CANNTAB THERAPEUTICS LIMITED

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND NINE MONTHS ENDED FEBRUARY 28, 2019 AND 2018

(Stated in $CAD)

(Unaudited - Prepared by Management)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by, and are the responsibility of, the Company's management. The Company's external auditor has not performed a review of these financial statements in accordance with standards established by CPA Canada for a review of interim financial statements by an entity's auditor.

CANNTAB THERAPEUTICS LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT FEBRUARY 28, 2019 AND MAY 31, 2018
(Stated in $CAD)
(Unaudited - Prepared by Management)

	February 28 2019	May 31 2018
ASSETS		
Current:		
Cash and cash equivalents (Note 6)	**$ 2,428,193**	$ 4,217,850
Accounts receivable (Note 7)	**288,078**	170,021
Prepaid expenses	**16,571**	75,648
	2,732,842	4,463,519
Long term:		
Plant and equipment (Note 8)	**274,845**	159,843
Intangible assets	**151,696**	125,696
	$ 3,159,383	$ 4,749,058
LIABILITIES		
Current:		
Accounts payable and accrued liabilities (Note 9)	**$ 150,706**	$ 273,559
Current portion of deferred revenue (Note 10)	**89,998**	39,999
	240,704	313,558
Long term:		
Deferred revenue (Note 10)	**228,335**	133,334
	469,039	446,892
SHAREHOLDERS' EQUITY		
Common shares (Note 11)	**6,538,581**	6,516,681
Contributed surplus	**1,586,678**	1,310,150
Accumulated deficit	**(5,434,915)**	(3,524,665)
	2,690,344	4,302,166
	$ 3,159,383	$ 4,749,058

Commitment (Note 12(c))

Subsequent event (Note 15)

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

Approved on behalf of the Board:

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

CANNTAB THERAPEUTICS LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
THREE AND NINE MONTHS ENDED FEBRUARY 28, 2019 AND 2018

(Stated in $CAD)

(Unaudited - Prepared by Management)

	Three months ended February 28 2019	**Nine months ended February 28 2019**	Three months ended February 28 2018	Nine months ended February 28 2018
Revenue				
License fees (Note 10(c))	**$ 22,500**	**$ 55,000**	$ 8,334	$ 13,889
Interest income	**5,444**	**37,177**	1,325	4,077
	27,944	**92,177**	9,659	17,966
Expenses				
Employee compensation and benefits	**153,313**	**422,348**	26,773	82,103
Consulting fees	**128,781**	**355,997**	168,266	372,456
Investor relations, marketing and regulatory expenses	**61,824**	**278,358**	10,305	14,223
Professional fees	**63,851**	**168,184**	16,816	92,396
Maintenance	**79,378**	**120,731**	7,358	12,775
General and administrative	**53,975**	**119,096**	6,323	11,061
Research and development	**64,803**	**115,428**	24,375	66,593
Occupancy costs	**30,000**	**90,000**	30,000	90,000
Share based compensation (Note 11)	**48,388**	**276,528**	-	-
Depreciation and amortization	**19,625**	**55,757**	7,922	23,766
	703,938	**2,002,427**	298,138	765,373
Net loss and comprehensive loss	**$ (675,994)**	**$ (1,910,250)**	$ (288,479)	$ (747,407)
Basic loss per share (Note 11(d))	**$ (0.03)**	**$ (0.08)**	$ (0.02)	$ (0.04)

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

CANNTAB THERAPEUTICS LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
PERIOD FROM JUNE 1, 2017 TO FEBRUARY 28, 2019
(Stated in $CAD)
(Unaudited - Prepared by Management)

