



CANNTAB THERAPEUTICS LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

YEARS ENDED MAY 31, 2019 AND 2018

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The following management discussion and analysis ("MD&A") of Canntab Therapeutics Limited ("Canntab" or "the Company") provides a review of corporate developments, results of operations and financial position for the years ended May 31, 2019 and May 31, 2018 ("FY2019 and "FY2018" respectively). This discussion is prepared as of September 30, 2019 and should be read in conjunction with the consolidated financial statements and the accompanying notes for the years ended May 31, 2019 and 2018. Additional information relating to the Company is available on Canntab's SEDAR profile at www.sedar.com and the Company's website at www.canntab.ca. The results reported in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, which is the Company's functional currency.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors (the "Board"), considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Company's common shares, (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision, or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or statements that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement.

COMPANY OVERVIEW

Canntab Therapeutics Limited ("Canntab" or the "Company") was incorporated on April 20, 2016 under the Canada Business Corporations Act. 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". 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. In doing so, Canntab has developed a suite of precision oral dose products that are unavailable elsewhere in the marketplace, formulated in multiple doses and time release combinations. 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.

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The Extended Release Tablet (“XR” or the “XR Tablet”) is a proprietary phytocannabinoid vehicle that is designed to directly address the drawbacks and challenges of competing oral delivery systems. These challenges include, but are not limited to, accuracy of dosing, onset times, duration of action, bioavailability, discreetness of consumption, ease of spoilage and the reduction of side effects, and are all directly addressed by the unique formulation of the XR Tablet. The XR Tablet is designed to contain either THC, CBD, or a combination of THC/CBD (depending on the composition of the medicine), permitting it to meet the demands of a broader patient base than the current synthetic-THC based pills in the market today.

Intellectual property underpins the value of XR Tablets in the form of four international patent applications already filed. Canntab is rapidly moving toward the commercialization phase by partnering with a best-in-class licensed producer of medicinal cannabis in Canada and gearing up for its first series of pre-clinical trials.

CURRENT HIGHLIGHTS

- ◆ Commercial batch manufacturing of oil-filled gel capsules to begin in Cobourg, leading to a Health Canada request for authorization to begin full scale production and sale.
- ◆ Construction nears completion in Markham, and Canntab intends to request a Health Canada inspection by the end of 2019, to receive Licensed Producer (LP) status.

RECENT EVENTS

Canntab Receives Initial Indication of Patentability for Immediate Release Cannabidiol Formulation

On August 15, 2019, the Company announced that it has received an initial assessment from the Geneva-based International Preliminary Report on Patentability (“IPRP”) for its Immediate Release Cannabidiol Formulation. The IPRP has indicated a positive finding of patentability, meaning that, in their opinion, Canntab's formulation is not only patentable but also novel, non-obvious and useful. National filings have already been completed in the United States and internationally, and the international application has now been completed in Canada and Australia. Although the opinions of the IPRP are not binding, many patent offices, including Canada's for example, often defer to the IPRP. In fact, the Canadian office of the IPRP was also the international searching authority in this particular case, which bodes well for an eventual Canadian patent grant.

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Term Sheet Signed With Heritage for Processing Hemp for Sale of CBD Filled Gelcaps

On May 30, 2019, Canntab signed a term sheet with Heritage Cannabis Holdings Corp. (CSE:CANN) (“Heritage”) for the purpose of capsule manufacturing (the “Term Sheet”). Under the Term Sheet, Canntab will provide hemp to Heritage’s subsidiary Purefarma Solutions (“Purefarma”) for the purpose of processing that hemp into high quality CBD oil. The oil will then be transformed into capsules by Canntab for Heritage, FSD Pharma Inc. (CSE:HUGE), and further white labelling opportunities. The term sheet with Heritage will begin immediately, is open-ended, non-exclusive and may be cancelled by either party providing 120 days’ prior notice.

Cultivation License Received for Industrial Hemp

On May 21, 2019, the Company announced that it had received a license to cultivate hemp on a farm in Saskatchewan from Health Canada pursuant to the Cannabis Act (Canada) (the "Hemp License"). Canntab intends to utilize the Hemp License to secure a substantial amount of hemp biomass that it will grow and cultivate for the extraction of cannabidiol ("CBD") and to conduct research on high CBD hemp varieties, complementing the Company's business plan to also manufacture CBD gel capsules for distribution through its partners in Canada, Australia and Mexico. In addition, Canntab intends to use part of this CBD oil in its manufacturing of its suite of cannabis hard pills.

