

# **CANNTAB THERAPEUTICS LIMITED**

## **Interim Condensed Financial Statements**

**Three and Nine Month Periods Ended February 28, 2018 and 2017**

**(Stated in \$CAD)**

**(Unaudited - Prepared by Management)**

**These unaudited interim condensed financial statements, prepared by management, have not been reviewed by the company's external auditors**

**CANNTAB THERAPEUTICS LIMITED**  
**Interim Condensed Statements of Financial Position**  
**As at February 28, 2018 and May 31, 2017**  
**(Stated in \$CAD)**  
**(Unaudited - Prepared by Management)**

	February 28 2018	May 31 2017
<b>ASSETS</b>		
<b>Current:</b>		
Cash	\$ 237,412	\$ 958,620
Other receivables (Note 5)	91,728	40,697
	329,140	999,317
 <b>Long term:</b>		
Equipment (Note 6)	155,823	98,958
Intangible assets	70,781	39,000
	\$ 555,744	\$ 1,137,275
 <b>LIABILITIES</b>		
<b>Current:</b>		
Accounts payable and accrued liabilities	\$ 78,486	\$ 98,720
Deferred revenue (Note 7)	33,333	-
	111,819	98,720
 <b>Long term:</b>		
Deferred revenue (Note 7)	152,778	-
	264,597	98,720
 <b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	1,400,107	1,400,107
Contributed surplus	754,700	754,700
Accumulated deficit	(1,863,660)	(1,116,252)
	291,147	1,038,555
	\$ 555,744	\$ 1,137,275

**Subsequent event** (Note 16)

*The accompanying notes form an integral part of these unaudited interim condensed financial statements*

Approved on behalf of the Board:

"Richard Goldstein" Director

"Victor Fonseca" Director

**CANNTAB THERAPEUTICS LIMITED**  
**Interim Condensed Statements of Loss and Comprehensive Loss**  
**Three and Nine Month Periods Ended February 28, 2018 and 2017**  
**(Stated in \$CAD)**  
**(Unaudited - Prepared by Management)**

	Three month period ended February 28 <u>2017</u>	Nine month period ended February 28 <u>2018</u>	Three month period ended February 28 <u>2017</u>	Nine month period ended February 28 <u>2016</u>
<b>Revenue</b>				
License fees	\$ 8,334	\$ 13,889	\$ -	\$ -
Interest	<u>4,077</u>	<u>4,077</u>	<u>-</u>	<u>-</u>
	<u>12,411</u>	<u>17,966</u>	<u>-</u>	<u>-</u>
<b>Expenses</b>				
Consulting fees	168,266	372,456	26,667	41,667
Professional fees	16,816	92,396	15,000	15,000
Rent	30,000	90,000	38,000	54,000
Salaries and benefits	26,773	82,103	-	-
Research and development	24,375	66,593	7,817	7,817
General and administrative	26,739	38,060	6,163	6,405
Depreciation and amortization	7,922	23,766	-	-
Share based compensation (Note 9(c))	-	-	681,600	681,600
	<u>300,891</u>	<u>765,374</u>	<u>775,247</u>	<u>806,489</u>
<b>Net loss</b>	<u>\$ (288,480)</u>	<u>\$ (747,408)</u>	<u>\$ (775,247)</u>	<u>\$ (806,489)</u>
<b>Basic and diluted loss per share</b>	<u>\$ (0.06)</u>	<u>\$ (0.16)</u>	<u>\$ (0.21)</u>	<u>\$ (0.24)</u>
<b>Average weighted number of shares (Note 12)</b>	<u>4,713,000</u>	<u>4,713,000</u>	<u>3,641,479</u>	<u>3,421,908</u>

*The accompanying notes form an integral part of these unaudited interim condensed financial statements*

**CANNTAB THERAPEUTICS LIMITED**  
**Interim Condensed Statements of Changes in Shareholders' Equity**  
**Three and Nine Month Periods Ended February 28, 2018 and 2017**  
**(Stated in \$CAD)**  
**(Unaudited - Prepared by Management)**

