CANNTAB THERAPEUTICS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 2018 AND 2017

(Stated in $CAD)

Independent Auditors' Report

To the Shareholders of Canntab Therapeutics Limited:

We have audited the accompanying consolidated financial statements of Canntab Therapeutics Limited, which comprise the consolidated balance sheets as at May 31, 2018 and 2017, and the consolidated statements of net loss and comprehensive loss, changes in shareholders' equity and cash flows for the years ended May 31, 2018 and 2017 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canntab Therapeutics Limited as at May 31, 2018 and May 31, 2017 and its financial performance and its cash flows for the years ended May 31, 2018 and 2017 in accordance with International Financial Reporting Standards.

MNP LLP

September 28, 2018
Toronto, Ontario

Chartered Professional Accountants
Licensed Public Accountants

MNP LLP

CANNTAB THERAPEUTICS LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MAY 31, 2018 AND 2017
(Stated in $CAD)

	2018	2017
ASSETS		
Current:		
Cash and cash equivalents (Note 6)	**$ 4,217,850**	$ 958,620
Accounts receivable (Note 7)	**170,021**	40,696
Prepaid expenses	**75,648**	-
	4,463,519	999,316
Long term:		
Equipment (Note 8)	**159,843**	98,958
Intangible assets (Note 9)	**125,696**	39,000
	$ 4,749,058	$ 1,137,274
LIABILITIES		
Current:		
Accounts payable and accrued liabilities (Note 10)	**$ 273,559**	$ 98,719
Current portion of deferred revenue (Note 11)	**39,999**	-
	313,558	98,719
Long term:		
Deferred revenue (Note 11)	**133,334**	-
	446,892	98,719
SHAREHOLDERS' EQUITY		
Common shares (Note 12)	**6,516,681**	1,400,107
Contributed surplus	**1,310,150**	754,700
Accumulated deficit	**(3,524,665)**	(1,116,252)
	4,302,166	1,038,555
	$ 4,749,058	$ 1,137,274

Commitment (Note 17(b))

Subsequent events (Note 20)

The accompanying notes form an integral part of these consolidated financial statements

Approved on behalf of the Board:

"Richard Goldstein" Director *"Vitor Fonseca"* Director

CANNTAB THERAPEUTICS LIMITED
CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
YEARS ENDED MAY 31, 2018 AND 2017
(Stated in $CAD)

	2018	2017
Revenue		
License fees	**$ 26,667**	$ -
Interest income	**15,011**	313
	41,678	313
Expenses		
Consulting fees	**517,799**	211,143
Professional fees	**162,988**	54,100
Employee compensation and benefits	**158,587**	15,841
Research and development	**140,732**	40,685
Advertising and promotion	**126,346**	-
Occupancy costs	**120,000**	84,000
General and administrative	**109,618**	27,581
Share based compensation (Note 13(e))	**319,938**	681,600
Depreciation of equipment (Note 8)	**45,298**	615
Amortization of intangible assets (Note 9)	**6,184**	1,000
	1,707,490	1,116,565
Loss from operations before undernoted items	**(1,665,812)**	(1,116,252)
Listing costs (Note 5(g)(iii))	**(742,601)**	-
Net loss and comprehensive loss	**$ (2,408,413)**	$ (1,116,252)
Basic loss per share (Note 12(f))	**$ (0.11)**	$ (0.07)

The accompanying notes form an integral part of these consolidated financial statements

CANNTAB THERAPEUTICS LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED MAY 31, 2018 AND 2017
(Stated in $CAD)

	Note	Common shares Number	Common shares Amount	Contributed surplus	Accumulated deficit	Total
As at May 31, 2016		**3,300,000**	**$ 60,207**	**$ -**	**$ -**	**$ 60,207**
Private placements and share issuances	**12(b)**	1,413,000	1,339,900	73,100	-	1,413,000
Special warrants issued	**14(a)**	-	-	272,640	-	272,640
Net loss and comprehensive loss		-	-	-	(1,116,252)	(1,116,252)
Share based compensation	**13(a)**	-	-	408,960	-	408,960
As at May 31, 2017		**4,713,000**	**1,400,107**	**754,700**	**(1,116,252)**	**1,038,555**
Proceeds on private placement	**12(c)**	1,251,914	4,772,144	235,512	-	5,007,656
Share issue costs	**12(d)(iv)**	-	(480,615)	-	-	(480,615)
Shares deemed issued in connection with RTO	**12(d)(ii)**	625,045	625,045	-	-	625,045
Elimination of Canntab shares	**12(d)**	(5,964,914)	(6,172,251)	-	-	(6,172,251)
Shares issued to Canntab shareholders in connection with RTO	**12(d)**	23,859,656	6,172,251	-	-	6,172,251
Proceeds from exercise of options and special warrants	**12(e)**	800,000	200,000	-	-	200,000
Net loss and comprehensive loss		-	-	-	(2,408,413)	(2,408,413)
Share based compensation	**13(c)**	-	-	319,938	-	319,938
As at May 31, 2018		**25,284,701**	**$ 6,516,681**	**$ 1,310,150**	**$ (3,524,665)**	**$ 4,302,166**