Revenue Model Advanced with Sales License Approval for FSD Pharma from Health Canada

On April 23, 2019, the Company announced that FSD Pharma Inc. (“FSD”), with whom Canntab has entered into a collaboration and profit sharing agreement (*see discussion under "Manufacturing and Distribution Agreements" below*), was granted a “sale for medical purposes” license by Health Canada pursuant to the Cannabis Act and Cannabis Regulations (the “FSD License”). This FSD License allows Canntab to produce samples of capsules containing CBD and/or THC, which, if approved by Health Canada, will enable Canntab to launch production and sales out of its manufacturing facility located in Room 6 of FSD’s Health Canada approved facility in Cobourg, Ontario. In addition, the FSD License, when combined with an export permit, which FSD intends to acquire as soon as possible, may also allow Canntab to sell its products in foreign markets including Australia and Mexico.

Once Canntab receives Health Canada approval for its capsules, the Company will begin white labeling for Canadian licensed producers, including FSD Pharma.

Supply Agreements

On February 12, 2019, Canntab 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 hemp and process the oil into gel capsules and tablets at the FSD Pharma facility in Cobourg, Ontario.

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On February 25, 2019, the Company entered into a further 5 year supply agreement with FSD Pharma and World Class to purchase hemp flower from 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 secured by 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.

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 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 tablets in helping treat pain in patients who are recovering from 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.

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 its independent Ethics Committee. Following those approvals, funds will be disbursed partially on certain milestones being achieved. The total cost of the study is estimated to be approximately \$600,000. The clinical trial is anticipated to last between 12 to 18 months. To date, \$25,000 of upfront costs have been incurred.

Licensed Producer Application Under ACMPR

In October of 2018, the Company received notice from Health Canada confirming receipt of its application to become a Licensed Producer under the ACMPR (the "License"). The License, if granted by Health Canada, would allow the Company to process and sell cannabis products at its current production facility in Markham, Ontario with minimal additional capital expenditures as compared to a new purpose-built facility.

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. The parties will now work together to establish and complete a formal joint venture relationship for an initial period of five years.

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Collaboration and Profit Sharing Agreement with FSD Pharma Inc.

On September 18, 2018, the Company announced that it has entered into a definitive collaboration and profit sharing agreement (the "Agreement") with FSD Pharma, which 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"). 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.

PRODUCTS

The Company has developed the formulation and prototype for its first product, the Extended Release Tablet ("XR Tablet"), which delivers standardized medical cannabis extract from selective strains in a solid, extended release pharmaceutical dosage. The XR Tablet is a proprietary phytocannabinoid vehicle that is designed to directly address the drawbacks and challenges of competing oral delivery systems, including, but not limited to, accuracy of dosing, onset times, duration of action, bioavailability, ease of spoilage, and the reduction of side effects. The Company is rapidly moving toward the commercialization phase and gearing up for its first series of pre-clinical trials. The Company plans to manufacture and distribute the XR Tablet in legal medical cannabis jurisdictions including Canada, select states in the United States, Australia, and Germany.

As part of its overall business plan and strategy, the Company will continue to seek Health Canada approval for its formulations of cannabinoid medications. The Company has plans to apply to Health Canada to add the XR Tablet to the approved list under the ACMPR. The XR Tablets use pharmaceutical grade excipients, all approved by Health Canada, and, in order to facilitate the approval process, the Company intends to present to Health Canada the similarities of the XR Tablet to existing room temperature oils inside gel capsules which have been approved under the ACMPR.

The Company also plans to apply for a Health Canada Dealer's License ("Dealer's License") under the Controlled Drugs and Substances Act (the "CDSA") in the very near future. A Dealer's License will enable the Company to have cannabis in its possession and to engage in various research and development activities not currently covered under the ACMPR, subject to obtaining any additional licenses or permits. FV Pharma has agreed to assist the Company with its application to Health Canada.

INTELLECTUAL PROPERTY

The success of the Company's business depends in part on its ability to protect its technology and formulations related to pharmaceutical preparations containing natural or synthetic cannabinoids. In recognition of this, the Company continues to expand its intellectual property portfolio, which includes patent and trademark applications in the United States and Canada. The Company's intellectual property portfolio includes 4 patents as well as 13 patent applications in Canada, the United States and internationally.