	Share capital		Contributed surplus	Accumulated deficit	Total
	Shares	Amount			
<b>As at May 31, 2016</b>	3,300,000	\$ 60,207	\$ -	\$ -	\$ 60,207
Proceeds from private placements and share issuances (Note 8)	1,413,000	1,339,900	73,100	-	1,413,000
Stock options (Note 9(a))	-	-	408,960	-	408,960
Special warrant exercise (Note 10(a))	-	-	272,640	-	272,640
Net loss for period	-	-	-	(806,489)	(806,489)
<b>As at February 28, 2017</b>	<b>4,713,000</b>	<b>\$1,400,107</b>	<b>\$ 754,700</b>	<b>\$ (806,489)</b>	<b>\$1,348,318</b>
<b>As at May 31, 2017</b>	4,713,000	\$1,400,107	\$ 754,700	\$ (1,116,252)	\$1,038,555
Net loss for period	-	-	-	(747,408)	(747,408)
<b>As at February 28, 2018</b>	<b>4,713,000</b>	<b>\$1,400,107</b>	<b>\$ 754,700</b>	<b>\$ (1,863,660)</b>	<b>\$ 291,147</b>

*The accompanying notes form an integral part of these unaudited interim condensed financial statements*

**CANNTAB THERAPEUTICS LIMITED**  
**Interim Condensed Statements of Cash Flows**  
**Three and Nine Month Periods Ended February 28, 2018 and 2017**  
**(Stated in \$CAD)**  
**(Unaudited - Prepared by Management)**

	2018	2017
<b>Operating activities</b>		
Net loss for period	\$ (747,408)	\$ (806,489)
<b>Add (deduct) item not affecting cash:</b>		
Depreciation and amortization	23,766	-
Share based compensation	-	681,600
	(723,642)	(124,889)
<b>Change in non-cash working capital items</b>		
Accounts receivable	(51,031)	13,906
Accounts payable and accrued liabilities	(20,234)	45,073
Deferred revenue	186,111	-
	(608,796)	(65,910)
<b>Investing activities</b>		
Purchase of capital assets	(77,906)	-
Purchase of intangible assets	(34,506)	(40,000)
	(112,412)	(40,000)
<b>Financing activities</b>		
Proceeds on issuance of common shares	-	1,413,000
	-	1,413,000
<b>Increase (decrease) in cash</b>	(721,208)	1,307,090
Cash, beginning of period	958,620	-
<b>Cash, end of period</b>	\$ 237,412	\$ 1,307,090

*The accompanying notes form an integral part of these unaudited interim condensed financial statements*

**CANNTAB THERAPEUTICS LIMITED**  
**Notes to Interim Condensed Financial Statements**  
**Three and Nine Month Periods Ended February 28, 2018 and 2017**  
**(Stated in \$CAD)**  
**(Unaudited - Prepared by Management)**

1. **INCORPORATION AND NATURE OF OPERATIONS**

Canntab Therapeutics Limited ("Canntab" or the "Company") was incorporated on April 20, 2016 under the Canada Business Corporations Act, with its head office located at 223 Riviera Drive, Markham, Ontario. The Company uses a licensed proprietary technology to produce extended release capsules and tablets containing cannabis resin.

2. **SIGNIFICANT ACCOUNTING POLICIES**

(a) **Basis of preparation and statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. The financial statements have been prepared on a historical cost basis. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information. Since the financial statements do not include all disclosures required by the International Financial Reporting Standards ("IFRS") for annual financial statements, they should be read in conjunction with the Company's audited annual financial statements for the years ended May 31, 2017 and 2016.

The policies set out were consistently applied to all the periods presented unless otherwise noted below. The preparation of financial statements in accordance with IAS 1 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the three and nine months periods ended February 28, 2017. These financial statements were approved and authorized for issue by the Board of Directors on April 30, 2018. The estimates and underlying assumptions are reviewed on an on-going basis. The estimates used in preparing the financial statements are the same as those followed in preparing the most recent audited annual consolidated financial statements.

