CANNTAB THERAPEUTICS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 2019 AND 2018

(Stated in $CAD)

Independent Auditor's Report

To the Shareholders of Canntab Therapeutics Limited:

Opinion

We have audited the consolidated financial statements of Canntab Therapeutics Limited and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at May 31, 2019 and May 31, 2018, and the consolidated statements of net loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at May 31, 2019 and May 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2(c) in the consolidated financial statements, which indicates that the Company had a net loss and comprehensive loss of $2,458,578 for the year ended May 31, 2019 and had an accumulated deficit of $5,983,243 as of May 31, 2019. As stated in Note 2(c), these events or conditions, along with other matters as set forth in Note 2(c), indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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.

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Natalie Hope Brykman.

MNP LLP

Toronto, Ontario
September 30, 2019

Chartered Professional Accountants
Licensed Public Accountants

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CANNTAB THERAPEUTICS LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT MAY 31, 2019 AND 2018
(Stated in $CAD)

	2019	2018
ASSETS		
Current:		
Cash and cash equivalents (Note 7)	**$ 413,978**	$ 717,850
Short term investment (Note 8)	**1,175,000**	3,500,000
Accounts receivable (Note 9)	**239,762**	170,021
Prepaid expenses	**75,434**	75,648
	1,904,174	4,463,519
Long term:		
Advance to supplier (Note 10)	**166,667**	-
Plant and equipment (Note 11)	**342,859**	159,843
Intangible assets (Note 12)	**179,785**	125,696
	$ 2,593,485	$ 4,749,058
LIABILITIES		
Current:		
Accounts payable and accrued liabilities (Note 13)	**$ 192,294**	$ 273,559
Current portion of contract liability (Note 14)	**40,000**	39,999
	232,294	313,558
Long term:		
Contract liability (Note 14)	**93,334**	133,334
	325,628	446,892
SHAREHOLDERS' EQUITY		
Common shares (Note 15)	**6,554,281**	6,516,681
Contributed surplus	**1,696,819**	1,310,150
Accumulated deficit	**(5,983,243)**	(3,524,665)
	2,267,857	4,302,166
	$ 2,593,485	$ 4,749,058

Going concern (Note 2(c))
Commitments (Note 24)
Subsequent events (Note 26)

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, 2019 AND 2018
(Stated in $CAD)

	2019	2018
Revenue		
License fees (Note 14)	**$ 239,999**	$ 26,667
Expenses		
Employee compensation and benefits	**620,930**	158,587
Consulting fees	**509,447**	517,799
Investor relations, marketing and regulatory expenses	**423,183**	126,346
Professional fees	**199,824**	162,988
General and administrative	**160,878**	109,618
Research and development	**128,144**	140,732
Occupancy costs	**120,000**	120,000
Maintenance	**96,385**	-
Share based compensation (Note 16(f))	**402,369**	319,938
Depreciation of plant and equipment (Note 11)	**66,932**	45,298
Amortization of intangible assets (Note 12)	**13,677**	6,184
	2,741,769	1,707,490
Loss from operations	**(2,501,770)**	(1,680,823)
Other income and expenses		
Interest income	**43,192**	15,011
Listing costs (Note 20(g)(iii))	**-**	(742,601)
Net loss and comprehensive loss	**$ (2,458,578)**	$ (2,408,413)
Basic loss per share (Note 15(e))	**$ (0.10)**	$ (0.11)

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, 2019 AND 2018
(Stated in $CAD)

	Note	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**
Proceeds on private placement	**15(b)**	1,251,914	4,772,144	235,512	-	5,007,656
Share issue costs	**15(c)(iv)**	-	(480,615)	-	-	(480,615)
Shares deemed issued in connection with RTO	**15(c)(ii)**	625,045	625,045	-	-	625,045
Elimination of Canntab shares	**15(c)**	(5,964,914)	(6,172,251)	-	-	(6,172,251)
Shares issued to Canntab shareholders in connection with RTO	**15(c)**	23,859,656	6,172,251	-	-	6,172,251
Shares issued on exercise of options and special warrants	**15(d)**	800,000	200,000	-	-	200,000
Net loss and comprehensive loss		-	-	-	(2,408,413)	(2,408,413)
Share based compensation	**16(f)**	-	-	319,938	-	319,938
As at May 31, 2018		**25,284,701**	**6,516,681**	**1,310,150**	**(3,524,665)**	**4,302,166**
Shares issued on exercise of broker warrants	**15(d)**	21,900	37,600	(15,700)	-	21,900
Net loss and comprehensive loss		-	-	-	(2,458,578))	(2,458,578)
Share based compensation	**16(f)**	-	-	402,369	-	402,369
As at May 31, 2019		**25,306,601**	**$ 6,554,281**	**$ 1,696,819**	**$ (5,983,243)**	**$ 2,267,857**

