



**LOBE SCIENCES LTD.**

**Condensed Interim Consolidated Financial Statements**

For the three months ended November 30, 2023 and 2022

(Unaudited - Expressed in Canadian dollars)

**Notice of Disclosure of Non-auditor Review of the Condensed Interim Consolidated Financial Statements for the Three Months Ended November 30, 2023 and 2022.**

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

The accompanying unaudited condensed interim consolidated financial statements of Lobe Sciences Ltd. for the interim periods ended November 30, 2023 and 2022, have been prepared in accordance with the International Accounting Standard 34 - *Interim Financial Reporting* as issued by the International Accounting Standards Board and are the responsibility of management.

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

February 20, 2023

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

(Unaudited - Expressed in Canadian dollars)

	Note	November 30, 2023	August 31, 2023
		\$	\$
<b>ASSETS</b>			
<b>Current</b>			
Cash		46,563	140,290
Receivables		3,082	14,915
Inventory		15,296	16,979
Prepaid expenses and deposits	6	172,945	147,171
		<b>237,886</b>	<b>319,355</b>
Intangible assets	7	1,951,900	1,980,136
<b>Total assets</b>		<b>2,189,786</b>	<b>2,299,491</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	12	2,309,881	1,921,978
Income tax payable		205,000	205,000
Convertible notes	8	356,014	332,640
<b>Total liabilities</b>		<b>2,870,895</b>	<b>2,459,618</b>
<b>SHAREHOLDERS' DEFICIENCY</b>			
Share capital	9(b)	27,623,599	27,623,599
Shares to be issued	9(b)	1,961,750	1,961,750
Reserves	9(g)	5,983,552	5,937,852
Accumulated other comprehensive income (loss)		392	(953)
Deficit		(36,250,402)	(35,682,375)
Total shareholders' deficiency		(681,109)	(160,127)
<b>Total liabilities and shareholders' deficiency</b>		<b>2,189,786</b>	<b>2,299,491</b>

Nature of operations and going concern (Note 1)

Subsequent events (Note 13)

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

/s/ "Philip J. Young"

Director

/s/ "Baxter Phillips III"

Director

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

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

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

	Note	Three months ended November 30,	
		2023	2022
		\$	\$
Revenues		136,205	-
Cost of sales		(1,757)	-
<b>Gross profit</b>		<b>134,448</b>	<b>-</b>
Advertising		(2,450)	(60,000)
Amortization	7	(28,236)	(1,220)
Consulting fees	12	(198,732)	(351,934)
General and administrative		(32,042)	(66,637)
Insurance		(79,132)	(90,121)
Professional fees	12	(110,221)	(46,469)
Research	9(c)	(189,280)	(285,515)
Share-based compensation	12	(45,700)	(18,107)
		<b>(551,345)</b>	<b>(920,003)</b>
<b>Other income (expenses)</b>			
Accretion expense	8	(12,857)	-
Agreement termination expense	9(b),12	-	(1,029,088)
Foreign exchange gain (loss)		5,557	(59,372)
Interest expense	8	(9,382)	-
Share of loss of joint venture Krysalis		-	(8,972)
<b>Net loss</b>		<b>(568,027)</b>	<b>(2,017,435)</b>
<b>Other comprehensive income</b>			
Currency translation differences		1,345	-
<b>Comprehensive loss</b>		<b>(566,682)</b>	<b>(2,017,435)</b>
<b>Net loss per share:</b>			
Basic and diluted		(0.01)	(0.03)
<b>Weighted average number of shares:</b>			
Basic and diluted		79,136,172	70,575,069

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

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

(Unaudited - Expressed in Canadian dollars)