The accompanying notes form an integral part of these consolidated financial statements

CANNTAB THERAPEUTICS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MAY 31, 2018 AND 2017
(Stated in $CAD)

	2018	2017
Operating activities		
Net loss and comprehensive loss	**$ (2,408,413)**	$ (1,116,252)
Add (deduct) items not affecting cash		
Depreciation of equipment	**45,298**	615
Amortization of intangible assets	**6,184**	1,000
Share based compensation	**319,938**	681,600
Non-cash listing costs	**660,293**	-
	(1,376,700)	(433,037)
Change in non-cash working capital items		
Accounts receivable	**(129,324)**	19,510
Prepaid expenses	**(75,648)**	-
Accounts payable and accrued liabilities	**139,591**	58,720
Deferred revenue	**173,333**	-
	(1,268,748)	(354,807)
Investing activities		
Purchase of intangible assets	**(92,880)**	-
Purchase of equipment	**(106,183)**	(99,573)
	(199,063)	(99,573)
Financing activities		
Proceeds from issuance of common shares	**5,007,656**	1,413,000
Share issue costs	**(480,615)**	-
Proceeds on exercise of stock options and special warrants	**200,000**	-
	4,727,041	1,413,000
Change in cash and cash equivalents	**3,259,230**	958,620
Cash and cash equivalents, beginning of year	**958,620**	-
Cash and cash equivalents, end of year	**$ 4,217,850**	$ 958,620

The accompanying notes form an integral part of these consolidated financial statements

1. **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. It is a public company that trades on the Canadian Securities Exchange ("CSE") under the symbol "PILL". The Company is a Canadian cannabis oral dosage formulation company engaged in the research and development of advanced pharmaceutical grade formulations of cannabinoids. It has developed in-house technology to deliver standardized medical cannabis extract from selective strains in a variety of extended/sustained release pharmaceutical dosages for therapeutic use.

2. **SIGNIFICANT ACCOUNTING POLICIES**

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

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). They were authorized for issuance by the Board of Directors on September 27, 2018.

The consolidated financial statements are prepared on the historical cost basis. Unless otherwise stated, the consolidated financial statements are presented in Canadian dollars. That is the Company's functional and presentation currency as (i) the Company is based in Canada, (ii) the majority of its operating costs are denominated in Canadian dollars, and (iii) all its financing is obtained through Canadian dollar private placements.

(b) **Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Canntab Therapeutics Subsidiary Limited. A subsidiary is an entity controlled by the Company. Control exists when the Company has power over an investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are changed when necessary to align them with the policies applied by the Company in these consolidated financial statements. All intercompany balances, income and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

(c) **Cash and cash equivalents**

The Company considers highly liquid investments that are readily convertible into known amounts of cash (including GIC's cashable with no penalty) and not subject to significant risk of change in value to be cash equivalents.

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) Foreign currency translation

Foreign currency transactions are recorded at the exchange rate as at the date of the transaction. At each reporting date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities in foreign currencies other than the functional currency are translated using the historical rate. All gains and losses on translation of these foreign currency transactions are recognized in profit and loss.

(e) 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.

The Company has classified its financial instruments as follows:

Financial Instrument	Classification
Cash and cash equivalents	FVTPL
Accounts receivable	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.

2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(e) **Financial instruments, continued**

Other financial liabilities

Financial liabilities classified as other financial liabilities include accounts payable and accrued liabilities and are measured at amortized cost using the effective interest rate method. The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of 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 assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty
- Default or delinquency in interest or principal payments, or
- Probability that the borrower will enter bankruptcy or financial reorganization

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

(f) **Equipment**

Equipment is stated at cost, net of accumulated depreciation and impairment losses, if any. Depreciation is computed using the following annual rates and methods which reflect the estimated useful life of the assets as follows:

- Production equipment - 20% declining balance
- Furniture and fixtures - 20% diminishing balance
- Computer hardware - 30% declining balance

2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(g) **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 estimated useful life.

Intangible assets with finite lives are amortized over their useful economic lives as follows:

- ♦ License agreement - 20 years
- ♦ Patent costs - 10 years

Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit and loss when the asset is derecognized.

(h) **Deferred revenue**

Advance payments received for use of the Company's assets are initially recorded in deferred revenue. The revenue is recognized on a straight-line basis in net earnings over the period of use.

(i) **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.

(j) **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and is shown net of sales returns and discounts. It is recognized to the extent it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably.

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(k) **Research and development costs**

Research costs are charged to operations as incurred. Research costs consist primarily of consulting expenses and materials related to the design, testing, and manufacture of the various components of the Company's cannabis product line. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable, and the Company intends to or has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets. Other development expenditure is recognized in the statement of operations as incurred.

(l) **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.