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

CANNTAB THERAPEUTICS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MAY 31, 2019 AND 2018
(Stated in $CAD)

	2019	2018
Operating activities		
Net loss and comprehensive loss	**$ (2,458,578)**	$ (2,408,413)
Add (deduct) items not affecting cash		
Share based compensation	**402,369**	319,938
Depreciation of plant and equipment	**66,932**	45,298
Amortization of contract liability	**(39,999)**	(26,667)
Amortization of intangible assets	**13,677**	6,184
Non-cash listing costs	**-**	660,293
	(2,015,599)	(1,403,367)
Change in non-cash working capital items		
Accounts receivable	**(69,741)**	(129,324)
Advance to supplier	**(166,667)**	-
Prepaid expenses	**214**	(75,648)
Accounts payable and accrued liabilities	**(81,265)**	139,591
Contract liability	**-**	200,000
	(2,333,058)	(1,268,748)
Investing activities		
Short term investment	**2,325,000**	(2,700,000)
Purchase of intangible assets	**(67,766)**	(92,880)
Purchase of plant and equipment	**(249,948)**	(106,183)
	2,007,286	(2,899,063)
Financing activities		
Proceeds from issuance of common shares	**-**	5,007,656
Share issue costs	**-**	(480,615)
Proceeds on exercise of stock options, broker warrants and special warrants	**21,900**	200,000
	21,900	4,727,041
Change in cash and cash equivalents	**(303,872)**	559,230
Cash and cash equivalents, beginning of year	**717,850**	158,620
Cash and cash equivalents, end of year	**$ 413,978**	$ 717,850

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. The Company, with its head office located at 223 Riviera Drive, Markham, Ontario, L3R 5J6, is a Canadian company engaged in the research and development of advanced, pharmaceutical-grade formulations of cannabinoids and terpenes. Canntab's proprietary hard pill cannabinoid formulations will provide doctors, patients and the general consumer with a medical grade solution with all the features one would expect from any prescription or over the counter medication.

Following completion of a reverse takeover transaction with Telferscot Resources Inc. in April, 2018 *(see note 20),* Canntab trades on the Canadian Securities Exchange under the symbol "PILL". It also trades on the OTCQB Venture Market under the symbol "CTABF", and on the Frankfurt Stock Exchange under the symbol "TBF1".

2. BASIS OF PRESENTATION AND GOING CONCERN

(a) 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 30, 2019.

(b) Basis of presentation

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.

2. **BASIS OF PRESENTATION AND GOING CONCERN, CONTINUED**

(c) **Going concern**

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will realize, in the foreseeable future, its assets and discharge its liabilities in the normal course of business as they come due. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in these consolidated financial statements. Such adjustments could be material.

As at May 31, 2019, the Company had an accumulated deficit of $5,983,243 (2018 - $3,524,665). Working capital as at May 31, 2019 was $1,671,880 compared to $4,149,961 as at May 31, 2018. Net loss and comprehensive loss for the year ended May 31, 2019 was $2,458,578 (2018 - $2,408,413). Other than some initial licensing fees received *(see note 14)*, operations since inception have been funded from the issuance of share capital and exercise of stock options and warrants.

As evidenced by its accumulated deficit and decreasing working capital position, the Company has made significant capital and operational investments from the funds raised from initial seed capital and the go-public process. These funds have been used to build out the legal and operating infrastructure and intellectual property portfolio necessary to capitalize on the opportunities within the cannabis marketplace in Canada within the rules and licensing requirements established by Health Canada.

The Company anticipates it will have sufficient cash on hand to service its liabilities and fund public company operating costs for the next twelve months. However, there is uncertainty as to how long these funds will last. In order to continue active operations, the Company will need to (i) arrange future financing that will largely depend upon prevailing capital market conditions, and (ii) the continued support of its shareholder base. There is uncertainty that the Company will be able to obtain additional financing for the long-term future. The Company believe that, based on forecasts and the ability to reduce expenditures, if required, it will be able to continue as a going concern for the foreseeable future. There can be no assurance that management's plans will be successful. As a result, these factors indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

3. **SIGNIFICANT ACCOUNTING POLICIES**

(a) **Basis of consolidation**

These 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 consolidated financial statements. All intercompany balances and transactions between the Company and its consolidated subsidiaries are eliminated upon consolidation.

