CANNTAB THERAPEUTICS LIMITED

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND NINE MONTHS ENDED FEBRUARY 29, 2020 AND FEBRUARY 28, 2019
(Stated in $CAD)

(Unaudited - Prepared by Management)

<u>NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS</u>

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

CANNTAB THERAPEUTICS LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT FEBRUARY 29, 2020 AND MAY 31, 2019

(Stated in $CAD)

(Unaudited - Prepared by Management)

	February 29 2020	May 31 2019
ASSETS		
Current:		
Cash and cash equivalents (Note 5)	**$ 1,496,723**	$ 413,978
Short term investment	**-**	1,175,000
Accounts receivable (Note 6)	**102,912**	239,762
Share subscriptions receivable (Note 7)	**1,371,585**	-
Prepaid expenses	**18,134**	75,434
Advance to supplier	**166,667**	-
	3,156,021	1,904,174
Long term:		
Advance to supplier	**-**	166,667
Plant and equipment (Note 8)	**895,687**	342,859
Right-of-use asset (Note 9)	**287,142**	-
Intangible assets	**255,861**	179,785
	$ 4,594,711	$ 2,593,485
LIABILITIES		
Current:		
Accounts payable and accrued liabilities (Note 10)	**$ 711,506**	$ 192,294
Current portion of lease liability (Note 11)	**95,553**	-
Current portion of contract liability (Note 12)	**-**	40,000
	807,059	232,294
Long term:		
Lease liability (Note 11)	**201,921**	-
Contract liability (Note 12)	**-**	93,334
	1,008,980	325,628
SHAREHOLDERS' EQUITY		
Common shares (Note 13)	**9,189,152**	6,554,281
Contributed surplus	**2,113,708**	1,696,819
Accumulated deficit	**(7,717,129)**	(5,983,243)
	3,585,731	2,267,857
	$ 4,594,711	$ 2,593,485

Commitments (Note 16)

Subsequent events (Note 17)

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

Approved on behalf of the Board:

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

CANNTAB THERAPEUTICS LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
THREE AND NINE MONTHS ENDED FEBRUARY 29, 2020 AND FEBRUARY 28, 2019

(Stated in $CAD)

(Unaudited - Prepared by Management)

	Three months ended February 29 2020	**Nine months ended February 29 2020**	Three months ended February 28 2019	Nine months ended February 28 2019
Revenue				
License fees (Note 12)	**$ -**	**$ 133,334**	$ 22,500	$ 55,000
Expenses				
Employee compensation and benefits	**170,737**	**565,646**	153,313	422,348
Consulting fees	**230,006**	**478,334**	128,781	355,997
General and administrative	**51,750**	**177,436**	53,975	119,096
Professional fees	**16,735**	**122,352**	63,851	168,184
Research and development	**45,658**	**118,144**	64,803	115,427
Investor relations, marketing and regulatory expenses	**27,441**	**72,517**	61,824	278,358
Maintenance	**25,581**	**54,854**	79,378	120,731
Occupancy costs (Note 14(c))	**-**	**-**	30,000	90,000
Share based compensation (Note 13(e))	**46,001**	**120,020**	48,388	276,528
Depreciation of plant and equipment and right-of-use asset	**50,739**	**149,760**	16,118	45,308
Amortization of intangible assets	**6,256**	**14,519**	3,507	10,450
	670,904	**1,873,582**	703,938	2,002,427
Loss from operations	**(670,904)**	**(1,740,248)**	(681,438)	(1,947,427)
Other income				
Interest income	**-**	**6,362**	5,444	37,177
Net loss and comprehensive loss	**$ (670,904)**	**$ (1,733,886)**	$ (675,994)	$ (1,910,250)
Basic loss per share (Note 13(a))	**$ (0.03)**	**$ (0.07)**	$ (0.03)	$ (0.08)

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

CANNTAB THERAPEUTICS LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

PERIOD FROM JUNE 1, 2018 TO FEBRUARY 29, 2020

(Stated in $CAD)

(Unaudited - Prepared by Management)