The proceeds from the exercise of stock options or warrants are recognized in share capital upon exercise at the exercise price paid by the holder, and the fair value attributed to these options or warrants is transferred from contributed surplus to share capital.

Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the common share purchase warrants and stock options issued.

(m) **Income taxes**

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(m) **Income taxes, continued**

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized, and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced 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 recovered.

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

The Company follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The amount of future tax assets recognized is limited to the amount, if any, that is considered to be more likely than not to be realized.

(n) **Loss per share**

Basic loss per share amounts are calculated by dividing consolidated net loss for the reporting period attributable to common shareholders by the weighted average number of common shares outstanding during the year.

Diluted loss per share amounts are calculated by dividing the consolidated net loss attributable to common shareholders by the weighted average number of shares outstanding during the year 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 their inclusion would be anti-dilutive.

(o) **Provisions and contingencies**

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(p) **Critical accounting estimates and judgements**

The preparation of these consolidated financial statements requires management to make estimates and judgements about the future that affect the amounts recorded in the consolidated financial statements. These estimates and judgements are based on the Company's experience and management's expectations about future events that are believed to be reasonable under the circumstances, and they are continually being evaluated based on new facts and experience. Actual results may differ from these estimates and judgements.

Areas where estimates are significant to these consolidated 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.
- ♦ Amortization of capital and intangible assets is dependent upon estimates of useful lives based on management's judgment.
- ♦ Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.
- ♦ The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

(q) **Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statements of earnings on a straight-line basis over the period the asset is used under the lease. Leases under which the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Payments on finance leases are allocated to the liability and expense so as to recognize a constant rate of interest on the remaining balance of the liability. Assets acquired under finance leases are amortized over their useful lives.

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 consolidated 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 consolidated financial statements.

4. NEW AND REVISED IFRS STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

As at the date of authorization of these consolidated financial statements, the IASB has issued the following new or revised standards which are not yet effective:

(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 impact on its financial statements upon adoption of this standard, but does not expect the impact of IFRS 9 on the consolidated financial statements to be material.

4. **NEW AND REVISED IFRS STANDARDS AND INTERPRETATIONS NOT YET ADOPTED, CONTINUED**

(b) **IFRS 15 "Revenue from Contracts with Customers"** was issued by the IASB in May 2014, which replaces IAS 11 – Construction Contracts, IAS 18 – Revenue and IFRIC 13 – Customer Loyalty Programs ("IFRIC 13"), as well as various other interpretations regarding revenue. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 also contains enhanced disclosure requirements. IFRS 15 will be applied for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact on its financial statements upon adoption of this standard, but does not expect the impact of IFRS 15 on the consolidated financial statements to be material.

(c) **IFRS 16 "Leases"** was issued by the IASB in January 2016 and will ultimately replace IAS 17, "Leases" and related interpretations. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract based on whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements and plans to adopt the requirements in 2019.

(d) **IFRIC 23 "Uncertainty Over Income Tax Treatments"** was issued in June 2017 and is effective for years beginning on or after January 1, 2019, to be applied retrospectively. IFRIC 23 provides guidance on applying the recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments including, but not limited to, whether uncertain tax treatments should be considered together or separately based on which approach better predicts resolution of the uncertainty. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements and plans to adopt the requirements in 2019.

5. **REVERSE TAKEOVER TRANSACTION ("RTO")**

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").

5. REVERSE TAKEOVER TRANSACTION ("RTO"), CONTINUED

(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, special warrants and broker compensation warrants of the Issuer, as applicable.

(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, 470,000 stock options, 300,000 special warrants and 80,250 broker compensation warrants.

(f) As a result of the transaction, there were an aggregate of 24,484,701 common shares issued and outstanding on April 16, 2018 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; and

   (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, the reverse takeover transaction has been recorded in the Company's records as follows:

   (i) Although the transaction resulted in Canntab legally becoming a wholly-owned subsidiary of Telferscot, the transaction constituted a reverse takeover of Telferscot and has been 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 did not constitute a business combination. It has been treated as an issuance of shares by Canntab for the net monetary liabilities of Telferscot.

5. REVERSE TAKEOVER TRANSACTION ("RTO"), CONTINUED

(ii) The transaction therefore has been accounted for as a capital transaction, with Canntab being identified as the accounting acquirer and the equity consideration measured at fair value. The resulting consolidated statement of financial position has been presented as a continuance of Canntab operations and comparative figures presented in the consolidated financial statements after the reverse acquisition are those of Canntab. The results of operations, cash flows and the assets and liabilities of Telferscot have been included in these consolidated financial statements since April 16, 2018, the acquisition date.