(b) **Intangible assets**

Intangible assets are recognized at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Amortization commences when the intangible asset is available for use and for patented assets is computed on a straight-line basis over the intangible asset's estimated useful life. The Company's only intangible asset consists of a license agreement which is being amortized over a 20-year period.

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2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(c) **Equity**

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

The Company accounts for warrants using the Black-Scholes pricing model at the date of issuance. The value of the warrants at the date of issuance is included in contributed surplus.

(d) **Equipment**

Equipment is stated at cost, net of accumulated depreciation and impairment losses if any. The equipment on the financial statements is production equipment which is depreciated straight line at a rate of 30% a year.

(e) **Income taxes**

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the intention is to settle on a net basis, or to realize the asset and settle the liability simultaneously. Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of operations and comprehensive income.

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences and deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to be recovered or settled. Deferred tax assets are recognized to the extent that realization of such benefits is probable.

(f) **Share based compensation**

The Company has a stock option plan for directors, officers and employees. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over each tranche's vesting period, based on the number of awards expected to vest, with the offset credited to contributed surplus. The number of awards expected to vest is reviewed quarterly, with any impact being recognized immediately. When options are exercised, the amount received is credited to share capital and the fair value attributed to these options is transferred from contributed surplus to share capital.

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2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(g) **Loss per share**

Loss per share amounts are calculated by dividing net income (loss) for the reporting period attributable to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted income (loss) per share amounts are calculated by dividing the net earnings attributable to common shareholders by the weighted average number of shares outstanding during the reporting period plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares. Diluted loss per share amounts are not presented if anti-dilutive.

(h) **Estimates**

The preparation of financial statements in conformity with IFRS accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates used in the financial statements.

Areas where estimates are significant to these financial statements are as follows:

- ◆ Stock option and warrant fair values utilize estimates made by management in determining the appropriate input variables in the Black-Scholes valuation model.
- ◆ The carrying value of intangible assets that are included in the statements of financial position are based on management assessments of the recoverable amount of the asset.

(i) **Financial instruments**

All financial instruments are recorded initially at fair value. In subsequent periods, all financial instruments are measured based on the classification adopted for the financial instrument: held to maturity, loans and receivables, fair value through profit or loss (“FVTPL”), available for sale, FVTPL liabilities or other financial liabilities.

FVTPL assets and liabilities are subsequently measured at fair value with the change in the fair value recognized in profit and loss during the period.

Held to maturity assets, loans and receivables, and other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Available for sale assets are subsequently measured at fair value with the changes in fair value recorded in other comprehensive income (loss), except for equity instruments without a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost.



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2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(i) **Financial instruments, continued**

The Company has classified its financial instruments as follows:

<b>Financial Instrument</b>	<b>Classification</b>
Cash	Fair value through profit and loss
Other receivables	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities

Additional fair value measurement disclosure includes classification of financial instrument fair values in a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements which are as follows:

**Level 1:** Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

**Level 2:** Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and

**Level 3:** Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

(j) **Revenue recognition**

Revenue is recognized at the fair value of consideration received or receivable. When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- ◆ The amount of revenue can be measured reliably;
- ◆ It is probable that the economic benefits associated with the transaction will flow to the entity;
- ◆ The stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- ◆ The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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3. **RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS**

- (a) **IAS 7 "Statement of Cash Flow"** has been revised to incorporate amendments issued by the IASB in January 2016. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017. The new amendments were adopted effective January 1, 2017 and their adoption did not have a significant impact on these interim condensed financial statements.
- (b) **IAS 12 "Income Taxes"** was amended by the IASB in January 2016 to clarify the requirements for recognizing deferred tax assets on unrealized losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. The amendments are effective for annual periods beginning on or after January 1, 2017. The new amendments were adopted effective January 1, 2017 and their adoption did not have a significant impact on these interim condensed financial statements.