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The Canadian patents/patent applications that were filed pertain to a variety of Canntab's innovative technologies related to oral dosage formulations of pharmaceutical cannabis, including Sustained Release Cannabinoid Formulations and Sustained Release Cannabinoid Pellets, Immediate Release Cannabidiol Formulations; Modified-Release Multi-Layer Cannabinoid Formulations; Flash-Melt Cannabinoid Formulations; and Bi-layer Cannabinoid Tablets.

These patent applications are part of Canntab's continuing strategy to develop a comprehensive intellectual property portfolio which covers the company's technology and formulations related to pharmaceutical preparations which contain natural or synthetic cannabinoids. Canntab is currently developing a number of products which utilize this technology, including a variety of extended released tablets containing a mixture of THC (Tetrahydrocannabinol) and CBD (Cannabidiol) that may be helpful in the treatment of a number of ailments, such as sleep disorders, post-traumatic stress disorder (PTSD), social anxiety, addiction, arthritis, general pain, pain management and appetite loss associated with cancer treatments, and addiction treatment therapy of opioids and other painkillers.

In addition to patents, the Company also has 10 trademark applications in the United States and Canada that cover four potential trade names for the XR Tablet.

MANUFACTURING AND DISTRIBUTION AGREEMENTS

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. The parties will now work together to establish and complete a formal joint venture relationship for an initial period of five years.

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FSD Pharma Inc.

On September 18, 2018, the Company announced that it has entered into a definitive collaboration and profit sharing agreement (the "Agreement") with FSD Pharma Inc. (CSE: HUGE) ("FSD Pharma"), which, through its wholly-owned subsidiary FV Pharma Inc., is a licensed producer pursuant to the 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 has started to 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 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 not through channels established by FSD.

Emblem Corp.

On October 3, 2017, the Company entered into an exclusive marketing and sale license agreement (the "Emblem Agreement") with Emblem Corp., a Licensed Producer (the "Licensed Producer") for the Canadian market (the "License Agreement"). In June, 2019, the Company sent notice of formal termination of the Company's obligations pursuant to the License Agreement for reasons of non-performance, namely the failure of Emblem to take any affirmative steps to fulfill its obligations under the Emblem Agreement, primarily the failure of Emblem failing in having the Canntab Product, which were the subject matter of the agreement, approved by Health Canada, causing significant financial loss to the Company and materially delaying its business plans and goals.

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. The parties will now work together to establish and complete a formal joint venture relationship for an initial period of five years.

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

- ◆ Labsco shall be responsible for funding and obtaining any and all regulatory, licensing and other 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.

Queensland Bauxite Ltd.

On December 27, 2017, the Company entered into a joint venture agreement (the "Joint Venture Agreement") with Queensland Bauxite Ltd. ("ASX:QBL") and its wholly owned subsidiary, Vitacan Pty Ltd. ("Vitacan"). Under the Joint Venture Agreement, the parties will manufacture, distribute and sell the Company's proprietary products, including its XR Tablet, in Australia, with the possibility for expansion into other territories in Asia. Vitacan has agreed to contribute the first USD \$1,000,000 of capital required by the joint venture. Vitacan may also in due course import tablets from Canntab manufactured at either Canntab's Markham or FSD facility. To date, no transactions have occurred under the Joint Venture Agreement.

REVERSE TAKEOVER

In November, 2017, the Company announced the signing of a binding Letter of Intent ("LOI") with Telferscot Resources Limited ("Telferscot" or the "Issuer") under which Telferscot would acquire the issued and outstanding shares of the Company, effectively resulting in a reverse takeover of Telferscot by Canntab.

In April, 2018, the Issuer, Canntab and 2611780 Ontario Inc. ("Numco") completed an agreement (the "Amalgamation Agreement"), 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"). Subsequently, the Company's common shares resumed trading on the Canadian Securities Exchange under the symbol "PILL".

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SELECT FINANCIAL INFORMATION

	Years ended May 31		
	2019 \$	2018 \$	2017 \$
Cash and cash equivalents	1,588,978	4,217,850	958,620
Working capital	1,671,880	4,149,961	900,597
Shareholders' equity	2,267,857	4,302,166	1,038,555
Revenue	239,999	26,667	-
Operating expenses	2,243,791	1,336,071	433,037
RTO transaction costs	-	742,601	-
Net loss and comprehensive loss	(2,458,578)	(2,408,413)	(1,116,262)
Loss per share	(0.10)	(0.11)	(0.07)

QUARTERLY PERFORMANCE

The following table highlights certain key quarterly financial highlights. Commentary on the selected highlights is included under "Results of Operations" and "Liquidity and Capital Resources".