(b) **Financial instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the respective instruments.

Financial assets and financial liabilities are initially measured at fair value and are classified as Fair Value through Profit or Loss ("FVTPL"), Fair Value Through Other Comprehensive Income ("FVTOCI") or amortized costs. The classification is determined at initial recognition and is dependent on the business model in which a financial asset is managed and the characteristics of the contractual cash flows. A financial liability is classified as amortized cost at initial recognition unless it is classified as FVTPL (derivative instrument or is specifically designated as FVTPL). Financial liabilities classified as amortized cost are subsequently measured using the effective interest method while financial liabilities at FVTPL are subsequently measured at fair value with changes in fair value recognized in consolidated statements of operations in the period in which such changes arise.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are included in the initial carrying value of the related instrument and are amortized using the effective interest method. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in the statement of operations.

The Company implemented IFRS 9, "Financial Instruments" ("IFRS 9"), replacing International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"), on June 1, 2018 by applying the requirements for classification and measurement with no restatement of comparative periods. Therefore, the comparative information has not been restated and continues to be reported under IAS 39.

3. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(b) **Financial instruments, continued**

The Company's financial assets and liabilities are classified into the following categories:

Caption	Classification under IAS 39	IFRS 9	Measurement
Cash and cash equivalents	FVTPL	FVTPL	Fair value
Short term investment	FVTPL	FVTPL	Fair value
Accounts receivable	Loans and receivables	Amortized cost	Amortized cost
Advance to supplier	Loans and receivables	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	Amortized cost

The classification of financial instruments depends on the nature and purpose of the financial assets and liabilities and is determined at the time of initial recognition.

Financial assets at amortized cost

Financial assets at amortized cost are non-derivative financial assets which are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition. Subsequent to initial recognition, financial assets are measured at amortized cost using the effective interest method, less any impairment.

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

When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are offset against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of operations. Loss allowances are based on the lifetime ECL's that result from all possible default events over the expected life of the trade receivable, using the simplified approach.

(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.

3. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(d) **Plant and equipment**

Plant and 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%	declining balance
♦	Computer hardware	-	30%	declining balance

Assets under construction are not depreciated. Depreciation will commence when construction is completed, and the facility is available for its intended use.

When components of an asset have a different useful life and cost that is significant to the total cost of the assets, depreciation is calculated on each separate component. Estimated useful lives and method of depreciation are reviewed annually.

(e) **Intangible assets**

Intangible assets are recognized at cost, net of accumulated amortization and impairment losses, if any. Amortization commences when the intangible asset is available for use.

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.

(f) **Impairment of non-financial assets**

The Company reviews long-lived assets and definite life intangible assets for impairment when events or circumstances indicate an asset may be impaired. Assets are assigned to a cash generating unit ("CGU") based on the lowest level at which they generate independent cash inflows. When there is an indication of impairment, an impairment charge is recorded to the extent the carrying value of a CGU exceeds the greater of the CGU's fair value less costs to dispose and its value in use, determined by discounting expected cash flows (recoverable amount). An impairment loss is reversed if a CGU's recoverable amount increases to the extent that the related assets' carrying amounts are no larger than the amount that would have been determined, net of amortization, had no impairment loss been recorded.

No impairments were recorded during the years ended May 31, 2019 and 2018.

3. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(g) **Contract liability**

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

(h) **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.

(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 relevant valuation models at the date of issuance. The value of the warrants at the date of issuance is included in contributed surplus.

(j) **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.

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.

(k) **Revenue recognition**

On June 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgement thresholds have been introduced which may affect the timing of revenue recognized.

3. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

The Company records revenue from contracts with customers in accordance with the five steps in IFRS 15 as follows:

- Identify the contract with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price, which is the total consideration provided by the customer;
- Allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
- Recognize revenue when the relevant criteria are met for each unit (at a point in time or over time).

The Company has elected to adopt IFRS 15 using the cumulative effect method as of the date of initial application on January 1, 2018, with no restatement of comparative period amounts. As the effect of adopting IFRS 15 did not have an impact on the consolidated financial statements, there was no adjustment made to the opening balance of equity at the date of initial application.

(l) **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 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.

(m) **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.

(n) **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.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(n) Income taxes, continued

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.

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.

(o) 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.

3. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(p) **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.

(q) **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 and judgements are significant to these consolidated financial statements are as follows:

- **Share based compensation:** Stock option and warrant fair values utilize estimates and assumptions that. Option pricing models require the input of highly subjective assumptions, including the expected life, volatility of the Company's stock price, forfeitures and the risk free rate. Given the Company's minimal trading history, volatility has been estimated using that of a similar sized competitor. 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 stock option or warrants issued.