4. **ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE**

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the IFRS Interpretations Committee ("IFRIC") that are mandatory and which the Company reasonably expects to be applicable for later periods are listed below. The Company has not early adopted these revised standards and none of these standards are expected to have a material effect on the interim condensed financial statements.

- (a) **IFRS 9: "Financial Instruments: Classification and Measurement of Financial Assets and Financial Liabilities"** was issued by the IASB in July 2014 and will replace IAS 39 "Financial Instruments: Recognition and Measurement". In addition, IFRS 7 "Financial Instruments: Disclosures" was amended to include additional disclosure requirements on transition to IFRS 9. The mandatory effective date of applying these standards is for annual periods beginning on or after January 1, 2018. The standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used. The standard requires that for financial liabilities measured at fair value, any changes in an entity's own credit risk are generally to be presented in other comprehensive income instead of net earnings. A new hedge accounting model is included in the standard, as well as increased disclosure requirements about risk management activities for entities that apply hedge accounting. The Company is currently evaluating the potential impact of this standard; however, it is not expected to have a significant impact on the interim condensed consolidated financial statements.

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4. **ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE, CONTINUED**

- (b) **IFRS 16 "Leases"** was issued by the IASB in January 2016 and will ultimately replace IAS 17, "Leases" and related interpretations. The new standard will be effective for fiscal years beginning on or after January 1, 2019, with early adoption permitted provided the Company has adopted IFRS 15, Revenue from Contracts with Customers. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all leases contracts, and record it on the statement of financial position, except with respect to lease contracts that meet limited exception criteria. If the Company has significant contractual obligations in the form of operating leases under IAS 17, there will be a material increase to both assets and liabilities on adoption of IFRS 16, and material changes to the timing of recognition of expenses associated with the lease arrangements. The Company is analyzing the new standard to determine the impact of adopting this standard.
- (c) **IFRS 15, "Revenue from Contracts and Customers"** was issued by the IASB on May 28, 2014, and will replace IAS 18, "Revenue" and IAS 11, "Construction Contracts, and Related Interpretations on Revenue". IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of this pronouncement.

5. **OTHER RECEIVABLES**

As at February 28, 2018 and May 31, 2017 other receivables consisted primarily of HST receivable.

**CANNTAB THERAPEUTICS LIMITED**  
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6. **EQUIPMENT**

	<u>Equipment</u>	<u>Furniture and fixtures</u>	<u>Computer hardware</u>	<u>Total</u>
<b>Cost</b>				
As at June 1, 2016	\$ -	\$ -	\$ -	\$ -
Additions	99,573	-	-	99,573
<b>As at May 31, 2017</b>	99,573	-	-	99,573
Additions	68,076	2,573	7,256	77,905
<b>As at February 28, 2018</b>	<u>\$ 167,649</u>	<u>\$ 2,573</u>	<u>\$ 7,256</u>	<u>\$ 177,479</u>
<b>Accumulated depreciation</b>				
As at June 1, 2016	\$ -	\$ -	\$ -	\$ -
Depreciation	615	-	-	615
<b>As at May 31, 2017</b>	615	-	-	615
Depreciation	19,695	258	1,088	21,041
<b>As at February 28, 2018</b>	<u>\$ 20,310</u>	<u>\$ 258</u>	<u>\$ 1,088</u>	<u>\$ 21,656</u>
<b>Net book value</b>				
As at May 31, 2017	<u>\$ 98,958</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98,958</u>
<b>As at February 28, 2018</b>	<u>\$ 147,339</u>	<u>\$ 2,315</u>	<u>\$ 6,168</u>	<u>\$ 155,823</u>