(iii) The consideration paid by Canntab to acquire Telferscot has been 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 $1.00 valuation implicit in the Subscription Receipt *(see note 5(d))*, resulted in a fair value assigned to the acquisition of $625,045. 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 liabilities of Telferscot has been expensed as listing costs, as outlined below:

Fair value of consideration issued:	
Deemed issuance of 625,045 common shares to former shareholders of Telferscot at $1.00 per share (Note 12(d)(iii))	**$ 625,045**
Net liabilities assumed:	
Loan payable by Telferscot to Canntab	(35,248)
Listing costs:	
Excess applied to transaction costs	660,293
Legal fees	82,308
	$ 742,601

6. CASH AND CASH EQUIVALENTS

	2018	2017
Cash (bank overdraft)	**$ (18,629)**	$ 78,243
Short-term investment certificate	**3,500,000**	800,000
Cash in Company lawyer's trust account	**736,479**	80,377
	$ 4,217,850	$ 958,620

The short-term investment certificate bears interest at 1.50% per annum, comes due on April 16, 2019 and is cashable at any time in whole or in part with no penalty. The cash in the Company lawyer's trust account is unrestricted and represents the remaining funds remaining from the April, 2018 financing *(see note 12(c))* yet to be remitted to the Company.

7. ACCOUNTS RECEIVABLE

Accounts receivable consists largely of refundable HST ITC's.

8. EQUIPMENT

	Production equipment	Furniture and fixtures	Computer hardware	Total
Cost				
As at May 31, 2016	$ -	$ -	$ -	$ -
Additions	99,573	-	-	99,573
As at May 31, 2017	**99,573**	**-**	**-**	**99,573**
Additions	92,592	6,334	7,257	106,183
As at May 31, 2018	**$ 192,165**	**$ 6,334**	**$ 7,257**	**$ 205,756**
Accumulated depreciation				
As at May 31, 2016	$ -	$ -	$ -	$ -
Depreciation	615	-	-	615
As at May 31, 2017	**615**	**-**	**-**	**615**
Depreciation	43,577	633	1,088	45,298
As at May 31, 2018	**$ 44,192**	**$ 633**	**$ 1,088**	**$ 45,913**
Net book value				
As at May 31, 2017	**$ 98,958**	**$ -**	**$ -**	**$ 98,958**
As at May 31, 2018	**$ 147,973**	**$ 5,701**	**$ 6,169**	**$ 159,843**

9. INTANGIBLE ASSETS

	License agreements	Patent costs	Total
Cost			
As at May 31, 2016	$ -	$ -	$ -
Additions (Note 17(c))	40,000	-	40,000
As at May 31, 2017	**40,000**	**-**	**40,000**
Additions	20,000	72,880	92,880
As at May 31, 2018	**$ 60,000**	**$ 72,880**	**$ 132,880**
Accumulated amortization			
As at May 31, 2016	$ -	$ -	$ -
Amortization	1,000	-	1,000
As at May 31, 2017	**1,000**	**-**	**1,000**
Amortization	2,500	3,684	6,184
As at May 31, 2018	**$ 3,500**	**$ 3,684**	**$ 7,184**
Net book value			
As at May 31, 2017	**$ 39,000**	**$ -**	**$ 39,000**
As at May 31, 2018	**$ 56,500**	**$ 69,196**	**$ 125,696**

10. **ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

		2018		2017
Trade accounts payable	**$**	**215,259**	$	91,119
Accrued liabilities		**58,300**		7,600
	$	**273,559**	$	98,719

11. **DEFERRED REVENUE**

(a) On October 3, 2017, the Company entered into an exclusive collaboration and license agreement ("the Agreement") with Emblem Corp. ("Emblem"). Under the agreement, Emblem and the Company will collaborate on the pre-clinical formulation, clinical development, regulatory approval, manufacturing and commercialization of the Company's patent-pending oral sustained release formulation for cannabinoids.

(b) The following is a brief summary of the salient terms of the License Agreement:

(i) The License Agreement is for an initial term of 5 years and shall be automatically renewed thereafter for renewal terms of one year each.
(ii) The License Agreement applies to proprietary the Company products being oral sustained release tablet formulations of cannabinoids (the "Product").
(iii) The Company shall have the sole right to manufacture the Product.
(iv) The raw materials (cannabis and cannabis oil) required to manufacture the Product shall be provided to the Company free of charge by the Licensed Producer.
(v) The Licensed Producer shall purchase the products manufactured by the Company at the Company's cost plus 15%.
(vi) The Licensed Producer is responsible for all regulatory costs to obtain the required approvals to sell the Product in Canada at the Licensed Producer's sole cost and expense.

(c) The Company will be entitled to the following milestone payments pursuant to the License Agreement:

(i) $200,000 non-refundable payment was received upon execution of the License Agreement. This has been recorded as deferred revenue and is being amortized over the initial contract term of 5 years. Of that balance, $26,667 has been recognized as licensing fee revenue on the statement of loss and comprehensive loss for the year ended May 31, 2018 (2017 - $Nil). Deferred revenue as at May 31, 2018 totals $173,333 (2017 - $Nil).

(ii) A further $200,000 is to be received within forty-five (45) days following the development extended-release cannabis tablets acceptable to the Licensed Producer acting reasonably-on the basis of in-vitro dissolution data, received in September, 2017 *(see note 20(d))*.