	Common shares Number	Common shares Amount	Contributed surplus	Accumulated deficit	Total
As at May 31, 2017	**4,713,000**	**$ 1,400,107**	**$ 754,700**	**$ (1,116,252)**	**$ 1,038,555**
Net loss and comprehensive loss	-	-	-	(747,407)	(747,407)
As at February 28, 2018	**4,713,000**	**1,400,107**	**754,700**	**(1,863,659)**	**291,148**
Proceeds on private placement	1,251,914	4,772,144	235,512	-	5,007,656
Share issue costs	-	(480,615)	-	-	(480,615)
Shares deemed issued in connection with RTO	625,045	625,045	-	-	625,045
Elimination of Canntab shares	(5,964,914)	(6,172,251)	-	-	(6,172,251)
Shares issued to Canntab shareholders in connection with RTO	23,859,656	6,172,251	-	-	6,172,251
Proceeds from exercise of options and special warrants	800,000	200,000	-	-	200,000
Net loss and comprehensive loss	-	-	-	(1,661,006)	(1,661,006)
Share based compensation	-	-	319,938	-	319,938
As at May 31, 2018	**25,284,701**	**6,516,681**	**1,310,150**	**(3,524,665)**	**4,302,166**
Proceeds from exercise of broker warrants	21,900	21,900	-	-	21,900
Net loss and comprehensive loss	-	-	-	(1,910,250)	(1,910,250)
Share based compensation	-	-	276,528	-	276,528
As at February 28, 2019	**25,306,601**	**$ 6,538,581**	**$ 1,586,678**	**$ (5,434,915)**	**$ 2,690,344**

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

CANNTAB THERAPEUTICS LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED FEBRUARY 28, 2019 AND 2018
(Stated in $CAD)
(Unaudited - Prepared by Management)

	February 28 2019	February 28 2018
Operating activities		
Net loss and comprehensive loss	**$ (1,910,250)**	$ (747,407)
Add (deduct) items not affecting cash		
Share based compensation	**276,528**	-
Depreciation and amortization	**55,757**	23,766
Amortization of deferred license fee revenue	**(55,000)**	(13,889)
	(1,632,965)	(737,530)
Change in non-cash working capital items		
Accounts receivable	**(118,057)**	(51,031)
Prepaid expenses	**59,077**	-
Accounts payable and accrued liabilities	**(122,852)**	(20,235)
Deferred revenue	**200,000**	200,000
	(1,614,797)	(608,796)
Investing activities		
Purchase of intangible assets	**(36,450)**	(34,506)
Purchase of plant and equipment	**(160,310)**	(77,906)
	(196,760)	(112,412)
Financing activities		
Proceeds on exercise of broker warrants	**21,900**	-
Change in cash and cash equivalents	**(1,789,657)**	(721,208)
Cash and cash equivalents, beginning of period	**4,217,850**	958,620
Cash and cash equivalents, end of period	**$ 2,428,193**	$ 237,412

The accompanying notes form an integral part of these unaudited interim condensed 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. The Company, with its head office located at 223 Riviera Drive, Markham, Ontario, L3R 5J6, is a Canadian cannabis oral dosage formulation company engaged in the research and development of advanced pharmaceutical grade formulations of cannabinoids. Canntab has developed patent-pending technology to deliver standardized medical cannabis extract from selective strains in a variety of extended- release/sustained-release pharmaceutical dosages for therapeutic use. In doing so, the Company has developed a suite of precision oral dose products that are unavailable elsewhere in the marketplace. Canntab's primary focus is on providing cannabis-based products to medical professionals that can be used to deliver therapeutic treatments to their patients.

Following completion of a reverse takeover transaction with Telferscot Resources Inc. in April, 2018, Canntab trades on the Canadian Securities Exchange under the symbol PILL, on the OTCQB Venture Market under the symbol CTABF, and on the Frankfurt Stock Exchange under the symbol TBF1.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation and statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" as issued by the IASB, and accordingly do not include all the information required for full annual financial statements by International Financial Reporting Standards ("IFRS"). They have been prepared using the same accounting policies that were described in note 2 to the Company's annual consolidated financial statements for the years ended May 31, 2018 and 2017 which were prepared in accordance with 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 April 29, 2019.

The unaudited interim condensed consolidated financial statements are prepared on the historical cost basis. Unless otherwise stated, the unaudited interim condensed 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.

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(b) Basis of consolidation

These unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Canntab Therapeutics Subsidiary Limited and 420 Therapeutics Inc. 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 unaudited interim condensed consolidated financial statements. All intercompany balances, income and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

3. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

(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 amendments were effective for annual periods beginning on or after January 1, 2018. The standard uses a single approach based on how an entity manages its financial instruments to determine whether a financial asset is measured at amortized cost or fair value and 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 new requirements were adopted effective June 1, 2018. The adoption of these amendments did not have a significant impact on the unaudited interim condensed consolidated financial statements.

