021	16,668	8,336	0.69	1.79
August 31, 2021	8,334	4,168	0.42	2.00
November 30, 2021	175,000	43,750	0.24	2.25
February 28, 2022	13,334	3,334	0.18	2.50
May 31, 2022	13,334	3,334	0.06	2.75
August 31, 2022	13,334	3,334	0.10	3.00
June 30, 2023	1,000,000	-	0.03	2.83
Total	**1,240,004**	**66,256**	**0.07**	

During the year ended August 31, 2023, the Company recognized share-based compensation expense of $10,130 (2022 - $35,884) with respect to the DSUs, due to the cancellation of unvested DSUs. Over their vesting terms the Company will record compensation expense of $27,133 for fiscal 2024, $10,018 for fiscal 2025 and $845 for fiscal 2026.

g) Reserves

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

	Share purchase options	RSUs	DSUs	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 compensation	179,682	241,042	35,884	-	-	-	456,608
Exercise of share purchase options	(53,686)	(129,376)	-	-	-	-	(183,062)
Reclassified on expiration of options	(7,688)	-	-	-	-	7,688	-
Share purchase warrants	-	-	-	-	31,567	-	31,567
Performance warrants	-	-	-	164,004	-	-	164,004
Reclassified on expiry of warrants	-	-	-	-	(42,949)	42,949	-
Balance, August 31, 2022	1,617,015	166,969	38,342	700,687	1,708,689	1,296,618	5,528,320
Share-based compensation	124,295	44,340	10,130	-	-	-	178,765
Exercise of share purchase options	(13,302)	-	-	-	-	-	(13,302)
Reclassified on expiration of options	(47,308)	-	-	-	-	47,308	-
Share purchase warrants - Altemia	-	-	-	-	73,245	-	73,245
Share purchase warrants - debt settlement	-	-	-	-	17,459	-	17,459
Share purchase warrants - research	-	-	-	-	30,362	-	30,362
Performance warrants	-	-	-	123,003	-	-	123,003
Reclassified on expiration of warrants	-	-	-	-	(1,631,470)	1,631,470	-
Balance, August 31, 2023	**1,680,700**	**211,309**	**48,472**	**823,690**	**198,285**	**2,975,396**	**5,937,852**

(Expressed in Canadian dollars, except where noted)

17. INCOME TAXES

a) Income tax expense

A reconciliation of income taxes at statutory rates with the reported taxes for the years ended August 31, 2023 and 2022, is as follows:

	2023	2022
	$	$
Loss before income taxes	**(4,502,349)**	(12,252,852)
Income tax expense (recovery) at statutory rates	**(1,216,000)**	(3,308,000)
Non-deductible expenditures and non-taxable revenues	**81,000**	1,207,000
Change in statutory, foreign tax, foreign exchange rates and other	**(12,000)**	-
Share issuance costs	**(28,000)**	-
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	**90,000**	(529,000)
Loss for the year	**1,290,000**	2,630,000
Income tax expense	**205,000**	**-**

The significant components of the Company's deferred tax assets and liabilities are as follows:

	August 31, 2023	August 31, 2022
	$	$
Share issuance costs and financing fees	**61,000**	59,000
Allowable capital losses	**132,000**	-
Non-capital losses	**4,647,000**	3,496,000
Intangible assets	**691,000**	-
Mineral resource properties	**33,000**	-
IONIC preferred shares	**184,000**	1,039,000
Investment in Krysalis	**142,000**	-
Convertible notes	**6,000**	-
	5,884,000	4,594,000

As at August 31, 2022, the Company has approximately $16,837,000 of Canadian non-capital income tax losses (unrecognized) which will expire over 2039 through 2043 and $38,000 of Australian non-capital income tax losses (unrecognized) which do not have an expiration date.

18. 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 carrying values of cash, accounts payable and accrued liabilities approximate their respective fair values due to the short-term nature of these instruments. The carrying value of promissory notes receivable is determined using the assumptions disclosed in Note 10.

18. FINANCIAL RISK MANAGEMENT (continued)

The fair value of Ionic common shares, Ionic preferred shares, dividend receivable, 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 8(a), Ionic common shares is disclosed in Note 8(b) and warrants are disclosed in Note 9.