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7. **DEFERRED REVENUE**

- (a) On October 3, 2017, the Company entered into an exclusive collaboration and license agreement (“the Agreement”) with Emblem Cannabis Corp. (“Emblem”). Under the agreement, Emblem and the Company will collaborate on the preclinical formulation, clinical development, regulatory approval, manufacturing and commercialization of the Company’s patent-pending oral sustained release formulation for cannabinoids.
- (b) Upon execution of the agreement, the Company received a non-refundable payment from Emblem of \$200,000, which has been recorded as a deferred revenue and is being amortized over the contract term of 6 years. \$13,889 of revenue has been recorded as licensing fee revenue on the statement of loss and comprehensive loss for the nine month period ended February 28, 2018 (February 28, 2017 - \$Nil). Deferred revenue as at February 28, 2018 totals \$186,111.
- (c) The Agreement calls for Emblem to make payments of up to \$600,000 to the Company upon achievement of certain milestones involving stability studies, bioavailability studies and regulatory approval of the Company’s patent-pending oral sustained release formulation for cannabinoids.
- (d) The Agreement also calls for Emblem to make royalty payments to the Company based upon gross sales of the oral sustained release tablet formulation of cannabinoids developed.

8. **SHARE CAPITAL**

Continuity schedules for the Company's share capital and other equity instruments are disclosed in the interim condensed statements of changes in shareholders' equity for the nine month periods ended February 28, 2018 and 2017. The equity transactions in this period are described below:

- (a) The Company is authorized to issue an unlimited number of common shares.
- (b) On October 7, 2016, the Company issued 10,000 common shares for gross proceeds of \$10,000.
- (c) On October 21, 2016, the Company issued 40,000 common shares for gross proceeds of \$40,000.
- (d) On November 29, 2016, the Company issued 188,200 common shares for gross proceeds of \$188,200.
- (e) On February 21, 2017, the Company issued 1,174,800 common shares for gross proceeds of \$1,174,800. Broker options valued at \$73,100 were deducted from share capital (*see note 11*).
- (f) No additional common shares were issued during the three and nine months period ended February 28, 2018.

**CANNTAB THERAPEUTICS LIMITED**  
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9. **STOCK OPTIONS**

On April 20, 2016, the Company's directors approved and adopted a stock option plan (the "2016 Plan") for directors, officers, employees and consultants. The aggregate number of shares that may be reserved for issuance under the plan cannot exceed 10% of the total outstanding shares issued.

Stock option activity during the period from June 1, 2016 to February 28, 2018 was as follows:

	Nine month period ended February 28, 2018		Year ended May 31, 2017	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of period	471,300	\$ 1.000	-	\$ -
Grant of options (Note 9(a))	-	-	471,300	1.000
Outstanding, end of period	471,300	\$ 1.000	471,300	\$ 1.000

As at February 28, 2018, the issued and outstanding options to acquire common shares of the Company were as follows:

Grant date	Number of options		Exercise price (\$)	Remaining life	Expiry date
	Granted	Exercisable			
February 21, 2017	471,300	471,300	1.000	3.98	February 21, 2022

- (a) On February 21, 2017, 471,300 stock options were granted and were fully vested during the year ended May 31, 2017. The fair value of the stock options issued was \$408,960, which was expensed under share based compensation and credited to contributed surplus. It was calculated with the Black-Scholes option pricing model using the assumptions of (1) risk-free interest rate of 1.03%, (2) expected volatility of 150%, (3) expected life of 5 years, and (4) dividend yield of 0.0%.
- (b) For the period from the date of their initial issuance to February 28, 2018, no new and/or existing stock options have been granted, exercised, cancelled or expired.
- (c) Share based compensation for the nine month period ended February 28, 2018 totalled \$Nil (February 28, 2017 - \$681,600) (see notes 9(a) and 10(a)).

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10. **SPECIAL WARRANTS**

<u>Grant date</u>	<u>Number of warrants</u>		<u>Exercise price (\$)</u>	<u>Remaining life</u>	<u>Expiry date</u>
	<u>Granted</u>	<u>Exercisable</u>			
February 21, 2017	300,000	300,000	1.000	3.98	February 21, 2022

- (a) On February 21, 2017, 300,000 special warrants were granted and fully vested during the year ended May 31, 2017. The fair value of the special warrants issued was \$272,640, which was expensed under share based compensation and credited to contributed surplus. It was calculated with the Black-Scholes option pricing model using the assumptions of (1) risk-free interest rate of 1.03%, (2) expected volatility of 150%, (3) expected life of 5 years, and (4) dividend yield of 0.0%.
- (b) For the period from the date of their initial issuance to February 28, 2018, no new and/or existing special warrants have been granted, exercised, cancelled or expired.