(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.

3. **RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS, CONTINUED**

(b) **IFRS 15 "Revenue from Contracts with Customers", continued**

IFRS 15 is based on the principle that revenue is recognized when control of a good or service is transferred to a customer. A five-step recognition model is used to apply the standard as follows:

(i) Identify the contract(s) with the customer;
(ii) Identify the separate performance obligations in the contract;
(iii) Determine the transaction price;
(iv) Allocate the transaction price to separate performance obligations; and
(v) Recognize revenue when (or as) each performance obligation is satisfied.

The Company adopted the requirements of IFRS 15 on June 1, 2018, using the modified retrospective method as permitted by IFRS 15. The adoption did not result in any adjustments to, or any change in, the recognition of revenues compared to prior periods and therefore no comparative figures have been restated.

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

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

(a) **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 unaudited interim condensed consolidated financial statements and plans to adopt the requirements in 2019.

(b) **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 unaudited interim condensed consolidated financial statements.

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

(c) **IFRS 9 "Financial Instruments"** has been amended to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss. Financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation, may be measured at amortized cost or at fair value through other comprehensive income when eligibility conditions are met. The amendment to IFRS 9 also clarifies how to account for the modification of a financial liability. Most modifications of financial liabilities will result in immediate recognition of a gain or loss. The amendment is effective for annual periods beginning on or after January 1, 2019. The Company has not yet assessed the impact of the amendment on the unaudited interim condensed consolidated financial statements.

5. NEW AGREEMENTS IN THE PERIOD

(a) **FSD Pharma Inc.**

(i) On September 18, 2018, the Company announced that it had 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 ("ACMPR"). 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.

(ii) On February 12, 2019, Canntab announced that it had entered into a three-way supply agreement with FSD Pharma and World Class Extractions Inc. ("World Class") (collectively, the "Purchasers") to purchase up to 1,000 kg of the 2018 organic hemp crop from Thomas Elcome (the "Supplier"). The Purchasers intend to extract CBD oil from the organic hemp crops and process the oil into gel capsules and tablets at the FSD Pharma facility in Cobourg, Ontario.

5. **NEW AGREEMENTS IN THE PERIOD, CONTINUED**

(iii) On February 28, 2019, the Company announced that it had entered into a further 5 year supply agreement with FSD Pharma and World Class to purchase hemp flower from Thomas Elcome (the "Supplier"). Pursuant to the agreement, the Supplier grants the Purchasers the right and option to purchase up to $5.0 million of the Supplier's hemp crop for a period of 5 years commencing in 2019 at a purchase price of $100 per kg per 1% of CBD extracted from the flower. The anticipated purchase price for the 2019 crop is $1.0 million plus applicable taxes.

In conjunction with this 5 year supply agreement, in March, 2019, the Purchasers collectively provided a secured loan to the Purchaser of $500,000 in the form of equipment, repayable in the form of a future supply of hemp. The Company funded its one-third share of the purchase in the amount of $166,667.

(b) **Mackie Research Capital Corporation ("Mackie")**

(i) In September, 2018, the Company entered into an arm's length agreement with Mackie 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 special warrants *(see note 11(c)(i))*. The agreement expired in November, 2018.

(ii) In February, 2019, the agreement was renewed for a further three months until April, 2019. As part of the compensation for its services during this period, the Company (i) will pay a monthly, non-refundable work fee of $14,000, and (ii) will grant a further 100,000 special warrants to Mackie *(see note 11(c)(ii))*.

(c) **Hybrid Financial Limited ("Hybrid")**

In September, 2018, the Company entered into an arm's length agreement with Hybrid, an investor relations firm, for a monthly fee of $14,000 plus 250,000 special warrants *(see note 11(c)(iii))*. 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. As of February 28, 2019, this agreement has been suspended.

(d) **NewCanna S.A.S.**

On October 1, 2018, the Company announced the completion of a non-binding Letter of Intent (the "NewCanna LOI") with NewCanna S.A.S. of Bogota, Colombia ("NewCanna") for the establishment of a significant bi-lateral relationship for the sale and distribution of Canntab's products. The territory applicable to the agreement is the countries of Colombia, Chile, Paraguay and Spain (collectively, the "Territory"). The agreement will grant NewCanna the right to sell and distribute certain Canntab exclusive proprietary products, and the right to utilize Canntab's know-how and patents in the Territory only.