- **Non-financial asset impairment:** The Company evaluates the carrying value of plant, equipment and intangible assets at the end of each reporting period to determine whether there is an indication of asset impairment. Such indicators include evidence of physical damage, indicators that the economic performance of asset is worse than expected, or that the decline in asset value is more than the passage of time or normal use, or significant changes occur with an adverse effect on the Company's business. If any such indication exists, the Company estimates the recoverable amount of the asset. An asset is impaired when its carrying amount exceeds its recoverable amount.

- **Estimated useful lives and depreciation of plant and equipment and amortization of intangible assets**: Depreciation of plant and equipment and amortization of intangible assets is dependent upon estimates of useful lives based on management's judgment.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(q) Critical accounting estimates and judgements, continued

- **Income taxes:** 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.

- **Going concern:** The assessment of whether the going concern assumption is appropriate requires management to consider 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.

4. 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 an impact on the 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.

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.

4. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS, CONTINUED

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

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.

5. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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 16 "Leases"** was issued by the IASB in January 2016, replacing 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 eliminates the distinction between operating and finance leases.

Lessees recognize a right-to-use asset representing its control of and right to use the underlying asset and lease liability representing its obligation to make future lease payments. The Company leases its office premises under an operating lease. As a lessee, the Company will recognize right-of-use assets and lease liabilities for its operating lease. The depreciation expense on right-to-use assets and interest expense on lease liabilities will replace rent expense, previously recognized on a straight-line basis under IAS 17 over the term of a lease. IFRS 16 is effective for annual periods beginning after January 1, 2019. The Company is adopting the standard on June 1, 2019 using the modified retrospective approach, which requires the cumulative effects of the initial application to be recorded in opening retained earnings as at May 31, 2019, and no restatement of the comparative period.

The Company will apply the modified retrospective approach to remaining lease payments as of June 1, 2019 without restatement of comparative figures as previously reported under IAS 17. The Company does not believe that the adoption of this accounting standard will have a material impact on the financial statements.

(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 consolidated financial statements.

5. **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS, 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 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 consolidated financial statements.

(d) **IFRS 3 "Business Combinations"** has been amended to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contributions to the ability to create outputs. The amendment is effective for annual periods beginning on or after January 1, 2020. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

6. **NEW SIGNIFICANT AGREEMENTS**

(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) In February 2019 and March 2019, the Company, along with FSD Pharma Inc. and World Class Extractions Inc., two unrelated companies entered into supply and security agreements with an arm's length cannabis supplier *(see note 10)*:

(b) **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 Orthopedics at the University of British Columbia ("UBC"), subject to approval of the University of British Columbia where the proposed clinical trial will take place.

6. NEW SIGNIFICANT AGREEMENTS, CONTINUED

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 specific proprietary tablet formulation and patent pending filing for addiction treatment therapy for opioids and other painkillers, will be the starting point for the dosing delivery mechanism to be used in the study.

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. To date, $25,000 of upfront costs have been incurred.

7. CASH AND CASH EQUIVALENTS

	2019	2018
Cash (bank overdraft)	**$ 78,859**	$ (18,629)
Cash in Company lawyer's trust account	**335,119**	736,479
	$ 413,978	$ 717,850

The cash in the Company lawyer's trust account is unrestricted and represents the funds remaining from an April, 2018 financing yet to be remitted to the Company.

8. SHORT TERM INVESTMENT

	2019	2018
Short term investment	**$ 1,175,000**	$ 3,500,000

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.

9. ACCOUNTS RECEIVABLE

	2019	2018
HST ITC's recoverable	**$ 233,585**	$ 169,877
Accrued interest receivable	**6,177**	144
	$ 239,762	$ 170,021

In April 2019, the Company received refunds from CRA covering filing periods up to February 2018 that totaled $96,438. CRA has just recently completed an audit of filing periods up to February 2019 that resulted in no adjustments, so the requested refunds of $173,929 are expected to be released forthwith. The remaining balance of $59,656 represents the quarterly filing for the quarterly period ended May 31, 2019.