	May-2019 2019 Q4 \$	Feb-2019 2019 Q3 \$	Nov-2018 2018 Q2 \$	Aug-2018 2018 Q1 \$	May- 2018 2018 Q4 \$	Feb-2018 2018 Q3 \$	Nov-2017 2017 Q2 \$	Aug-2017 2017 Q1 \$
Cash and cash equivalents and short term investment	1,588,978	2,428,193	3,060,587	3,495,747	4,217,850	237,412	599,823	610,676
Working capital	1,671,880	2,492,139	3,139,959	3,613,214	4,149,959	217,321	579,663	672,574
Shareholders' equity	2,267,857	2,690,345	3,317,951	3,882,748	4,302,165	291,146	579,624	826,952
Income statement								
Revenues	147,822	27,944	32,438	31,795	23,712	9,660	7,623	683
Operating expenses	1,071,629	635,926	601,101	433,113	594,463	290,216	239,107	212,285
Share based compensation	125,841	48,388	200,700	27,440	319,938	-	-	-
Listing costs	-	-	-	-	742,601	-	-	-
Net loss and comprehensive loss	(548,331)	(675,994)	(787,397)	(446,856)	(1,661,006)	(288,478)	(247,328)	(211,602)

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RESULTS OF OPERATIONS

Year ended May 31, 2019 compared to May 31, 2018

The Company had a net loss of \$2,458,578 for FY2019 compared to \$2,408,413 for FY2018.

As the Company is in its early stages, it does not have any recurring revenue streams. The only non-interest revenue recognized for FY2019 of \$239,999 (FY2018 - \$26,667) relate to a payment received in September 2018 from Emblem Corp. for successful completion of a milestone with regards to the development of a patent-pending oral extended release formulation for cannabinoids, as well as amortization of initial payment received in the prior year upon execution of the License Agreement.

As the Company has become more active operationally, it incurred operating expenses of \$2,243,791 in FY2019 (FY2018 - \$1,336,070), an increase of \$907,721. Overall, most of the increase is due to the Company being further along as a start-up enterprise in developing its legal and operating infrastructure and intellectual property portfolio. More specifically, the major components of the increase are as follows:

- Employee compensation and benefits in FY2019 were \$620,930 compared to \$158,587 in FY2018, an increase of \$462,343 as certain consultants have converted to full-time employment and more staff have been hired for traditional administrative roles as well as managing start-up processes (with respect to marketing, product development, clinical trials, commercial production, etc.).
- Consulting fees in FY2019 of \$509,447 were relatively consistent compared to \$517,799 in FY2018, as consultants were continued to be engaged for the start-up processes noted above.

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- Investor relations, marketing and regulatory expenses were \$423,183 in FY2019 compared to \$126,346 in FY2018, the increase resulting from (i) ongoing costs to improve market awareness by the investment community of the Company's business activities and strategy, (ii) costs associated with becoming listed in two foreign markets (the OTCQX Best Market in the US and the Frankfurt Stock Exchange in Germany), and (iii) the engagement of investor relations firms.
- Maintenance in FY2019 of \$96,385 compared to \$Nil in FY2018, the increase resulting from recent maintenance efforts on in-house production equipment and repair work at the Company's rental premises.
- Professional fees in FY2019 of \$199,824 compared to \$162,988 in FY2018, an increase of \$36,836, resulting from increased legal, audit and accounting fees applicable to public companies, especially related to new legal agreements covering licensing, supply and distribution agreements entered into during FY2019.
- General and administrative expenses in FY2019 of \$160,878 compared to \$109,618 in FY2018, an increase of \$51,260, resulting from office administration, insurance, travel and other costs applicable to public companies, especially during the start-up phase.
- Research and development in FY2019 of \$128,144 compared to \$140,732 in FY2018, a decrease of \$12,588.
- Share based compensation totalled \$402,369 in FY2019 compared to \$319,938 in FY2018, entirely related to the portion of the options and special warrants granted in FY2019 that vested in the year.

LIQUIDITY AND CAPITAL RESOURCES

The Company has not begun commercial sales of any of its products and accordingly, does not generate cash from operations. The Company finances its operating expenses, product development and research activities by raising capital from equity markets.