5. **NEW AGREEMENTS IN THE PERIOD, CONTINUED**

The NewCanna LOI provided a 60-day period for the parties to complete a formal agreement. During the process of working on the formal agreement, NewCanna received a takeover offer, which has resulted in a very significant delay in the negotiations of the NewCanna LOI. The Company and NewCanna are still in contact, but until further clarification of NewCanna's ownership, management has decided to devote their time and energy to the Company's other international pursuits. Any final agreement is likely to be on substantially different terms than the original NewCanna LOI described above.

(e) **Labsco Promedic SA de CV**

On October 31, 2018, the Company announced the signing of a non-binding Letter of Intent (the "Labsco LOI") with Labsco Promedic SA de CV of Monterrey, Mexico ("Labsco") for the establishment of a joint venture relationship for the sale and distribution of Canntab products in Mexico on an exclusive basis. Following the LOI, the parties will work together to establish and complete a formal joint venture relationship for an initial period of five years.

Under the provisions of the Labsco LOI, the following terms of the proposed joint venture have been agreed to:

- ♦ Labsco shall be responsible for funding and obtaining any and all regulatory, licensing or other such approvals for the importation and distribution of Canntab products in Mexico;
- ♦ Labsco shall provide physical premises for the work of the joint venture;
- ♦ Labsco shall be responsible for product distribution in Mexico;
- ♦ Canntab shall license current patents and know-how, subject to completion of a license agreement;
- ♦ Canntab shall produce products in bulk from its Canadian facilities; and
- ♦ Canntab shall provide products to the joint venture at an agreed price and margin.

(f) **Clinical study**

On December 5, 2018, the Company announced the launch of a research partnership with Dr. Don Garbuz, M.D., Head of the Division of Lower Limb Reconstruction and Oncology of the Department of Orthopaedics at the University of British Columbia ("UBC"), subject to approval of the University of British Columbia where the proposed clinical trial will take place.

The Company is seeking approval from UBC to conduct, with Dr. Garbuz as lead investigator, clinical trials to determine the efficacy of Canntab's products in helping effectively treat pain in patients. The study will look at the use of Canntab tablets to treat pain after knee replacement surgery. Patient safety and tolerability will also be assessed. Further, Canntab's patent pending filing for addiction treatment therapy for opioids and other painkillers, and its specific proprietary tablet formulation, will be the starting point for the dosing delivery mechanism to be used in the study.

5. **NEW AGREEMENTS IN THE PERIOD, CONTINUED**

The financial arrangement calls for an initial upfront fee to create the clinical protocol while securing the participation and, required approvals of the clinical trial by UBC and the independent team comprising the Ethics Committee. Following those approvals, funds will be disbursed partially on certain milestones being achieved. The total cost of the study is estimated at approximately $600,000 with an anticipated time frame to complete of between 12 to 18 months. To date, $25,000 of upfront costs have been incurred.

6. **CASH AND CASH EQUIVALENTS**

	February 28 2019	May 31 2018
Cash (bank overdraft)	**$ 132,842**	$ (18,629)
Short-term investment certificate	**1,775,000**	3,500,000
Cash in Company lawyer's trust account	**520,351**	736,479
	$ 2,428,193	$ 4,217,850

The short-term investment certificate bears interest at 1.80% per annum, comes due on January 20, 2020 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 yet to be remitted to the Company.

7. **ACCOUNTS RECEIVABLE**

	February 28 2019	May 31 2018
HST ITC's recoverable	**$ 282,829**	$ 169,877
Accrued interest receivable	**4,464**	144
Other	**785**	-
	$ 288,078	$ 170,021

In April, 2019, the Company received refunds from CRA totalling $96,438 covering filing periods up to February, 2018.