The convertible notes and derivative liability are measured using Level 3 inputs as disclosed in Note 14 and Note 15.

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

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

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to fulfill its contractual obligations. The Company's credit risk is predominantly related to cash balances held in financial institutions, receivables, and promissory note receivable. The Company minimizes its credit risk related to cash and cash equivalents by placing cash with major financial institutions. The Company does not invest in asset-backed deposits or investments and does not expect any credit losses. The Company periodically assesses the credit quality of its financial institutions and is satisfied with the credit ratings of its banks.

During the year ended August 31, 2023, the Company recorded expected credit losses of $nil (2022 - $nil) with respect to receivables and $nil (2022 - $72,394) with respect to the promissory note receivable.

b) Foreign exchange risk

Foreign exchange risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Company is exposed to foreign exchange risk from fluctuations in United States dollars and Australian dollars. The Company does not use derivative instruments to reduce its exposure to foreign exchange risk.

A summary of the Company's financial assets and liabilities that are denominated in United States dollars and Australian dollars as at August 31, 2023, is as follows:

	USD	AUD
	$	$
Financial assets		
Cash	90,140	1,248
	90,140	1,248
Financial liabilities		
Accounts payable and accrued liabilities	1,130,146	10,000
Convertible notes	245,835	-
	1,375,981	10,000
Net financial liabilities	(1,285,841)	(8,752)

A 10% increase or decrease in the US dollar relative to the Canadian dollar and Australian dollar relative to Canadian dollar would result in a change of approximately $165,056 and $986 in the Company's comprehensive loss for the year, respectively.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. To mitigate this risk, the Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures.

(Expressed in Canadian dollars, except where noted)

19. CAPITAL MANAGEMENT

As at August 31, 2023, the Company had a cash balance of $140,290 and current liabilities of $2,459,618 (August 31, 2022 - $907,537 and $1,302,005, respectively). The Company's current cash resources are insufficient to settle its current liabilities.

d) Interest rate risk

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

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 share. 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.

20. 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 for the years ended August 31, 2023 and 2022, is as follows:

	2023	2022
	$	$
Consulting fees	**1,028,149**	814,309
Directors' fees included in consulting fees	**162,000**	187,994
Professional fees	**121,155**	137,766
Share-based compensation	**160,715**	321,027
	1,472,019	1,461,096

Professional fees included in the table above were charged by a company related to the Chief Financial Officer.

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

A summary of the Company's consulting fees paid to related parties for the years ended August 31, 2023 and 2022, as per consulting agreement, is as follows:

	2023	2022
	$	$
Former Executive Chairman	**30,173**	444,785
Chief Executive Officer and Executive Chairman	**235,658**	280,018
Chief Science Officer	**147,942**	89,506
Chief Operating Officer	**55,343**	-
Regulatory clinical development advisor	**559,033**	-
	1,028,149	814,309

(Expressed in Canadian dollars, except where noted)

20. RELATED PARTY TRANSACTIONS (continued)

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

	August 31, 2023	August 31, 2022
	$	$
Accounts payable and accrued liabilities	**477,950**	106,664

A summary of the Company's accounts payable and accrued liabilities per related party is as follows

	August 31, 2023	August 31, 2022
	$	$
Chief Executive Officer, for consulting fees	**16,955**	27,561
Chief Science Officer, for consulting fees	**108,361**	13,111
Company related to the Chief Financial Officer, for professional fees	**17,758**	10,763
Director	**334,876**	55,229
	477,950	106,664

On October 3, 2022, the Company entered into a mutual separation agreement with the former Executive Chairman of the Board of Directors of the Company. As part of the agreement, the Company agreed to issue an aggregate of 5,300,836 common shares of the Company for total consideration of $556,588, which was recorded as agreement termination expense (Note 16(b)).

21. SUBSEQUENT EVENTS

On September 18, 2023, 431,250 RSUs and 400,000 share purchase options were cancelled pursuant the resignation of the Chief Financial Officer.

On October 2, 2023, 270,083 share purchase warrants expired unexercised.

On October 19, 2023, 58,334 share purchase options expired unexercised.

On January 15, 2024, 216,667 share purchase options expired unexercised.