10. ADVANCE TO SUPPLIER

	2019	2018
Advance to supplier	**$ 166,667**	$ -

(a) In February 2019 and March 2019, the Company, along with FSD Pharma Inc. *(see note 6(a))* and World Class Extractions Inc., two unrelated companies (collectively, the "Secured Party" or the "Purchasers"), entered into three agreements with an arm's length cannabis supplier (the "Debtor" or the "Supplier"), as follows

(i) A supply agreement dated February 8, 2019 (the "2019 Supply Agreement") *(see note 10(b))*,
(ii) A supply agreement dated February 25, 2019 (the "5 Year Supply Agreement") *(see note 10(c))*, and
(iii) A security agreement dated March 7, 2019 (the "Security Agreement" (*see note 10(d))*

(b) On February 8, 2019, the Company, as part of the Secured Party, entered into the 2019 Supply Agreement to purchase hemp flower from the Supplier. Pursuant to the agreement, the Purchasers have agreed to buy approximately 1,000 kg of the Supplier's 2018 hemp crop at a purchase price of $100.00 per kg per 1% of CBD extracted from the flower.

(c) On February 25, 2019, the Company, as part of the Secured Party, entered into the 5 Year Supply Agreement under which the Supplier grants the Purchasers the right of first refusal 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 $100.0 per kg per 1% of CBD extracted from the flower. Based on the agreement, the anticipated purchase price for the 2019 crop is $1.0 million plus applicable taxes. Of this amount, $500,000 will be paid by the Purchasers as a loan to the Supplier, with the intention, as outlined in the agreement, that it is to be paid by in the form of purchases of hemp.

(d) The Security Agreement secured a $500,000 loan made by the Secured Party to the Supplier. The Company contributed its one-third share of this advance of $166,667.

(i) The security interest consists of a fixed and specific charge and a floating charge in the present and future undertakings, property and assets of the Debtor and in all goods, chattel paper, documents of title, instruments, intangibles and securities now owned or hereafter owned or acquired by or on behalf of Debtor.

(ii) The loan is non-interest bearing and has no specific terms of repayment. Failure to meet the terms and performance obligations of the Supply Agreement would constitute a default, making the loan repayable immediately.

11. Plant And Equipment

	Production equipment	Furniture and fixtures	Computer hardware	Construction in progress	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	114,460	6,073	3,801	125,614	249,948
As at May 31, 2019	**$ 306,625**	**$ 12,012**	**$ 11,058**	**$ 126,009**	**$ 455,704**
Accumulated depreciation					
As at May 31, 2017	**$ 615**	**$ -**	**$ -**	**$ -**	**$ 615**
Depreciation	43,617	593	1,088	-	45,298
As at May 31, 2018	**44,232**	**593**	**1,088**	**-**	**45,913**
Depreciation	62,835	1,676	2,421	-	66,932
As at May 31, 2019	**$ 107,067**	**$ 2,269**	**$ 3,509**	**$ -**	**$ 112,845**
Net book value					
As at May 31, 2018	**$ 147,933**	**$ 5,346**	**$ 6,169**	**$ 395**	**$ 159,843**
As at May 31, 2019	**$ 199,558**	**$ 9,743**	**$ 7,549**	**$ 126,009**	**$ 342,859**

Costs related to construction of lab and production facilities were capitalized to construction in progress and not depreciated. Depreciation will commence when construction is complete and the facility is available for its intended use.

12. INTANGIBLE ASSETS

	License agreements	Patent costs	Total
Cost			
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**
Additions	-	67,766	67,766
As at May 31, 2019	**$ 60,000**	**$ 140,646**	**$ 200,646**
Accumulated amortization			
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**
Amortization	3,000	10,677	13,677
As at May 31, 2019	**$ 6,500**	**$ 14,361**	**$ 20,861**
Net book value			
As at May 31, 2018	**$ 56,500**	**$ 69,196**	**$ 125,696**
As at May 31, 2019	**$ 53,500**	**$ 126,285**	**$ 179,785**

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
Trade accounts payable	**$ 51,316**	$ 215,259
Accrued liabilities	**135,098**	58,300
Other	**5,880**	-
	$ 192,294	$ 273,559

14. CONTRACT LIABILITY

	2019	2018
Balance, beginning of year	**$ 173,333**	$ -
Additions	**200,000**	200,000
Recognized as revenue	**(239,999)**	(26,667)
Balance, end of year	**133,334**	173,333
Current portion	**(40,000)**	(39,999)
Long-term portion	**$ 93,334**	$ 133,334

14. CONTRACT LIABILITY, CONTINUED

(a) On October 3, 2017, the Company entered into an exclusive collaboration and license agreement ("the License Agreement") with Emblem Corp. ("Emblem"), now a 100% subsidiary of Aleafia Health Inc. "(ALEF: TSX-V"). 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 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 received an initial $200,000 payment upon execution of the License Agreement in October 2017. This amount was initially recorded as a contract liability and is being amortized over the contract term as of the date of receipt, to a maximum of 5 years

(d) In September 2018, the Company received $200,000 upon successful completion of a milestone with regards to the development of a patent-pending oral extended release formulation for cannabinoids. This milestone payment has been recorded as revenue in the period.