8. PLANT AND EQUIPMENT

	Production equipment	Furniture and fixtures	Computer hardware	Leasehold improvements	Total
Cost					
As at May 31, 2017	**$ 99,573**	**$ -**	**$ -**	**$ -**	**$ 99,573**
Additions	92,592	5,939	7,257	395	106,183
As at May 31, 2018	**192,165**	**5,939**	**7,257**	**395**	**205,756**
Additions	82,077	5,643	1,835	70,755	160,310
As at February 28, 2019	**$ 274,242**	**$ 11,582**	**$ 9,092**	**$ 71,150**	**$ 366,066**
Accumulated depreciation					
As at May 31, 2017	**$ 615**	**$ -**	**$ -**	**$ -**	**$ 615**
Depreciation	43,577	593	1,088	40	45,298
As at May 31, 2018	**44,192**	**593**	**1,088**	**40**	**45,913**
Depreciation	42,528	1,225	1,595	(40)	45,308
As at February 28, 2019	**$ 86,720**	**$ 1,818**	**$ 2,683**	**$ -**	**$ 91,221**
Net book value					
As at May 31, 2018	**$ 147,973**	**$ 5,346**	**$ 6,169**	**$ 355**	**$ 159,843**
As at February 28, 2019	**$ 187,522**	**$ 9,764**	**$ 6,409**	**$ 71,150**	**$ 274,845**

No depreciation has been provided for with respect to the leasehold improvements as the construction process is not yet finished and the assets are not available for general use.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	February 28 2019	May 31 2018
Trade accounts payable	**$ 10,249**	$ 215,259
Accrued liabilities	**140,457**	58,300
	$ 150,706	$ 273,559

10. DEFERRED REVENUE

(a) On October 3, 2017, the Company entered into an exclusive collaboration and license agreement ("the License Agreement") with Emblem Corp. ("Emblem"). Under the License 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) An initial $200,000 non-refundable payment was received upon execution of the License Agreement. A further $200,000 was received in September, 2018 upon the development of extended-release cannabis tablets acceptable to the Licensed Producer acting reasonably- on the basis of in-vitro dissolution data. These milestone payments have been recorded as deferred revenue and are both being amortized over the initial contract term of 5 years. Revenue recognized on these milestone payments during the three and nine month periods ended February 28, 2019 was $22,500 and $55,000 respectively (February 28, 2018 - $8,334 and $13,889 respectively). Deferred revenue as at February 28, 2019 totalled $318,333 (May 31, 2018 - $173,333).

(ii) 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;

(iii) 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.

10. **DEFERRED REVENUE, CONTINUED**

(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, 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.

11. SHARE CAPITAL, STOCK OPTIONS AND WARRANTS

(a) Exercise of broker warrants

In September, 2018, 21,900 broker warrants were exercised for cash proceeds of $21,900, resulting in the issuance of 21,900 common shares.

(b) Stock option grants

(i) 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 vested 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.

The fair value of these options was calculated using the Black-Scholes option pricing model. Under the assumptions of: (1) risk free interest rate of 2.0%, (2) expected volatility of 116%, (3) expected life of 3.00 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.37.

(ii) On September 18, 2018, the Company issued 100,000 stock options to certain employees, all of which vested immediately. Each option entitles the holder thereof to acquire one common share for a period of 3 years at an exercise price of $1.22 per common share.

The fair value of these options was calculated using the Black-Scholes option pricing model. Under the assumptions of: (1) risk free interest rate of 2.16%, (2) expected volatility of 123%, (3) expected life of 3.00 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.69.

(iii) Share based compensation recognized on these two option grants that vested during the three and nine month periods ended February 28, 2019 was $Nil and $96,160 respectively (February 28, 2018 - $Nil and $Nil respectively).

(c) Issuance of special warrants

On September 12, 2018, the Company issued special warrants to arm's length companies as follows:

(i) As part of its compensation, Mackie was issued 200,000 special warrants *(see note 5(b)(i))*. Each special warrant 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. 100,000 special warrants were to vest immediately and the balance of 100,000 special warrants were to vest if the daily volume weighted average trading price of the Issuer's common shares was greater than $1.25 for 20 consecutive trading days within six months of issuance. This condition was met, such that all 200,000 special warrants vested during the reporting period.

11. **SHARE CAPITAL, STOCK OPTIONS AND WARRANTS, CONTINUED**

The fair value of these special warrants was calculated using the Black-Scholes option pricing model. Under the assumptions of: (1) risk free interest rate of 2.16%, (2) expected volatility of 123%, (3) expected life of 3.00 years, and (4) dividend yield of 0.0%, the fair value attributed to each special warrant was $0.66.