Working capital as at May 31, 2019 was \$1,671,880 compared to \$4,149,961 as at May 31, 2018. Cash and cash equivalents and the short term investment decreased by \$2,628,872 to \$1,588,978 as at May 31, 2019 from \$4,217,850 as at May 31, 2018. The major components of the decrease were (i) operating expenses of \$2,243,791 (FY2018 - \$1,336,070) (see "Results of Operations" section above), (ii) pay down of accounts payable and accrued liabilities from May 31, 2018 of \$81,265, and (iii) the purchase of intangible and capital assets in the amount of \$484,381 in FY2019 of (FY2018 - \$199,063).

Accounts receivable is comprised mostly of recoverable HST ITC's. CRA has just recently completed an audit of filing periods up to February, 2019 that resulted in no adjustments, such that the requested refunds of \$173,929 were received in September, 2019.

As at May 31, 2019, the Company had advanced \$166,667 to a supplier (see "Supplier Agreements" section above).

Additions to plant and equipment consisted mostly of equipment purchases of \$114,460 and construction in progress of \$125,614 at the Company's head office.

Accounts payable as at May 31, 2019 declined \$81,265 compared to May 31, 2018 as the prior year balance included significant professional fees related to the reverse takeover in April, 2018 (see "Reverse Takeover" section above).

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The Company 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 (see “Reverse Takeover” section above), 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.

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

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 “Capitalization” section below).

CAPITALIZATION

The Company has common shares and other equity instruments outstanding at each reporting date as follows:

	September 30, 2019	May 31, 2019	May 31, 2018	Change in reporting period
Common shares	25,306,601	25,306,601	25,284,701	21,900
Stock options	2,130,000	2,110,000	1,910,000	200,000
Special warrants	1,762,500	1,462,500	800,000	662,500
Broker compensation warrants	328,644	328,644	671,544	(342,900)
Total equity instruments	<u>29,527,745</u>	<u>29,207,745</u>	<u>28,666,245</u>	<u>541,500</u>

During 2019 Q1, the Company issued 100,000 stock options to an outside consultant, exercisable at \$1.00, expiring after 3 years, vesting as to 50% immediately and 50% after one year. In 2019 Q2, the Company issued a further 100,000 stock options to employees, exercisable at \$1.22, expiring after 3 years, vesting immediately.

During 2019 Q2, Mackie Research Capital Corporation (“Mackie”) was issued 200,000 special warrants as part of its compensation. 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 2019 Q2.

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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 was not met during 2019 Q3.

During 2019 Q2, as part of its compensation, Hybrid Financial Limited was issued 250,000 special warrants. 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. Accordingly, 62,500 of these options vested in December, 2018, with the remainder of 187,500 being forfeited with termination of the agreement in December 2018.

On March 28, 2019, the Company announced that it had engaged a public relations firm for a term of one year (*see Subsequent Events section below*). Under the agreement, this firm will receive stock options 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 options will vest in four equal tranches in each quarter following the date hereof.

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 \$1.22 per common share.

RELATED PARTY TRANSACTIONS AND BALANCES

During the years ended May 31, 2019 and 2018, the Company had the following related party transactions, including (i) compensation of key current and/or former management personnel and directors, and (ii) transactions with entities related to and/or controlled by officers and/or directors, as follows:

- (a) Under the terms of a consulting contract effective January, 2017, fees of \$120,000 were recorded during FY2019 (FY2018 - \$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 (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.

This individual also received payments with respect to a car allowance of \$18,400 during FY2019 (FY2018 - \$Nil).

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

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- (b) Under the terms of a consulting contract effective January, 2017, fees of \$20,000 were recorded during FY2019 (FY2018 - \$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 FY2019 totalled \$121,250 (FY2018 - \$Nil)
- (c) The Company is related to CMAX Technologies Inc. by virtue of common control. During FY2019, the Company paid rent of \$120,000 (FY2018 - \$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 (May 31, 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 FY2019 (FY2018 - \$169,376). As at May 31, 2019, accounts payable and accrued liabilities included \$15,676 (May 31, 2018 - \$148,714) owing to this entity.
- (e) During the years ended May 31, 2018, an entity controlled by an officer and director received financing compensation from the Company, as follows:
 - (i) In connection with the subscription receipts financing that closed in April, 2018 financing, total cash payments of \$269,836 were also made with respect to commissions of \$169,683 and corporate finance fees of \$100,153. 169,684 (post-RTO) broker compensation warrants were also granted, for which the fair value of \$121,646 has been included in contributed surplus.