(e) No other milestones or milestone payments have been achieved or received as of May 31, 2019.

(f) On June 24, 2019, the Company gave notice of termination of the License Agreement to Aleafia Health Inc., parent company of Emblem, for reasons of non-performance.

15. 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, 2019 and May 31, 2018. 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.

15. **SHARE CAPITAL, CONTINUED**

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

As described in note 20(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 18(b))*. Share issue costs of $480,615 were incurred related to the private placement, including corporate finance fees and commissions, legal and accounting fees.

(c) **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 20, 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.

(d) **Exercise of 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 *(see note 15(d))*.

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 16(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 18(e))*, resulting in the issuance of 800,000 common shares.

(e) **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 *(see note 20(f))*, the weighted average number of common shares outstanding for the year ended May 31, 2019 was 25,299,401 (2018 - 21,128,694).

15. **SHARE CAPITAL, CONTINUED**

After giving retroactive effect to the 1 for 4 share exchange ratio noted above, the potentially dilutive equity instruments outstanding as at May 31, 2019 were (i) 2,110,000 stock options (2018 - 1,910,000), (ii) 1,462,500 special warrants (2018 - 800,000, and (iii) 328,644 broker compensation warrants (2018 - 671,544).

16. **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, 2019 and 2018 was as follows:

	Year ended May 31, 2019		Year ended May 31, 2018	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding, beginning of year	**1,910,000**	**$ 0.42**	1,880,000	$ 0.25
Grant of options *(see note 16(a))*	**100,000**	**1.00**	-	-
Grant of options *(see note 16(b))*	**100,000**	**1.22**	-	-
Grant of options *(see note 16(c))*	**-**	**-**	430,000	1.00
Exercised in May, 2018 *(see note 16(d))*	**-**	**-**	(400,000)	0.25
Outstanding, end of year	**2,110,000**	**$ 0.48**	1,910,000	$ 0.42

As at May 31, 2019, the 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	2.7	February 21, 2022
April 18, 2018	430,000	380,000	1.00	1.9	April 18, 2021
July 16, 2018	100,000	50,000	1.00	2.1	July 16, 2021
September 18, 2018	100,000	100,000	1.22	2.3	September 18, 2021
	2,110,000	2,010,000	0.48	2.5	

16. **STOCK OPTIONS, CONTINUED**

(a) 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 one year after the date of grant, 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 132%, (3) expected life of 3.00 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.41.

(b) 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 $0.88.

(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 attributed to each option was $0.88.

(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 15(d))*.

(e) As a result of the 1 for 4 share exchange ratio applied from the RTO transaction *(see note 20(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.

(f) Share based compensation for the year ended May 31, 2019, from the recognized vesting of both stock options and special warrants, totaled $402,369 (2018 - $319,938) *(see notes 16 and 17)*.

17. **SPECIAL WARRANTS**

Special warrant activity during the years ended May 31, 2019 and 2018 was as follows:

	Year ended May 31, 2019		Year ended May 31, 2018	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding, beginning of year	**800,000**	**$ 0.25**	1,200,000	$ 0.25
Grant of special warrants *(see note 17(a))*	**200,000**	**1.02**	-	-
Grant of special warrants *(see note 17(b))*	**250,000**	**1.02**	-	-
Forfeiture of special warrants *(see note 17(b))*	**(187,500)**	**1.02**	-	-
Grant of special warrants *(see note 17(c))*	**100,000**	**1.02**	-	-
Grant of special warrants *(see note 17(d))*	**300,000**	**1.00**	-	-
Exercised in May, 2018 *(see note 17(c))*	**-**	**-**	(400,000)	0.25
Outstanding, end of year	**1,462,500**	**$ 0.59**	800,000	$ 0.25
Weighted-average remaining life		**2.55**		3.77

(a) On September 12, 2018, an arm's length consulting firm, Mackie Research Capital ("Mackie"), was issued 200,000 special warrants *(see note 6(b)(i))* under the terms of its consulting agreement. 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 during the year ended May 31, 2019.

The fair value of these special warrants was calculated using two valuation models:

(i) The fair value of the special warrants that vested immediately was based on a Black-Scholes valuation 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 these special warrants was $0.75

(ii) The fair value of the special warrants with the market based condition was based on a Binomial valuation 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) historical stock price on valuation dates of $1.04, the fair value attributed to these special warrant was $0.46.