(iii) Another $200,000 is to be received within forty-five (45) days following reasonably acceptable results from a stability study and an in-vivo bio-availability study confirming the Product provides "extended release". This in vivo study will involve 12 people and blood sampling over 12 hours;

11. DEFERRED REVENUE, CONTINUED

(iv) Upon the Licensed Producer being approved by Health Canada to sell pharmaceutically acceptable formulations of each of the three extended-release cannabinoid tablet formulations (high HTC, balanced THC/CBD and high CBD), a further $200,000 is to be received for each of three formulations.

(d) The Company will be entitled to the following royalty payments pursuant to the License Agreement:

(i) 10% of the gross sales the Licensed Producer receives from sales of each Product in the territory on sales up to and including $15 million per year and 15% of gross sales on sales exceeding $15 million per year.
(ii) The Licensed Producer shall be the exclusive licensee in the territory providing that the Licensed Producer meets the following royalty payment thresholds:

- ♦ First 12 months following first commercial sale: $300,000.
- ♦ Second 12 months following first commercial sale: $1,200,000.
- ♦ Third 12 months following first commercial sale and all subsequent 12 month periods: $2,100,000.

(e) If any of these thresholds are not met then the Licensed Producer shall have the option of making up the difference between the royalty-based payments and the thresholds. If the thresholds are not met and the Licensed Producer does not at its sole discretion make up the difference between the royalty-based payments and the thresholds, then the license shall at the Company's sole option terminate or the Company may designate the Licensed Producer as a non-exclusive licensee of the patents and the licensed know-how. In either event the Company may thereafter itself sell the Products or otherwise exercise the patent and know-how rights without restriction or license any number of third parties to sell the Products or otherwise exercise the patent and know-how rights without restriction.

12. SHARE CAPITAL

Continuity schedules for each component of the Company's share capital and other equity instruments are disclosed in the consolidated statements of changes in shareholders' equity for the years ended May 31, 2018 and 2017. Descriptions of the changes in share capital are as follows:

(a) **Authorized share capital**

The Company is authorized to issue an unlimited number of common shares.

12. SHARE CAPITAL, CONTINUED

(b) **Private placements during the year ended May 31, 2017:**

During the year ended May 31, 2017, the Company completed a number of private placements resulting in the issuance of 1,413,000 common shares at $1.00 per share for gross proceeds of $1,413,000, as follows: 10,000 common shares on October 7, 2016, 40,000 common shares on October 21, 2016, 188,200 common shares on November 29, 2016, and 1,174,800 common shares on February 21, 2017. Broker compensation warrants issued on the February 21, 2017 placement valued at $73,100 were deducted from share capital *(see note 15(a))*.

(c) **Private placement during the year ended May 31, 2018:**

As described in note 5(d), 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 the Company. Broker compensation warrants, issued on April 16, 2018 with the concurrent closing of the private placement and the RTO transaction, valued at $235,512 were deducted from share capital *(see note 15(b))*.

(d) **Reverse takeover transaction of Telferscot Resources Inc. (the "Issuer") by Canntab ("the Resulting Issuer"):**

As a result of the reverse takeover transaction described in note 5, the following share capital transactions transpired:

(i) former shareholders of Canntab exchanged their former 4,713,000 Canntab shares (on a 1 for 4 basis) for 18,852,000 common shares of the Resulting Issuer;

(ii) former subscription receipt holders exchanged their former 1,251,914 subscription receipts (on a 1 for 4 basis) for 5,007,656 common shares of the Resulting Issuer; and

(iii) original shareholders of the Issuer exchanged their former 125,009,000 Telferscot shares (on a 200 for 1 basis) for 625,045 common shares of the Resulting Issuer.

(iv) share issue costs of $480,615 were incurred related to the private placement, including corporate finance fees and commissions, legal and accounting fees.

(e) **Exercise of stock option and special warrants:**

During May, 2018, (i) 400,000 (post-RTO) stock options were exercised at $0.25 per option for gross cash proceeds of $100,000 *(see note 13(d))*, and (ii) 400,000 (post-RTO) special warrants were exercised at $0.25 per special warrant for gross cash proceeds of $100,000 *(see note 14(c))*, resulting in the issuance of 800,000 common shares.

12. **SHARE CAPITAL, CONTINUED**

(f) **Loss per share**

Basic loss per share is computed using the weighted average number of common shares outstanding. After giving retroactive effect to the 1 for 4 share exchange ratio noted above, the weighted average number of common shares outstanding for the year ended May 31, 2018 was 21,128,694 (May 31, 2017 - 15,000,424).

After giving retroactive effect to the 1 for 4 share exchange ratio noted above, as at May 31, 2018, the potentially dilutive equity instruments outstanding were (i) 1,910,000 stock options (2017 - 1,880,000), (ii) 800,000 special warrants (2017 - 1,200,000, and (iii) 671,544 broker compensation warrants (2017 - 321,000).