	Note	Common shares Number	Common shares Amount	Contributed surplus	Accumulated deficit	Total
As at May 31, 2018		**25,284,701**	**$ 6,516,681**	**$ 1,310,150**	**$ (3,524,665)**	**$ 4,302,166**
Proceeds from exercise of broker warrants		21,900	37,600	(15,700)	-	21,900
Net loss and comprehensive loss		-	-	-	(1,910,250)	(1,910,250)
Share based compensation	**13(e)**	-	-	276,528	-	276,528
As at February 28, 2019		**25,306,601**	**6,554,281**	**1,570,978**	**(5,434,915)**	**2,690,344**
Net loss and comprehensive loss		-	-	-	(548,328)	(548,328)
Share based compensation		-	-	125,841	-	125,841
As at May 31, 2019		**25,306,601**	**6,554,281**	**1,696,819**	**(5,983,243)**	**2,267,857**
Net loss and comprehensive loss		-	-	-	(1,733,886)	(1,733,886)
Share based compensation	**13(e)**	-	-	120,020	-	120,020
Private placement	**13(d)**	6,160,000	2,839,376	240,624	-	3,080,000
Share issue costs	**13(d)**	-	(148,260)	-	-	(148,260)
Broker warrants	**13(d)**	-	(56,245)	56,245	-	-
As at February 29, 2020		**31,466,601**	**$ 9,189,152**	**$ 2,113,708**	**$ (7,717,129)**	**$ 3,585,731**

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

CANNTAB THERAPEUTICS LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED FEBRUARY 29, 2020 AND FEBRUARY 28, 2019
(Stated in $CAD)
(Unaudited - Prepared by Management)

	2020	2019
Operating activities		
Net loss and comprehensive loss	**$ (1,733,886)**	$ (1,910,250)
Add (deduct) items not affecting cash:		
Share based compensation	**120,020**	276,528
Depreciation of plant and equipment	**164,279**	55,758
Amortization of contract liability	**(133,334)**	(55,000)
	(1,582,921)	(1,632,964)
Change in non-cash working capital items		
Accounts receivable	**136,850**	(118,057)
Prepaid expenses	**57,300**	59,077
Accounts payable and accrued liabilities	**519,211**	(122,853)
Contract liability	**-**	200,000
	(869,560)	(1,614,797)
Investing activities		
Short term investment	**1,175,000**	1,725,000
Purchase of intangible assets	**(90,595)**	(36,450)
Purchase of plant and equipment	**(626,582)**	(160,310)
	457,823	1,528,240
Financing activities		
Repayment of lease liability	**(65,673)**	-
Proceeds from private placement	**1,708,415**	-
Share issue costs	**(148,260)**	-
Proceeds from issuance of broker warrants	**-**	21,900
	1,494,482	21,900
Change in cash and cash equivalents	**1,082,745**	(64,657)
Cash and cash equivalents, beginning of period	**413,978**	717,850
Cash and cash equivalents, end of period	**$ 1,496,723**	$ 653,193
Share subscriptions receivable (Note 7)	**$ 1,371,585**	$ -

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

1. NATURE OF OPERATIONS

Canntab Therapeutics Limited ("Canntab" or the "Company") was incorporated on April 20, 2016 under the Canada Business Corporations Act. The Company has its head office located at 223 Riviera Drive, Markham, Ontario, L3R 5J6. The Company is a Canadian biopharmaceutical company focused on the manufacturing and distribution of a suite of hard pill cannabinoid formulations in multiple doses and timed-release combinations. Canntab's proprietary hard pill cannabinoid formulations provide doctors, patients and consumers with medical grade solutions which incorporate all the features one would expect from any prescription or over the counter medication sold in Canadian pharmacies, including once a day and extended release formulations, both providing an accurate dose and improved shelf stability.

Canntab holds a Cannabis Standard Processing and Sales for Medical Purposes Licence, a Cannabis Research Licence and an Industrial Hemp Licence from Health Canada. Additionally, through its wholly owned American subsidiary, Canntab is in the process of establishing a CBD manufacturing and distribution business in Florida, USA.

Canntab trades on the Canadian Securities Exchange under the symbol "PILL", the OTCQX Best Market under the symbol "CTABF" and the Frankfurt Stock Exchange under the symbol "TBF1".