	Three months ended	
	November 30,	
	2023	2022
	\$	\$
<b>Operating activities</b>		
Net loss	(568,027)	(2,017,435)
Items not affecting cash:		
Amortization	28,236	1,220
Share-based compensation	45,700	18,107
Accretion expense	12,857	-
Agreement termination expense paid in common shares	-	1,029,088
Unrealized foreign exchange loss	1,345	-
Interest expense	9,382	-
Share of loss of joint venture Krysalis	-	8,972
Changes in non-cash working capital items:		
Receivables	11,833	(16,343)
Inventory	1,757	-
Prepaid expenses and deposits	(25,774)	(203,031)
Accounts payable and accrued liabilities	387,903	134,678
<b>Cash used in operating activities</b>	<b>(94,788)</b>	<b>(1,044,744)</b>
<b>Financing activities</b>		
Units issued - private placement	-	676,500
Shares issued - exercise of share purchase options	-	12,500
Share issue costs	-	(102,380)
<b>Cash provided by financing activities</b>	<b>-</b>	<b>586,620</b>
Effect of exchange rate changes in cash	1,061	-
Change in cash	(94,788)	(458,124)
Cash, beginning of period	140,290	907,537
<b>Cash, end of period</b>	<b>46,563</b>	<b>449,413</b>

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

**LOBE SCIENCES LTD.**
**Condensed Interim Consolidated Statements of Changes in Shareholders' (Deficiency) Equity**

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

	Number of shares	Share capital	Shares to be issued	Reserves	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' (deficiency) equity
	#	\$	\$	\$	\$	\$	\$
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	-	(671,000)	1,347,500	-	-	676,500
Shares issued - exercise of share purchase options	69,444	19,151	-	(6,651)	-	-	12,500
Shares issued - mutual separation agreement	9,800,836	1,029,088	-	-	-	-	1,029,088
Unit issue costs	-	(65,640)	-	-	-	-	(65,640)
Share issue costs	1,312,800	(102,380)	-	65,640	-	-	(36,740)
Share-based compensation	-	-	-	18,107	-	-	18,107
Net loss for the period	-	-	-	-	-	(2,017,435)	(2,017,435)
Balance, November 30, 2022	76,620,728	26,101,615	-	6,952,916	-	(32,992,461)	62,070
Units issued - private placement	-	1,347,500	-	(1,347,500)	-	-	-
Units issued - finders' fee	-	65,640	-	-	-	-	65,640
Shares issued - exercise of share purchase options	69,444	19,152	-	(6,652)	-	-	12,500
Shares issued - exercise of share purchase warrants	280,000	14,000	-	-	-	-	14,000
Shares issued - debt settlement	2,166,000	75,810	-	-	-	-	75,810
Share issue costs	-	(117)	-	(65,640)	-	-	(65,757)
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	-	-	-	283,661	-	-	283,661
Currency translation adjustment	-	-	-	-	(953)	-	(953)
Net loss for the period	-	-	-	-	-	(2,689,914)	(2,689,914)
Balance, August 31, 2023	79,136,172	27,623,599	1,961,750	5,937,852	(953)	(35,682,375)	(160,127)
Currency translation adjustment	-	-	-	-	1,345	-	1,345
Share-based compensation	-	-	-	45,700	-	-	45,700
Net loss for the period	-	-	-	-	-	(568,027)	(568,027)
<b>Balance, November 30, 2023</b>	<b>79,136,172</b>	<b>27,623,599</b>	<b>1,961,750</b>	<b>5,983,552</b>	<b>392</b>	<b>(36,250,402)</b>	<b>(681,109)</b>

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

**LOBE SCIENCES LTD.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three months ended November 30, 2023 and 2022**  
(Unaudited - Expressed in Canadian dollars, except where noted)

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## **1. NATURE OF OPERATIONS AND GOING CONCERN**

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

The Company's common shares are listed under the symbol "LOBE" on the Canadian Securities Exchange ("CSE") and under the symbol "LOBEF" on the OTCQB.

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").

These unaudited condensed interim consolidated financial statements for the three months ended November 30, 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 November 30, 2023, the Company had a working capital deficiency of \$2,633,009 (August 31, 2023 - \$2,140,263) and an accumulated deficit of \$36,250,402 (August 31, 2023 - \$35,682,375). During the three months ended November 30, 2023, the Company incurred a net loss of \$568,027 (2022 - \$2,017,435). 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 20, 2024.