11. **BROKER OPTIONS**

<u>Grant date</u>	<u>Number of options</u>		<u>Exercise price (\$)</u>	<u>Remaining life</u>	<u>Expiry date</u>
	<u>Granted</u>	<u>Exercisable</u>			
February 21, 2017	80,250	80,250	1.000	3.98	February 21, 2022

- (a) On February 21, 2017, 80,260 broker options were granted in connection with the February 21, 2017 financing (*see note 8(e)*). The broker options were issued to an entity related to the Company by common management (*see note 15*). The broker options granted fully vested during the year ended May 31, 2017. The fair value of the broker options issued was \$73,100, which was deducted from share capital and credited to contributed surplus. It was calculated with the Black-Scholes option pricing model using the assumptions of (1) risk-free interest rate of 1.03%, (2) expected volatility of 150%, (3) expected life of 5 years, and (4) dividend yield of 0.0%.
- (b) For the period from the date of their initial issuance to February 28, 2018, no new and/or existing broker options have been granted, exercised, cancelled or expired.

12. **LOSS PER SHARE**

Basic and diluted loss per share is computed using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three and nine month periods ended February 28, 2018 were 4,713,000 and 4,713,000 respectively (three and nine month periods ended February 28, 2017 - 3,641,479 and 3,421,908 respectively).

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12. **LOSS PER SHARE, CONTINUED**

For the three and nine month periods ended February 28, 2018 and 2017, diluted loss per share and the weighted average number of common shares exclude all potentially dilutive equity instruments since their effect is anti-dilutive.

As at February 28, 2018, the following potentially dilutive equity instruments were outstanding: (1) 471,300 stock options (February 28, 2017 - 471,300), (2) 300,000 special warrants (February 28, 2017 - 300,000), and (3) 80,250 broker warrants (February 28, 2017 - 80,250). The fully diluted number of common shares outstanding in the nine month period ended February 28, 2018 was 5,564,550 (February 28, 2017 - 5,564,550).

13. **FINANCIAL RISK FACTORS**

The Company's financial instruments, consisting of cash, other receivables and accounts payable and accrued liabilities, approximate fair value due to the relatively short-term maturity of the instruments.

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

(a) **Credit risk**

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. The Company believes it has no significant credit risk.

(b) **Liquidity risk**

Liquidity risk is the risk that the Company cannot meet its financial liabilities as they become due. As at February 28, 2018, the Company had a cash balance of \$237,412 to settle accounts payable and accrued liabilities of \$78,486 and, as such, is not exposed to significant liquidity risk. All the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

(c) **Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risks. Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. As the Company's investments are short-term in nature, interest rate risk is remote



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14. **CAPITAL MANAGEMENT**

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company includes equity, comprised of share capital and deficit in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the identification and evaluation of potential acquisitions. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

15. **RELATED PARTY TRANSACTIONS (INCLUDING KEY MANAGEMENT COMPENSATION)**

(a) The Company incurred consulting fees of \$180,000 to its key management during the nine months ended February 28, 2018 (February 28, 2017 - \$NIL).

(b) The Company is related to CMAX Technologies Inc. by virtue of common control. The Company paid \$90,000 of rent to CMAX during the nine months ended February 28, 2018 (February 28, 2017 - \$54,000).