17. **SPECIAL WARRANTS, CONTINUED**

(b) On September 12, 2018, an arm's length consulting firm, Hybrid Financial ("Hybrid"), was issued 250,000 special warrants under the terms of its consulting agreement. 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 services were only retained for one three-month period, such that only 62,500 of the special warrants vested on December 12, 2018. The remainder of the 187,500 special warrants were effectively forfeited on termination of the consulting agreement.

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.

(c) On extension of its contract on January 24, 2019, Mackie was issued a further 100,000 special warrants. 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 had not been met as of May 31, 2019.

The fair value of the special warrants with the market based condition was based on a Binomial valuation model. Under the assumptions of: (1) risk free interest rate of 1.79%, (2) expected volatility of 123%, (3) expected life of 3.00 years, and (4) historical stock price on valuation date of $0.87, the fair value attributed to these special warrant was $0.37.

(d) On March 28, 2019, 300,000 special warrants were granted to the Company's investor relations firm, Relations Publiques Paradox, under the terms of its consulting agreement. The special warrants are subject to a vesting period as follows: 1/4 of the options vesting on each of June 28, 2019, September 28, 2019, December 28, 2019 and March 28, 2019.

The fair value of these special warrants has been calculated using the Black-Scholes option pricing model. Under the assumptions of: (1) risk free interest rate of 1.49%, (2) expected volatility of 103%, (3) expected life of 2.00 years, and (4) dividend yield of 0.0%, the fair value attributed to each special warrant was $0.36.

(e) In May, 2018, 400,000 of the special warrants granted during the year ended May 31, 2017 were exercised for $0.25 per option for gross proceeds of $100,000 *(see note 15(d))*.

18. BROKER COMPENSATION WARRANTS

Broker compensation warrant activity during the years ended May 31, 2019 and 2018 was as follows:

	Year ended May 31, 2019			Year ended May 31, 2018		
	Options		**Weighted average exercise price**	Options		Weighted average exercise price
Outstanding, beginning of year	**671,544**	**$**	**0.64**	321,000	$	0.25
Issuance of broker compensation warrants authorized on December 28, 2017 *(see note 18(b))*	**-**		**-**	87,636		4.00
Retroactive effect to the 1 for 4 share exchange ratio under RTO *(see note 18(c))*	**-**		**-**	262,908		1.00
Exercised in September, 2018 *(see note 18(a))*	**(21,900)**		**1.00**	-		-
Expired unexercised in February, 2019 *(see note 18(b))*	**(321,000)**		**0.25**	-		-
Outstanding, end of year	**328,644**	**$**	**1.00**	671,544	$	0.64
Weighted-average remaining life			**0.88**			1.33

(a) In September 2018, 21,900 broker warrants were exercised for cash proceeds of $21,900, resulting in the issuance of 21,900 common shares *(see note 15(d))*.

(b) In February, 2019, 321,000 broker warrants that were issued in February, 2017 expired unexercised.

(c) 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 15(b))*. 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 20(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%.

(d) As a result of the 1 for 4 share exchange ratio applied from the RTO transaction *(see note 20(d))* that closed on April 16, 2018, the 167,886 broker compensation warrants outstanding on that date converted to 671,544 broker compensation warrants.

19. 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, 2019 and 2018 is as follows:

		2019		2018
Net loss before recovery of income taxes	**$**	**(2,458,578)**	$	(2,408,413)
Statutory tax rates		**26.50%**		26.50%
Expected income tax recovery		**(651,523)**		(638,229)
Decrease (increase) resulting from:				
Share compensation and non-deductible expenses		**111,491**		252,375
Other adjustments		**13,907**		47,685
Change in unrecognized deferred tax assets		**526,125**		338,169
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:

	2019	2018
Non-capital losses	**4,157,885**	3,586,070
Share issue costs	**434,915**	547,500
Contract liability	**133,333**	173,333

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.

2033	$	439,654
2034		1,248,959
2035		469,982
2036		1,999,290
	$	4,157,885

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

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

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

20. **REVERSE TAKEOVER TRANSACTION ("RTO"), CONTINUED**

(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 was 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 was accounted for as a reverse takeover transaction in accordance with guidance provided in IFRS 2 Share-based compensation. 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 was treated as an issuance of shares by Canntab for the net monetary liabilities of Telferscot.

(ii) The transaction therefore was 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 reverse takeover date.