2. BASIS OF PRESENTATION AND GOING CONCERN

(a) Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"), and accordingly do not include all the information required for full annual financial statements by International Financial Reporting Standards ("IFRS"). They have been prepared using the same accounting policies that were described in note 3 to the Company's annual consolidated financial statements for the year ended May 31, 2019 which were prepared in accordance with IFRS as issued by the IASB, except for the accounting policy listed below in note 3(b).

The unaudited interim condensed consolidated financial statements have not been reviewed by the Company's external auditors. They were authorized for issuance by the Board of Directors on April 29, 2020.

(b) Basis of presentation

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

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

These unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Canntab Therapeutics Subsidiary Limited, 420 Therapeutics Inc. and Canntab USA, Inc., a newly incorporated Delaware company *(see note 4(a))*. 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) Leases

In January 2016, the IASB issued IFRS 16 "Leases", which supersedes IAS 17 "Leases", as well as several interpretations on leases. IFRS 16 eliminates the classification of leases by a lessee between operating and finance leases and introduces a single, on-balance sheet accounting model for lessees. As a result, the Company has recognized a right-of-use ("ROU") asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The details of this change in accounting policy are disclosed below.

The Company recognizes an ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

3. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

The Company has applied judgement to determine the lease term for lease contracts which include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and ROU assets recognized.

Leases with a term less than twelve months or of a low value are expensed as incurred.

<u>Transition</u>

The Company adopted IFRS 16 in its unaudited interim financial statements for the period beginning June 1, 2019 using the modified retrospective approach under which the cumulative effect of initial application is recognized in retained earnings at June 1, 2019. Accordingly, the prior period financial information has not been restated, ie, it is presented, as previously reported, under IAS 17 and related interpretations.

The Company used the following practical expedients as permitted under the new IFRS 16 standard:

Leases with a remaining lease term of less than twelve months as at February 1, 2019 are classified as short-term leases.
Leases of low dollar value continue to be expensed as incurred.
The Company did not apply any grandfathering practical expedients.

As a result of initially applying IFRS 16, the Company recognized a right-of-use asset and its corresponding lease liability of $363,147 as at June 1, 2019 *(see notes 9 and 11)*, which were measured at the present value of the remaining lease payments, discounted using the Company's estimated incremental borrowing rate of 10%. The associated ROU asset was measured at the lease liability amount on June 1, 2019 resulting in no adjustment to the opening balance of retained earnings. The ROU asset and lease liability recognized as of June 1, 2019 relate to the Company's lease of its corporate offices in Markham, Ontario.

During the interim period ended February 29, 2020, the Company has recognized $76,005 of depreciation expense *(see note 9)* and $24,327 of interest expense *(see note 11)* from this lease, instead of operating lease expense of $90,000 as in the prior year *(see note 14(c))*.

4. **NEW SIGNIFICANT AGREEMENTS**

(a) **Exactus Inc.**

(i) On November 20, 2019, the Company announced the signing of a supply agreement (the "Supply Agreement") and a non-exclusive distribution and profit sharing agreement (the "Distribution Agreement", and together with the Supply Agreement, the "Agreements") with Exactus Inc. ("Exactus") (OTCMKTS: EXDI), a farm operator and manufacturer of hemp-derived phytocannabinoid products in the U.S.

The Company's operations in the US will be conducted through Canntab USA, Inc., a 100% owned newly incorporated Delaware corporation.

(ii) Pursuant to the Supply Agreement, Canntab will purchase hemp-derived CBD oil resin from Exactus for use in its hard pill formulations, which are expected to include a variety of hemp-derived cannabinoids. In connection with the entering into of the Agreements, Canntab is expected to equip a facility in Florida for the purpose of manufacturing advanced hemp-derived cannabinoid hard pill formulations for distribution throughout the U.S. The Supply Agreement is for an initial term of two years, and unless terminated in accordance with its terms, will automatically renew thereafter for additional two year terms.