13. **STOCK OPTIONS**

On April 20, 2016, the Company's directors approved and adopted a stock option 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 years ended May 31, 2018 and 2017 was as follows:

	Year ended May 31, 2018		Year ended May 31, 2017	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding, beginning of year	1,880,000	$ 0.25	-	$ -
Grant of options (Note 13(a))	-	-	470,000	1.00
Retroactive effect to the 1 for 4 share exchange ratio under RTO (Note 13(b))	-	-	1,410,000	0.25
Grant of options (Note 13(c))	430,000	1.00	-	-
Exercised in May, 2018 (Note 13(d))	(400,000)	0.25	-	-
Outstanding, end of year	1,910,000	$ 0.42	1,880,000	$ 0.25

13. **STOCK OPTIONS, CONTINUED**

As at May 31, 2018, the issued and outstanding options to acquire common shares of the Company were as follows:

	Number of options				
Grant date	**Granted**	**Exercisable**	**Exercise price ($)**	**Remaining life**	**Expiry date**
February 21, 2017	1,480,000	1,480,000	0.25	3.73	February 21, 2022
April 18, 2018	430,000	329,999	1.00	2.89	April 18, 2021
	1,910,000	1,809,999	0.42	3.54	

(a) On February 21, 2017, 470,000 stock options were granted, exercisable at $1.00, expiring after 5 years, and vested fully immediately. Using the Black-Scholes option pricing model with 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%, the fair value of the stock options issued was $408,960, which was expensed under share based compensation and credited to contributed surplus.

(b) As a result of the 1 for 4 share exchange ratio applied from the RTO transaction *(see note 5(f))* that closed on April 16, 2018, the 470,000 options outstanding on that date that were exercisable for $1.00 each converted to 1,880,000 options exercisable at $0.25 each.

(c) On April 18, 2018, 430,000 stock options were granted, exercisable at $1.00, expiring after 3 years, vesting as to either (i) immediately, (ii) 1/3 immediately and 1/3 per year thereafter, or (iii) 1/4 immediately and 1/4 per year thereafter. Using the Black-Scholes option pricing model with the assumptions of (1) risk-free interest rate of 2.02%, (2) expected volatility of 150%, (3) expected life of 3 years, and (4) dividend yield of 0.0%, the fair value of the stock options vesting in the year was $319,938.

(d) In May, 2018, 400,000 of the options granted on February 21, 2017 were exercised for $0.25 per option for gross proceeds of $100,000 *(see note 12(e))*.

(e) Share based compensation for the year ended May 31, 2018, from the recognized vesting of both stock options and special warrants, totalled $319,938 (2017 - $681,600) *(see notes 13 and 14)*.

14. **SPECIAL WARRANTS**

Special warrant activity during the years ended May 31, 2018 and 2017 was as follows:

	Year ended May 31, 2018			Year ended May 31, 2017		
	Options		**Weighted average exercise price**	Options		Weighted average exercise price
Outstanding, beginning of year	1,200,000	$	0.25	-	$	-
Grant of special warrants (Note 14(a))	-		-	300,000		1.00
Retroactive effect to the 1 for 4 share exchange ratio under RTO (Note 14(b))	-		-	900,000		0.25
Exercised in May, 2018 14(c))	(400,000)		0.25	-		-
Outstanding, end of year	800,000	$	0.25	1,200,000	$	0.25
Weighted-average remaining life			1.33			0.57

(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) As a result of the 1 for 4 share exchange ratio applied from the RTO transaction *(see note 5(d))* that closed on April 16, 2018, the 300,000 special warrants outstanding on that date that were exercisable for $1.00 each converted to 1,200,000 special warrants exercisable at $0.25 each.

(c) In May, 2018, 400,000 of the special warrants granted on February 21, 2017 were exercised for $0.25 per option for gross proceeds of $100,000 *(see note 12(e))*.

15. **BROKER COMPENSATION WARRANTS**

Broker compensation warrant activity during the years ended May 31, 2018 and 2017 was as follows:

	Year ended May 31, 2018			Year ended May 31, 2017		
	Options		**Weighted average exercise price**	Options		Weighted average exercise price
Outstanding, beginning of year	321,000	$	0.25	-	$	-
Issuance of broker compensation warrants on February 21, 2017 (Note 15(a))	-		-	80,250		1.00
Issuance of broker compensation warrants authorized on December 28, 2017 (Note 15(b))	87,636		4.00	-		-
Retroactive effect to the 1 for 4 share exchange ratio under RTO (Note 15(c))	262,908		1.00	240,750		0.25
Outstanding, end of year	671,544	$	0.64	321,000	$	0.25
Weighted-average remaining life			1.33			1.33

(a) On February 21, 2017, 80,250 broker compensation warrants were granted in connection with the February 21, 2017 financing *(see note 12(b))*. The broker compensation warrants were issued to an entity related to the Company by common management *(see note 17(e)(i))*. The broker compensation warrants granted fully vested during the year ended May 31, 2017. The fair value of the broker compensation warrants 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 2 years, and (4) dividend yield of 0.0%.