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee applicable to the preparation of interim financial statements including International Accounting Standard 34 *Interim Financial Reporting*. These financial statements do not include all disclosures required for annual audited financial statements. Accordingly, they should be read in conjunction with the notes to the Company's audited financial statements for the years ended August 31, 2023 and 2022 (the "Annual 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" are to Australian dollars.

**LOBE SCIENCES LTD.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three months ended November 30, 2023 and 2022**  
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**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 November 30, 2023 is as follows:

<b>Name of subsidiary</b>	<b>Country of incorporation</b>	<b>Percentage ownership</b>	<b>Functional currency</b>
Eleusian Biosciences Corp.	Canada	100%	CAD
Lobe Sciences Australia Pty Ltd. <sup>(1)</sup>	Australia	100%	CAD
Altemia & Company, LLC <sup>(2)</sup>	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**

The same accounting policies and methods of computation are followed in these financial statements as compared with the Annual Financial Statements.

**4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of financial statements under IFRS requires management to make judgements in applying its accounting policies and estimates that affect the reported amounts of assets and liabilities at the period end date and reported amounts of expenses during the reporting period. Such judgements and estimates are, by their nature, uncertain. Actual outcomes could differ from these estimates.

The impact of such judgements and estimates are pervasive throughout these financial statements and may require accounting adjustments based on future occurrences. These judgements and estimates are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and are accounted for prospectively.

In preparing these financial statements, the Company applied the same significant judgements in applying its accounting policies and is exposed to the same sources of estimation uncertainty as disclosed its Annual Financial Statements.

**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.



**LOBE SCIENCES LTD.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three months ended November 30, 2023 and 2022**  
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**5. ALTEZIA ACQUISITION (continued)**

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

- 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.
- 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:

	\$
<b>Consideration</b>	
Fair value of 76,000,000 common shares to be issued <sup>(1)</sup>	1,961,750
Fair value of 3,000,000 Contingent Warrants <sup>(2)</sup>	73,245
	<b>2,034,995</b>
 <b>Fair values of acquired assets</b>	
Inventory deposit	40,941
Intangible asset (Note 7)	1,994,054
	<b>2,034,995</b>

(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 three months ended November 30, 2023, the Company recorded amortization of \$27,850 (2022 - \$nil).

**LOBE SCIENCES LTD.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three months ended November 30, 2023 and 2022**  
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**6. PREPAID EXPENSES AND DEPOSITS**

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

	<b>November 30, 2023</b>	August 31, 2023
	\$	\$
Advertising	<b>4,900</b>	7,350
Insurance	<b>47,407</b>	59,449
Deposits	<b>105,397</b>	71,174
Other	<b>15,241</b>	9,198
	<b>172,945</b>	147,171

**7. 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:

	\$
<b>Cost</b>	
Balance, August 31, 2022	40,000
Addition (Note 5)	1,994,054
<b>Balance, November 30, 2023 and August 31, 2023</b>	<b>2,034,054</b>
<b>Accumulated amortization</b>	
Balance, August 31, 2022	10,222
Amortization	43,696
Balance, August 31, 2023	53,918
Amortization	28,236
<b>Balance, November 30, 2023</b>	<b>82,154</b>
<b>Carrying amount</b>	
Balance, August 31, 2023	1,980,136
<b>Balance, November 30, 2023</b>	<b>1,951,900</b>

During the three months ended November 30, 2023, amortization was \$28,236 (2022 - \$1,220).

**8. CONVERTIBLE NOTES**

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

	\$
Balance, August 31, 2022	-
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
Interest expense	9,382
Accretion expense	12,857
Foreign exchange loss	1,135
<b>Balance, November 30, 2023</b>	<b>356,014</b>

## **LOBE SCIENCES LTD.**

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

#### **For the three months ended November 30, 2023 and 2022**

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

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## **8. CONVERTIBLE NOTES (continued)**

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 bear 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 three months ended November 30, 2023, the Company incurred accretion expense and interest expense of \$12,857 (2022 - \$nil) and \$9,382 (US\$6,871) (2022 - \$nil) respectively.