SUBSEQUENT EVENTS

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.

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.

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RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

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.

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.

It 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. 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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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. Under the modified retrospective approach, the corporation chooses to measure all right-of-use assets retrospectively as if the standard had been applied since lease commencement dates.

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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.

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.

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 contribute 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.

CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and ensure sufficient liquidity in order to develop its resources properties so that it can provide adequate returns for shareholders. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital as total shareholders' equity.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, an effect on the results of operations or financial condition of the Company.

RISKS AND UNCERTAINTIES

An investment in the Company involves significant risks and must be considered speculative due to the nature of the Company's business. Investors should carefully consider the risks and uncertainties described below. This list of risks and uncertainties below is not exhaustive. Furthermore, additional risks and uncertainties not presently known to the Company or that the Company believes to be immaterial may also adversely affect its business.

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Risks related to the Company's business

The Company has a history of operating losses and may never achieve profitability. The Company is an early stage product development company, and accordingly, it has not yet generated any revenues.

The Company expects to be involved in research and development to create several oral cannabis products and then performing extensive trial testing and conducting research studies with such products prior to determining their commercial viability. This process may take several years and require significant financial resources without revenue. The Company expects these expenses to result in continuing operating losses for the foreseeable future.

Any failure to successfully develop and obtain regulatory approval for products would have a material adverse effect on the Company's business, financial condition and results of operations.

Protection of patents and trademarks

The Company's success will depend in part upon its ability to obtain maintain current patents and trademarks (as well as successfully file future patents and trademarks) for its current and future product lines. Obtaining such patent and trademark protection can be costly and the outcome of any application for such can be unpredictable. In addition, any breach of confidentiality by a third party by premature disclosure may preclude the obtainment of appropriate patent and trademark protection, thereby affecting the development and commercial value of the Company's technology and products.

Regulatory proceedings, investigations and audits

The Company's business requires compliance with many laws and regulations. Failure to comply with these laws and regulations could subject the Company to regulatory or agency proceedings or investigations and could also lead to damage awards, fines and penalties. The Company may become involved in a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm the Company's reputation, require the Company to take, or refrain from taking, actions that could harm its operations or require The Company to pay substantial amounts of money, harming its financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on the Company's business, financial condition and results of operation.

Insurance and uninsurable risk

The Company may become subject to risks against which it cannot insure or against which it may elect not to insure. Settling related liabilities would reduce funds available for core business activities. Settlement of uninsured liabilities could have a material adverse effect on our financial position. The Company currently maintains no insurance other than director and officer liability insurance. The Company may, however, acquire insurance in the future to protect against certain risks in such amounts as management considers reasonable. While it may obtain insurance against certain risks, the nature of these risks is such that liability could exceed policy limits or could be excluded from coverage. Even after acquiring insurance, such insurance may not cover all the potential risks associated with product liability. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability.

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Product liability

As a cannabis oral dosage formulation company engaged in the research and development of advanced pharmaceutical grade formulations of cannabinoids designed to be ingested by humans, the Company, upon commercial launch, faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the sale of the Company's products involves the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on our results of operations and financial condition of the Company. This scenario could prevent or inhibit the commercialization of the Company's potential products. To date, there have been no product related issues.

Litigation

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be decided against the Company, such a decision could adversely affect the Company's ability to continue operating and the value of the common shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant Company resources, including the time and attention of management and available working capital. Litigation may also create a negative perception of the Company's brand. At this time, there is no outstanding litigation against the Company.

Competition

The medical cannabis industry in which the Company operates is, and is expected to continue to be, very competitive, and as such there is potential that the Company will face intense competition from other companies, some of which can be expected to have more financial resources and manufacturing and marketing experience than the Company. Our competitors may vary in size, from well capitalized businesses with substantial operations and revenues to smaller and earlier stage companies. Competitors with ACMPR licenses, or that may obtain ACMPR licenses sooner than the Company, may also be able to devote greater resources to develop and market competing products and establish broad customer bases sooner than the Company.

Conflicts of interest

The Company's directors and officers may currently be involved, or become involved, in other business ventures that could compete with its products and services. Business opportunities for the Company may create circumstances in which outside interests of directors and officers conflict with the interests of the Company. Directors and officers are required to act in good faith and in a manner that benefits the Company.