(iii) The consideration paid by Canntab to acquire Telferscot was 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 20(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 was 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 $1.00 per share (Note 15(d)(iii))	**$ 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

21. RELATED PARTY TRANSACTIONS

During the years ended May 31, 2019 and 2018, the Company had the following related party transactions:

(a) Under the terms of a consulting contract effective January, 2017, fees of $120,000 were recorded during the year ended May 31, 2019 (2018 - $120,000) 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 (iv) can be terminated by the Company at any time without cause by payment of 36 months of fees to the consultant, (v) can be terminated by the consultant upon giving 45 days notice to the Company, and (vi) upon any change of control, the consultant can elect to terminate the agreement and receive payment of 36 months of fees.

This individual also received payments with respect to a car allowance of $18,400 during the year ended May 31, 2019 (2018 - $Nil).

As at May 31, 2019, accounts payable and accrued liabilities included $11,300 (2018 - $4,907) owing to this entity.

(b) Under the terms of a consulting contract effective January, 2017, fees of $20,000 were recorded during the year ended May 31, 2019 (2018 - $120,000) 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, subsequently increased to $12,500 per month. Salary paid to this individual during the year ended May 31, 2019 totalled $122,500 (2018 - $Nil). This individual also received payments with respect to a car allowance of $18,400 during the year ended May 31, 2019 (2018 - $Nil).

(c) The Company is related to CMAX Technologies Inc. by virtue of common control. During the year ended May 31, 2019, the Company paid rent of $120,000 (2018 - $120,000) 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.

As at May 31, 2019, accounts payable and accrued liabilities included $5,880 (2018 - $Nil) owing to this entity.

(d) A law firm of which a director is a partner was paid legal fees of $87,134 during the year ended May 31, 2019 (2018 - $169,376). As at May 31, 2019, accounts payable and accrued liabilities included $15,676 (2018 - $148,714) owing to this entity.

(e) During the year ended May 31, 2018, an entity controlled by an officer and director received financing compensation from the Company, as follows: in connection with the April, 2018 financing, 169,684 (post-RTO) broker compensation warrants were granted, of which the fair value of $121,646 was 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.

21. **FINANCIAL INSTRUMENTS AND RISK FACTORS**

Fair value of financial instruments

The fair values of cash and cash equivalents, 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:

		May 31, 2019		May 31, 2018	
Assets/liabilities	**Measurement**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
		$	**$**	$	$
Cash	Amortized cost	**413,978**	**413,978**	717,850	717,850
Short term investment	Amortized cost	**1,175,000**	**1,175,000**	3,500,000	3,500,000
Accounts receivable	Amortized cost	**239,762**	**239,762**	170,021	170,021
Advance to supplier	Amortized cost	**166,667**	**166,667**	-	-
Accounts payable and accrued liabilities	Amortized cost	**192,294**	**192,294**	273,559	273,559

(b) **Credit risk**

The Company's credit risk is attributable to its accounts receivable (comprised of refundable HST ITC's) and the advance to a supplier. Management believes that credit risk with respect to (i) accounts receivable is minimal, with refund expected in the second quarter of 2020, and (ii) advance to supplier is minimal as the amount is secured and is expected to offset within the current year against purchases of hemp.

Cash and cash equivalents consists of bank deposits and unrestricted funds held in the Company lawyer's trust account. The short term investment is a guaranteed investment certificate cashable at any time in whole or in part with no penalty. All of the above 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.

(c) **Liquidity risk**

Liquidity risk is the risk that the Company cannot meet its financial liabilities as they become due. As at May 31, 2019, the Company had working capital of $1,686,880 (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.

22. FINANCIAL INSTRUMENTS AND RISK FACTORS, CONTINUED

(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.

23. 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, 2018.

24. COMMITMENTS

As at May 31, 2019, the company was committed to:

(i) a contract with its investor relations firm until March, 2020 at a monthly rate of $7,500, cancellable any time after three months with 30 days written notice from either party
(ii) an occupancy lease until December, 2019 at a monthly rate of $10,000 (see note 21(c))
(iii) consulting and employment contracts with the Company's officers at monthly rates of $10,000 (see note 21(a)) and $12,500 (see note 21(b)) respectively
(iv) a lease agreement for $40,000 per annum for a 10 year period. The lease will commence when the Company takes position of the location, which did not occur in fiscal 2019.

25. COMPARATIVE FIGURES

Certain comparative information have been reclassified to conform with the current year presentation.

26. SUBSEQUENT EVENTS

(a) On June 24, 2019, the Company gave notice of termination of the License Agreement *(see note 14)* to Aleafia Health Inc., parent company of Emblem, for reasons of non-performance.

(b) On July 31, 2019, the Company issued 20,000 stock options to an employee, 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 $1.21 per common share.