On February 1, 2024, the convertible notes with a principal of US\$250,000 and accrued interest thereon matured (Note 13).

## **9. 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 no common share transactions during the three months ended November 30, 2023:

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 9(g)).

**LOBE SCIENCES LTD.****Notes to the Condensed Interim Consolidated Financial Statements****For the three months ended November 30, 2023 and 2022**

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

**9. SHARE CAPITAL (continued)**

- 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 valued at \$0.105 per common share using the market price on the date of the issuance for total consideration of \$472,500, which was recorded as 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 valued at \$0.105 per common share using the market price on the date of the issuance for total consideration of \$556,588, which was recorded as agreement termination expense.
- 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.

**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, 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
Expired	(270,083)	1.20
<b>Balance, November 30, 2023</b>	<b>30,716,133</b>	<b>0.05</b>

**LOBE SCIENCES LTD.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three months ended November 30, 2023 and 2022**  
(Unaudited - Expressed in Canadian dollars, except where noted)

**9. SHARE CAPITAL (continued)**

A summary of the Company's outstanding share purchase warrants as at November 30, 2023, is as follows:

Expiry date	Number of Warrants	Weighted average exercise price	Weighted average remaining life
	#	\$	Years
February 2, 2025	1,000,000	0.05	1.18
April 28, 2025	900,000	0.05	1.41
September 8, 2025	27,982,800	0.05	1.78
June 16, 2027	833,333	0.05	3.55
	<b>30,716,133</b>	<b>0.05</b>	<b>1.79</b>

**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 November 30, 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	2.47

During the three months ended November 30, 2023, the Company recognized share-based compensation expense of \$nil (2022 - \$41,001) 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") will 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 will 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.

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, 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
Expired	(58,334)	0.60
Cancelled	(400,000)	0.05
<b>Balance, November 30, 2023</b>	<b>8,369,812</b>	<b>0.18</b>

**LOBE SCIENCES LTD.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three months ended November 30, 2023 and 2022**  
(Unaudited - Expressed in Canadian dollars, except where noted)

**9. SHARE CAPITAL (continued)**

A summary of the Company's outstanding share purchase options as at November 30, 2023 is as follows:

Expiry date	Number of options outstanding	Number of options exercisable	Weighted average exercise price	Weighted average remaining life
	#	#	\$	Years
January 15, 2024	216,667	216,667	0.90	0.13
June 28, 2024	50,001	50,001	1.50	0.58
July 29, 2024	83,334	83,334	1.20	0.67
August 30, 2024	16,667	16,667	0.69	0.75
January 16, 2025	41,667	41,667	0.84	1.13
February 6, 2025	554,807	554,807	0.51	1.19
June 15, 2025	183,334	141,668	0.78	1.54
August 12, 2025	125,000	93,750	0.60	1.70
August 31, 2025	58,334	47,918	0.60	1.75
May 23, 2026	500,000	125,002	0.18	2.48
June 13, 2026	500,000	200,000	0.05	2.54
June 30, 2026	5,400,000	2,700,000	0.05	2.58
July 25, 2026	500,000	200,000	0.06	2.65
May 30, 2028	140,001	140,001	1.20	4.50
	<b>8,369,812</b>	<b>4,611,482</b>	<b>0.18</b>	<b>2.37</b>

During the three months ended November 30, 2023, the Company recognized share-based compensation expense of \$23,684 (2022 - \$15,593) with respect to the share purchase options.

During the three months ended November 30, 2023 and 2022 no options were granted by the Company.