(b) On December 28, 2017, the Board of Directors authorized the issuance of 87,675 broker compensation warrants exercisable at $4.00 each in connection with the December, 2017 private placement *(see note 12(c))*. The broker compensation warrants were exercisable at $4.00 each, expired in 2 years and fully vested immediately. 87,636 broker compensation warrants were actually issued on April 16, 2018 with the concurrent closing of the private placement and the RTO transaction *(see note 5(d))*. The fair value of the broker compensation warrants issued was $235,512, 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 2.02%, (2) expected volatility of 150%, (3) expected life of 2 years, and (4) dividend yield of 0.0%.

15. BROKER COMPENSATION WARRANTS, CONTINUED

(c) As a result of the 1 for 4 share exchange ratio applied from the RTO transaction *(see note 5(d))* that closed on April 16, 2018, the 167,886 broker compensation warrants outstanding on that date converted to 671,544 broker compensation warrants.

16. INCOME TAXES

(a) **Income tax rate reconciliation:**

The reconciliation of the combined Canadian federal and provincial statutory income tax rates on the net loss for the years ended May 31, 2018 and 2017 is as follows:

		2018		2017
Net loss before recovery of income taxes	**$**	**(2,408,413)**	$	(1,116,252)
Statutory tax rates		**26.50%**		26.50%
Expected income tax recovery		**(638,229)**		(295,807)
Decrease (increase) resulting from:				
Non-deductible expenses		**283,446**		181,563
Other adjustments		**(25,473)**		-
Change in unrecognized deferred tax assets		**380,256**		114,244
Income tax expense	**$**	**-**	$	-

(b) **Deferred tax:**

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2018	2017
Non-capital losses	**3,887,345**	431,110
Capital losses	**665,477**	-
Share issue costs	**384,492**	-
Other	**106,131**	-

16. INCOME TAXES, CONTINUED

The non-capital loss carry forwards expire as noted in the table below. The capital loss carry forward may be carried forward indefinitely, but can only be used to reduce capital gains. Share issue will be fully amortized by 2022. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

2030	$ 54,890
2031	283,504
2032	284,834
2033	238,914
2034	163,245
2035	161,841
2036	316,688
2037	819,555
2038	1,563,874
	$ 3,887,345

17. RELATED PARTY TRANSACTIONS AND BALANCES

During the years ended May 31, 2018 and 2017, the Company had the following related party transactions.

(a) Under the terms of identical consulting contracts effective January, 2017, the Company incurred consulting fees of $240,000 during the year ended May 31, 2018 (2017 - $102,315) to two entities controlled by officers and directors of the company. Each contract has the following general provisions: (i) management services are billed at a rate of $10,000 per month, (ii) term is indefinite, (iii) can be terminated by the Company at any time with cause (iii) can be terminated by the Company at any time without cause by payment of 36 months of fees to the consultant, (iv) can be terminated by the consultant upon giving 45 days notice to the Company, and (v) upon any change of control, the consultant can elect to terminate the agreement and receive payment of 36 months of fees.

As at May 31, 2018, accounts payable and accrued liabilities included $4,907 (2017 - $31,603) owing to these two entities.

(b) The Company is related to CMAX Technologies Inc. by virtue of common control. During the year ended May 31, 2018, the Company paid rent of $120,000 (2017 - $84,000) to CMAX. The Company entered into a lease renewal agreement dated December 1, 2017 with CMAX under which it is obligated to 12 consecutive monthly rent payments of $10,000.

(c) During the year ended May 31, 2017, the Company paid $40,000 to enter into a licensing agreement with CMAX. The amount was capitalized as an intangible asset *(see note 9)*.

17. RELATED PARTY TRANSACTIONS AND BALANCES, CONTINUED

(d) During the year ended May 31, 2017, 1,880,000 (post-RTO) stock options valued at $408,960 were granted to directors and key management *(see note 13(a))* and 1,200,000 (post-RTO) special warrants valued at $272,640 were granted to key management *(see note 14(a))*, resulting in share based compensation for the year of $681,600. No such options or warrants were issued to related parties in the year ended May 31, 2018.

(e) During the years ended May 31, 2018 and 2017, an entity controlled by an officer and director received financing compensation from the Company, as follows:

(i) In connection with the February, 2017 financing, 321,000 (post-RTO) broker compensation warrants were granted. The fair value of $73,100 has been included in contributed surplus.
(ii) In connection with the April, 2018 financing, 169,684 (post-RTO) broker compensation warrants were granted. The fair value of $121,646 has been included in contributed surplus. Total cash payments of $269,836 were also made with respect to commissions of $169,683 and corporate finance fees of $100,153, and are included in share issue costs.

18. FINANCIAL INSTRUMENTS AND RISK FACTORS

Fair value of financial instruments

The fair values of cash, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term or demand nature of these balances. The Company's financial instruments are exposed to certain financial risks, as summarized below.