(iii) Pursuant to the Distribution Agreement, Canntab and Exactus will share the gross profits derived from the sale of Canntab's hard pill formulations, with the gross profits to be allocated in one of two ways, depending on the party originating such sales. The Distribution Agreement is for an initial term of two years, and unless terminated in accordance with its terms, may be renewed thereafter for two additional two-year terms.

(iv) The parties are currently working to finalize and enter into a separate sub-lease agreement, which is necessary to implement the parties' arrangement under the Agreements. Under the sublease agreement, Exactus is expected to be responsible for building out and making improvements to the Florida facility while Canntab is expected to be responsible for providing equipment and expertise.

(b) **World Class Extractions Inc.**

(i) On October 8, 2019, the Company announced the signing of a binding Letter of Intent ("LOI") to establish a joint venture (the "Joint Venture") with World Class Extractions Inc. ("WCE"). Pursuant to the terms of the LOI, WCE will install certain extraction and processing systems at Canntab's production facility in Markham, Ontario.

(ii) Following execution of the definitive joint venture agreement (the "JV Agreement"), WCE and Canntab will each hold a 50% interest in the Joint Venture that will be established. The Joint Venture will acquire extraction systems from WCE. The equipment will initially have an extraction and processing capacity of up 225 kilos of biomass per day, which could provide approximately 18 kilos of oil from high potency cannabis. This could then be used to create approximately 1,800,000 10mg tablets. Under the JV Agreement, the systems will remain the property of WCE until all costs are recovered, at which time the equipment will become the property of the Joint Venture.

5. **CASH AND CASH EQUIVALENTS**

	February 29 2020	May 31 2019
Cash (bank overdraft)	**$ (11,692)**	$ 78,859
Cash in Company lawyer's trust account	**1,508,415**	335,119
	$ 1,496,723	$ 413,978

The cash in the Company lawyer's trust account is unrestricted. The balance as at February 29, 2020 represents proceeds received under Tranches 1 and 2 of a private placement that closed on February 28, 2020 *(see note 13(d))*.

6. **ACCOUNTS RECEIVABLE**

	February 29 2020	May 31 2019
HST ITC's recoverable	**$ 97,771**	$ 233,585
Accrued interest receivable	**-**	6,177
Other	**5,141**	-
	$ 102,912	$ 239,762

7. **SHARE SUBSCRIPTIONS RECEIVABLE**

As described in note 13(d), Tranches 1 and 2 of a private placement closed on February 28, 2020 for gross proceeds of $3,080,000. Of these proceeds, the Company received $200,000 directly, $1,508,415 was paid into the Company's lawyer's trust account *(see note 6)*, such that the remainder of $1,371,585 was still receivable as at February 29, 2020. These amounts were received in full over the course of March, 2020 *(see note 17(d))*.

8. **PLANT AND EQUIPMENT**

	Production equipment	Furniture and fixtures	Computer hardware	Construction in progress	Total
Cost					
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**
Additions	226,989	2,090	-	397,503	626,582
As at February 29, 2020	**$ 533,614**	**$ 14,102**	**$ 11,058**	**$ 523,512**	**$ 1,082,286**
Accumulated depreciation					
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**
Depreciation	70,437	1,618	1,699	-	73,754
As at February 29, 2020	**$ 177,504**	**$ 3,887**	**$ 5,208**	**$ -**	**$ 186,599**
Net book value					
As at May 31, 2019	**$ 199,558**	**$ 9,743**	**$ 7,549**	**$ 126,009**	**$ 342,859**
As at February 29, 2020	**$ 356,110**	**$ 10,215**	**$ 5,850**	**$ 523,512**	**$ 895,687**

Costs related to construction of lab and production facilities have been capitalized to construction in progress and not depreciated. Construction was completed in December, 2019 as evidenced by the submission of the Company's Site Evidence Package to Health Canada for approval of their Licence Producer Status. The submission marks the final step required to obtain a licence to process cannabis at the facility, pending Health Canada review and approval. Depreciation will commence once production starts.