**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, 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
Cancelled	(431,250)	0.07
<b>Balance, November 30, 2023</b>	<b>4,743,750</b>	<b>0.07</b>

A summary of the Company's RSUs outstanding as at November 30, 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	343,750	114,584	0.69	1.54
June 30, 2023	4,400,000	-	0.03	2.58
	<b>4,743,750</b>	<b>114,584</b>	<b>0.07</b>	<b>2.51</b>

**LOBE SCIENCES LTD.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three months ended November 30, 2023 and 2022**  
(Unaudited - Expressed in Canadian dollars, except where noted)

**9. SHARE CAPITAL (continued)**

During the three months ended November 30, 2023, the Company recognized share-based compensation expense of \$13,674 (2022 - recovery of \$32,739 due to the cancellation of unvested RSUs) with respect to the RSUs. Over their vesting terms the Company will record compensation expense of \$82,738 for fiscal 2024 and \$38,383 for fiscal 2025.

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

	Number of DSUs	Weighted average issue price
	#	\$
Balance, August 31, 2022	360,006	0.26
Granted	1,000,000	0.03
Cancelled	(120,002)	0.26
<b>Balance, November 30, 2023 and August 31, 2023</b>	<b>1,240,004</b>	<b>0.07</b>

A summary of the Company's DSUs outstanding as at November 30, 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	1.54
August 31, 2021	8,334	4,168	0.42	1.75
November 30, 2021	175,000	87,500	0.24	2.00
February 28, 2022	13,334	3,334	0.18	2.25
May 31, 2022	13,334	3,334	0.06	2.50
August 31, 2022	13,334	3,334	0.10	2.75
June 30, 2023	1,000,000	-	0.03	2.58
<b>Total</b>	<b>1,240,004</b>	<b>110,006</b>	<b>0.07</b>	<b>2.48</b>

During the three months ended November 30, 2023, the Company recognized share-based compensation expense of \$8,342 (2022 - recovery of \$5,748) with respect to the DSUs, due to the cancellation of unvested DSUs. Over their vesting terms the Company will record compensation expense of \$18,799 for fiscal 2024, \$9,995 for fiscal 2025 and \$792 for fiscal 2026.

**LOBE SCIENCES LTD.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three months ended November 30, 2023 and 2022**  
(Unaudited - Expressed in Canadian dollars, except where noted)

**9. SHARE CAPITAL (continued)**

**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, 2022	1,617,015	166,969	38,342	700,687	1,708,689	1,296,618	5,528,320
Share-based compensation	15,593	(32,739)	(5,748)	41,001	-	-	18,107
Exercise of share purchase options	(6,650)	-	-	-	-	-	(6,650)
Reclassified on expiry of options	(8,147)	-	-	-	-	8,147	-
Share purchase warrants	-	-	-	-	1,413,140	-	1,413,140
Balance, November 30, 2022	1,617,811	134,230	32,594	741,688	3,121,829	1,304,765	6,952,917
Share-based compensation	108,702	77,079	15,878	82,002	-	-	283,661
Exercise of share purchase options	(6,652)	-	-	-	-	-	(6,652)
Reclassified on expiration of options	(39,161)	-	-	-	-	39,161	-
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
Share purchase warrants - private placement	-	-	-	-	(1,413,140)	-	(1,413,140)
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
Share-based compensation	23,684	13,674	8,342	-	-	-	45,700
Reclassified on expiration of options	(6,021)	-	-	-	-	6,021	-
Reclassified on cancellation of options	(16,002)	-	-	-	-	16,002	-
<b>Balance, November 30, 2023</b>	<b>1,682,361</b>	<b>224,983</b>	<b>56,814</b>	<b>823,690</b>	<b>198,285</b>	<b>2,997,419</b>	<b>5,983,552</b>

**10. FINANCIAL RISK MANAGEMENT**

The Company measures its cash, deposits (included in prepaid expenses and deposits), accounts payable and accrued liabilities and convertible notes are measured at amortized cost.

The carrying values of cash, deposits (included in prepaid expenses and deposits), accounts payable and accrued liabilities and convertible notes approximate their respective fair values due to the short-term nature of these instruments.