(ii) On extension of its contract on January 24, 2019, Mackie was issued a further 100,000 special warrants *(see note 5(b)(ii))*. The warrants will vest if, within six months of the date of their issuance, the Company's common shares have a daily volume weighted average trading price of more than $1.25 for 20 consecutive trading days. Each warrant will entitle the holder thereof to purchase one common share in the capital of the Company at an exercise price of $1.02 at any time up to 36 months from the grant date.. The trading price threshold was not met during 2019 Q3 such that none of these warrants have yet vested.

(iii) As part of its compensation, Hybrid was issued 250,000 special warrants *(see note 5(c))*. Each special warrant 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 special warrants are subject to a vesting period as follows: 1/4 of the options vesting on each of December 12, 2018, March 12, 2019, June 12, 2019 and September 12, 2019.

The fair value of these special warrants was calculated using the Black-Scholes option pricing model. Under the assumptions of: (1) risk free interest rate of 2.16%, (2) expected volatility of 123%, (3) expected life of 5.00 years, and (4) dividend yield of 0.0%, the fair value attributed to each special warrant was $0.77. During 2019 Q3, 62,500 of these warrants vested.

(iv) Share based compensation recognized on these two special warrant issuances that vested during the three and nine month periods ended February 28, 2019 was $48,388 and $180,368 respectively (February 28, 2018 - $Nil and $Nil respectively).

(d) **Loss per share**

Basic and diluted 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 in April, 2018*)*, the weighted average number of common shares outstanding for the three and nine month periods ended February 28, 2019 were 25,306,601 and 25,296,975 respectively (three and nine month periods ended February 28, 2018 - 18,852,000 and 18,852,000 respectively).

12. RELATED PARTY TRANSACTIONS

During the nine month periods ended February 28, 2019 and 2018, the Company had the following related party transactions:

(a) Under the terms of a consulting contract effective January, 2017, fees of $90,000 were recorded during the nine month period ended February 28, 2019 (February 28, 2018 - $90,000) by an entity controlled by an individual who is both an officer and director of the company for his services as CFO. The 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.

(b) Under the terms of a consulting contract effective January, 2017, fees of $20,000 were recorded during the nine month period ended February 28, 2019 (February 28, 2018 - $90,000) by an entity controlled by an individual who is both an officer and director of the company for his services as CEO.

Effective August 1, 2018, the consulting contract was terminated as this individual went on regular salary at the same monthly rate of $10,000. Salary paid to this individual during the nine month period ended February 28, 2019 totalled $70,000 (February 28, 2018 - $Nil)

(c) The Company is related to CMAX Technologies Inc. by virtue of common control. During the nine month period ended February 28, 2019, the Company paid rent of $90,000 (February 28, 2018 - $90,000) to CMAX. The Company entered into a lease renewal agreement dated December 1, 2018 with CMAX under which it is obligated to 12 consecutive monthly rent payments of $10,000.

13. 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.

13. FINANCIAL INSTRUMENTS AND RISK FACTORS, CONTINUED

(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:

Assets/liabilities	Measurement	February 28, 2019 Carrying amount	February 28, 2019 Fair value	May 31, 2018 Carrying amount	May 31, 2018 Fair value
		$	**$**	$	$
Cash	Fair value	**2,428,193**	**2,428,193**	4,217,850	4,217,850
Accounts receivable	Amortized cost	**288,078**	**288,078**	170,021	170,021
Accounts payable and accrued liabilities	Amortized cost	**150,706**	**150,706**	273,559	273,559

(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, with refund expected in 2019 Q4. 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 February 28, 2019, the Company had working capital of $2,492,138 (May 31, 2018 - $4,149,961) and 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.

14. COMPARATIVE FIGURES

The unaudited interim condensed consolidated statement of net loss and comprehensive loss for the nine month period ended February 28, 2018 has been reclassified, where applicable, to conform to the presentation adopted in the current year.

15. SUBSEQUENT EVENT

On March 28, 2019, the Company announced that it had engaged Relations Publiques Paradox Inc. ("Paradox") to provide investor relations services to the Company. The agreement is for a term of one year under which Paradox will (i) be paid $7,500 per month, and (ii) receive special warrants exercisable into 300,000 common shares of the Company for a period of two years at a price of $1.00 per common share. The special warrants will vest in four equal tranches in each quarter following the date hereof.