(a) Classification of financial instruments

The classification and measurement of the financial assets and liabilities, as well as their carrying amounts and fair values are as follows:

			2018		**2017**	
Assets/liabilities	**Category**	**Measurement**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
			$	**$**	$	$
Cash	FVTPL	Fair value	**4,217,850**	**4,217,850**	958,620	958,620
Accounts receivable	Loans and receivables	Amortized cost	**170,021**	**170,021**	40,696	40,696
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	**273,559**	**273,559**	98,719	98,719

18. FINANCIAL INSTRUMENTS AND RISK FACTORS, CONTINUED

(b) Credit risk

The Company's credit risk is primarily attributable to accounts receivable, which is comprised of refundable HST ITC's. Management believes that credit risk with respect to accounts receivable is minimal. Cash and cash equivalents consists of bank deposits, cashable short-term investment certificates and unrestricted funds held in the Company lawyer's trust account, all of which have been invested with a Canadian chartered bank, from which management believes the risk of loss to be remote. The Company has no material concentration of credit risk arising from operations. There has been no change in this risk exposure or how it is managed since the prior reporting period.

(c) Liquidity risk

Liquidity risk is the risk that the Company cannot meet its financial liabilities as they become due. As at May 31, 2018, the Company had working capital of $4,149,961 (2017 - $900,597and as such, is not exposed to any liquidity risk. All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

(d) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and equity prices.

(i) The Company does not have assets or liabilities in a foreign currency and therefore is not exposed to foreign currency risk.

(ii) 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.

19. CAPITAL DISCLOSURES

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 includes equity, comprised of share capital, contributed surplus and accumulated deficit, in its definition of capital.

The Company manages its capital structure and adjusts it in light of economic conditions. Upon approval from its Board of Directors, it will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and its overall strategy with respect to capital risk management remains unchanged from the year ended May 31, 2017.

20. SUBSEQUENT EVENTS

(a) On July 9, 2018, the Company announced that it has entered into a definitive collaboration and profit sharing agreement (the "Agreement") with FSD Pharma Inc. (CSE: HUGE) ("FSD Pharma"), which, through its wholly-owned subsidiary FV Pharma Inc., is a licensed producer pursuant to the Access to Cannabis for Medical Purposes Regulations. Under the terms of the Agreement, FSD Pharma will assist Canntab to obtain a license to process and sell cannabis products pursuant to the Cannabis Act (the "License"). FSD Pharma will provide Canntab with up to 10,000 square feet of space at the FSD Facility (the "Canntab Premises"). Canntab will build and install, at its expense, its own manufacturing facility within the larger FSD Facility.

In consideration of FSD Pharma's services, Canntab will grant FSD Pharma certain royalty and profit sharing rights in connection with the sale of the Canntab products. Canntab will provide FSD Pharma with 50% of the profits that Canntab receives on any retail sales of Canntab Products through channels that are established by FSD Pharma and FSD Pharma will be entitled to retain 50% of the profits on FSD Pharma's sales of the Canntab products. In addition, Canntab shall pay a royalty to FSD equal to 3.5% of Canntab's sale price of all products manufactured and sold by Canntab from the Canntab Premises.

(b) On July 16, 2018, the Company issued 100,000 stock options to an outside consultant. Each option entitles the holder thereof to acquire one common share for a period of 3 years at an exercise price of $1.00 per common share. Of the 100,000 options, 50,000 vest immediately, and the remaining 50,000 will vest in one year, provided that the consultant is still providing services to the Company at that time.

(c) In September, 2017, the Company entered into agreements with arm's length companies as follows:

(i) A financial advisory firm to provide services including, but not limited to, capital markets advisory, financial and operational analysis, and recommendations on strategic growth objectives for a monthly fee of $20,000 and 200,000 stock options. Each option entitles the holder to purchase 1 common share of the Company at $1.02 per share at any time up to 36 months from the grant date. The agreement is for a minimum term of three months, continuing on a month-to-month basis thereafter, and can be terminated by the Company any time after the initial term upon 15 days' notice.

(ii) An investor relations firm for a monthly fee of $14,000 plus 250,000 stock options. Each option entitles the holder to purchase 1 common share of the Company at $1.02 per share at any time up to 5 years from the grant date. The agreement is for a minimum term of three months, continuing on a month-to-month basis thereafter, and can be terminated by the Company any time after the initial term upon 15 days' notice.

(d) In September, 2017, the Company received $200,000 upon reaching the second milestone under its agreement with Emblem Corp. *(see note 11(c)(ii))*.

(e) On September 18, 2018, the Company also announces that the Board of Directors has authorized the grant of 100,000 incentive stock options to certain employees and consultants. Each such option entitles the holder to acquire one common share for a period of 3 years at an exercise price of $1.22 per common share.

21. **COMPARATIVE FIGURES**

The consolidated statement of net loss and comprehensive loss for the year ended May 31, 2017 has been reclassified, where applicable, to conform to the presentation adopted in the current year.