16. **SUBSEQUENT EVENT**

On November 27, 2017, the Company announced the signing of a binding Letter of Intent ("LOI") with Telferscot Resources Limited ("Telferscot" or the "Issuer") under which Telferscot would acquire the issued and outstanding shares of the Company, effectively resulting in a reverse takeover of Telferscot by Canntab. The mechanics of the transaction were as follows:

(a) On January 12, 2018, the Issuer, Canntab, the and 2611780 Ontario Inc. ("Numco") entered into an amalgamation agreement (the "Amalgamation Agreement"), pursuant to which the parties completed a business combination by way of a three-cornered amalgamation (the "Amalgamation") under the Business Corporations Act (Ontario). Under the terms of the Amalgamation Agreement, Canntab amalgamated with Numco and carries on the existing business of Canntab as a wholly owned operating subsidiary of the Issuer, which filed Articles of Amendment to change its name to Canntab Therapeutics Limited (the "Resulting Issuer").

(b) Prior to the Amalgamation, the Issuer consolidated its common shares on the basis of one post-consolidated common share for each 200 pre-consolidation common shares (the "Consolidation").

(c) Pursuant to the terms of the Amalgamation Agreement, each shareholder of Canntab received four (4) common shares (a "Common Share") of the Issuer for every one (1) common share of Canntab held by such shareholder (the "Exchange Ratio"). In addition, each holder of a stock option or warrant of Canntab received an equal number of replacement stock options, warrants and broker warrants of the Issuer, as applicable.

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16. **SUBSEQUENT EVENT, CONTINUED**

- (d) In connection with the Amalgamation, Canntab completed a private placement of 1,251,914 subscription receipts ("Subscription Receipt") at a price of \$4.00 per Subscription Receipt for gross proceeds of \$5,007,656 on December 19, 2017 and December 29, 2017 (the "Offering"). Immediately prior to the closing of the Amalgamation, each Subscription Receipt converted, with no additional consideration or action by the holder, to one common share of Canntab (each a "Canntab Share"), which were subsequently exchanged for four common shares of the Resulting Issuer pursuant to the terms of the Amalgamation Agreement.
- (e) Immediately prior to the Amalgamation, Canntab had outstanding 4,713,000 common shares, 380,250 warrants and 470,000 stock options.
- (f) As a result of the transaction, there are presently an aggregate of 24,484,701 common shares issued and outstanding as follows:
- (i) former shareholders of Canntab exchanging their former 4,713,000 Canntab shares (on a 1 for 4 basis) for 18,852,000 common shares of the Resulting Issuer, representing approximately 77.00% of the total common shares of the Resulting Issuer.
  - (ii) former subscription receipt holders exchanging their former 1,251,914 subscription receipts (on a 1 for 4 basis) for 5,007,656 common shares of the Resulting Issuer, representing approximately 20.45% of the outstanding common shares of the Resulting Issuer.
  - (iii) original shareholders of the Issuer exchanging their former 125,009,000 Telferscot shares (on a 200 for 1 basis) for 625,045 common shares of the Resulting Issuer, representing approximately 2.55% of the Resulting Issuer.
- (g) For accounting purposes, it is expected that the reverse takeover transaction will be recorded in the Company's next reporting period as follows:
- (i) Although the transaction resulted in Canntab legally becoming a wholly-owned subsidiary of Telferscot, the transaction constitutes a reverse takeover of Telferscot and will be accounted for as a reverse takeover transaction in accordance with guidance provided in IFRS 2 Share Based Payments. As Telferscot did not qualify as a business according to the definition in IFRS 3, this reverse takeover transaction does not constitute a business combination. It will be treated as an issuance of shares by Canntab for the net monetary assets of Telferscot.
  - (ii) The consideration paid by Canntab to acquire Telferscot will be measured on the basis of the fair value of the equity instruments issued by Canntab, considering the price per share of recent private placements. The fair value of the 625,045 Resulting Issuer shares issued to the original owners of Telferscot, using the valuation implicit in the Subscription Receipt noted above, will result in a fair value assigned to the acquisition of approximately \$625,000, subject to adjustment for the net monetary assets of Telferscot (as yet undetermined). In accordance with IFRS 2, any excess of the fair value of the equity instruments issued by Canntab over the value of the net monetary assets of Telferscot will be expensed as a "non-cash loss on completion of the RTO".