It is possible, however, that directors and officers may owe similar consideration to another organization(s). If these and other conflicts of interest are resolved in a way that has a material adverse impact on the Company, the Company will take the necessary steps to protect its interests.

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Dependence on key personnel

The Company depends on support from existing directors and officers and its ability to attract, and retain, new directors, officers and other personnel with appropriate skill sets. Inability to retain key team members or find new professionals to serve in important roles could have a material adverse effect on the Company's business. There can be no assurance that we will be able to attract or retain the quality of personnel required in the future.

Financial liquidity

The Company has not yet generated meaningful revenue and will likely operate at a loss until its first product gets to market. It may require additional financing in order to execute its business plan. Its ability to secure required financing will depend in part upon investor perception of the ability to create a successful business. Capital market conditions and other factors beyond the Company's control may also play important roles in its ability to raise capital. The Company can offer no assurance that it will be able to successfully obtain additional financing, or that future financing occurs on terms satisfactory to management and/or shareholders. If funds are unavailable in the future, or unavailable in the amounts felt required, or unavailable on acceptable terms, the Company may be required to cease operating or modify our business plans in a manner that undermines our ability to achieve our business objectives.

Costs of maintaining a public listing

As a result of obtaining a public listing, the Company will incur greater legal, accounting and other expenses related to regulatory compliance than it would have had it remained a private entity. The Company may also elect to devote greater resources than it otherwise would have on communication and other activities typically considered important by publicly traded companies.

Dilution

The Company may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Company which may be dilutive to the existing shareholders.

Financial market turmoil

Global financial market and economic conditions can pose a significant threat to economic growth in almost all sectors and economies, causing a decline in consumer and business confidence, a reduction in credit availability and a dampening in business and household spending.

Dividends

No dividends on the common shares have been paid by the Company to date. The Company currently plans to retain all future earnings and other cash resources, if any, for the future operation and development of its business. Payment of any future dividends, if any, will be at the discretion of the Company's Board of Directors after considering account many factors, including the Company's operating results, financial condition, and current and anticipated cash needs.

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Share price volatility and speculative nature of share ownership

The Company is listed for trading on the CSE, resulting in many legacy shareholders being able to freely trade their shares. Factors both internal and external to the Company may significantly influence the price at which shares trade, and the volatility of the share price. Quarterly operating results and material developments reported by the Company can, and likely will, influence the price of our shares.

Sentiment toward cannabis stocks, as well as toward the stock market in general, is among the many external factors that may have a significant impact on the price of the Company's shares. The Company is a relatively young company that is not generating revenue and does not possess significant cash reserves. As such, it should be considered a speculative investment. There is no guarantee that a liquid market will be developed or maintained for the Company's shares.

Risks relating to the Company's common stock

A decline in the price of the Company's common stock could affect its ability to raise further working capital and adversely impact its ability to continue operations. A prolonged decline in the price of the Company's common stock could result in a reduction in the liquidity of its common stock and a reduction in its ability to raise capital. Because a significant portion of the Company's operations have been and will be financed through the sale of equity securities, a decline in the price of its common stock could be especially detrimental to the Company's liquidity and its operations. Such reductions may force the Company to reallocate funds from other planned uses and may have a significant negative effect on the Company's business plan and operations, including its ability to develop new products and continue its current operations. If the Company's stock price declines, it can offer no assurance that the Company will be able to raise additional capital or generate funds from operations sufficient to meet its obligations.

Limited operating history

The Company has not generated significant profits or revenues in the periods covered by its most recent financial statements, and as a result, has only a very limited operating history upon which its business and future prospects may be evaluated. The Company is therefore subject to many of the risks common to early-stage enterprises, including challenges related to laws, regulations, licensing, integrating and retaining qualified employees; making effective use of limited resources; achieving market acceptance of existing and future solutions; competing against companies with greater financial and technical resources; acquiring and retaining customers; and developing new solutions. There is no assurance that The Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

Lack of operational liquidity

The expenses of the Company will be funded from cash on hand from the remaining proceeds of the previous offerings. Once such cash has been expended, the Company will be required to seek additional financing. There is no guarantee that any debt or additional equity or equity related offering of securities will be available on terms acceptable to the Company or available at all or that it will be able to locate or sell mineral resources in a timely or profitable manner.