**LOBE SCIENCES LTD.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three months ended November 30, 2023 and 2022**  
(Unaudited - Expressed in Canadian dollars, except where noted)

**10. FINANCIAL RISK MANAGEMENT (continued)**

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. The Company minimizes its credit risk related to cash and cash equivalents by placing cash with major financial institutions. The Company has no 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. The Company has deposits with vendors, included in prepaid expenses and deposits, made with vendors towards the completion of research and development activities and does not expect any credit losses.

**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 November 30, 2023, is as follows:

	USD	AUD
	\$	\$
<b>Financial assets</b>		
Cash	23,812	782
	23,812	782
<b>Financial liabilities</b>		
Accounts payable and accrued liabilities	1,375,241	11,650
Convertible notes	262,122	-
	1,637,363	11,650
<b>Net financial liabilities</b>	<b>(1,613,551)</b>	<b>(10,868)</b>

A 10% increase or decrease in the United States dollar relative to the Canadian dollar and Australian dollar relative to Canadian dollar would result in a change of approximately \$207,777 and \$1,116 in the Company's comprehensive loss for the period, 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. The Company is exposed to liquidity risk through its accounts payable and accrued liabilities and convertible notes. 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.

As at November 30, 2023, the Company had a cash balance of \$46,563 and current liabilities of \$2,870,895 (August 31, 2023 - \$140,290 and \$2,459,618, respectively). The Company's current cash resources are insufficient to settle its current liabilities, however, the Company intends to raise funds through equity financings.

**LOBE SCIENCES LTD.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three months ended November 30, 2023 and 2022**  
(Unaudited - Expressed in Canadian dollars, except where noted)

**10. FINANCIAL RISK MANAGEMENT (continued)**

**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, since its convertible notes bear a fixed rate of interest.

**11. CAPITAL MANAGEMENT**

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The Company's capital structure consists of all components of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the current operations including corporate and administrative functions to support operations. The Company obtains funding primarily through issuing common 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.

**12. 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, Regulatory advisor 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 three months ended November 30, 2023 and 2022, is as follows:

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
Consulting fees	<b>158,232</b>	129,678
Directors' fees included in consulting fees	<b>40,500</b>	40,500
Professional fees	<b>16,800</b>	33,825
Share-based compensation	<b>43,986</b>	(38,487)
	<b>259,518</b>	165,516

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 period for vesting of share purchase options, RSUs and DSUs. During the three months ended November 30, 2022, the Company recognized share-based compensation recovery of due to the cancellation of unvested RSUs and DSUs (Note 9(f)).

A summary of the Company's consulting fees paid to related parties for the three months ended November 30, 2023 and 2022, as per consulting agreement, is as follows:

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
Former Executive Chairman	-	30,172
Chief Executive Officer and Executive Chairman	<b>59,931</b>	59,067
Chief Science Officer	<b>41,313</b>	-
Chief Operating Officer	<b>51,015</b>	40,439
Regulatory advisor	<b>5,973</b>	-
	<b>158,232</b>	129,678

**LOBE SCIENCES LTD.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three months ended November 30, 2023 and 2022**  
(Unaudited - Expressed in Canadian dollars, except where noted)

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

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

	<b>November 30, 2023</b>	August 31, 2023
	\$	\$
Accounts payable and accrued liabilities	<b>587,188</b>	477,950

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

	<b>November 30, 2023</b>	August 31, 2023
	\$	\$
Chief Executive Officer, for consulting fees	<b>45,326</b>	16,955
Chief Science Officer, for consulting fees	<b>149,516</b>	108,361
Company related to the Chief Financial Officer, for professional fees	<b>7,350</b>	17,758
Company related to the Regulatory Advisor, for consulting fees	<b>263,783</b>	-
Director	<b>120,629</b>	334,876
Former Chief Financial Officer, for expense reimbursement	<b>584</b>	-
	<b>587,188</b>	477,950

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 9(b)).

**13. SUBSEQUENT EVENTS**

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

On February 1, 2024, the convertible notes with a principal of US\$250,000 and accrued interest thereon matured.