9. RIGHT OF USE ASSET

	Building	Total
<u>Cost</u>		
As at May 31, 2019	$ -	$ -
Right-of-use asset on transition to IFRS 16 *(see note 3(b))*	363,147	363,147
As at February 29, 2020	**$ 363,147**	**$ 363,147**
<u>Accumulated depreciation</u>		
As at May 31, 2019	$ -	$ -
Depreciation	76,005	76,005
As at February 29, 2020	**$ 76,005**	**$ 76,005**
<u>Net book value</u>		
As at February 29, 2020	**$ 287,142**	**$ 287,142**

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	February 29 2020	May 31 2019
Trade accounts payable	**$ 212,584**	$ 51,313
Accrued liabilities	**463,491**	135,101
Accounts payable - related company	**35,431**	5,880
	$ 711,506	$ 192,294

11. LEASE LIABILITY

As a result of initially applying IFRS 16, the Company recognized a lease liability of $363,147 as at June 1, 2019 *(see note 3(b))*. This valuation was determined based upon the Company's monthly payment of $10,000 until lease expiry by December 31, 2022 for its office premises in Markham, Ontario *(see note 14(c))*. Interest expense of $24,327 was recognized on this lease during the nine month period ended February 29, 2020.

	February 29 2020	May 31 2019
Balance, beginning of period	$ -	$ -
Lease liability on transition to IFRS 16 (Note 3(b))	363,147	-
Interest payable on lease liabilities	24,327	-
Repayments during the period	(90,000)	-
Balance, end of period	297,474	-
Less current portion	(95,553)	-
Long-term portion	$ 201,921	$ -

12. CONTRACT LIABILITY

	February 29 2020	May 31 2019
Balance, beginning of period	$ 133,334	$ 173,333
Additions	-	200,000
Recognized as revenue in period	(133,334)	(239,999)
Balance, end of period	-	133,334
Current portion	-	(40,000)
Long-term portion	$ -	$ 93,334

During the three-month period ended August 31, 2019, the Company recognized the remainder of the balance in contract liability as revenue following the cancellation on June 24, 2019 of the agreement with Aleafia Health Inc., parent company of Emblem Corp., for non-performance.

13. SHARE CAPITAL, STOCK OPTIONS AND WARRANTS

(a) **Loss per share**

Basic loss per share is computed using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three and nine month periods ended February 29, 2020 were 25,656,229 and 25,329,165 respectively (three and nine month periods ended February 28, 2019 - 25,299,863 and 25,292,240 respectively).

13 **SHARE CAPITAL, STOCK OPTIONS AND WARRANTS, CONTINUED**

(b) On July 31, 2019, the Company issued 20,000 stock options to an employee. 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, all of which vested immediately.

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 1.52%, (2) expected volatility of 94%, (3) expected life of 3.00 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.19.

(c) On December 23, 2019, the Company granted of 500,000 special warrants to an external consultant. Each special warrant entitles the holder thereof to purchase one common share of the Company at a price of $1.00 per share. The special warrants vest as to 100,000 immediately, 200,000 on the first anniversary of the grant, and 100,000 on each of second and third anniversaries. The special warrants expire 2 years from each respective vesting period.

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 1.67%, (2) expected volatility of 103%, (3) expected lives of 2 to 5 years, and (4) dividend yield of 0.0%, the fair value attributed to each special warrant was $0.19.

(d) Private placement - February 28, 2020

(i) On February 28, 2020, the Company announced that it had closed Tranches 1 and 2 of a private placement by issuing a 6,160,000 units at a price of $0.50 per unit for gross proceeds of $3,080,000. Each unit consists of one common share and one full warrant to acquire an additional common share at a price of $0.75 per share for a period of 24 months. The placement was completed with Tranche 3 that closed in March 2020 as described in note 17(d).

(ii) The fair value attributed to these common share purchase warrants was calculated using the Black-Scholes option pricing model. Under the assumptions of: (1) risk free interest rate of 1.14%, (2) expected volatility of 100%, (3) expected life of 2 years, and (4) dividend yield of 0.0%, the fair value attributed to each common share purchase warrants was $0.20, or $240,624 in total, which has been credited to contributed surplus.

(iii) In connection with Tranches 1 and 2, the Company paid fees to a syndicate of registrants comprised of cash fees of $113,260 and 226,520 broker warrants, which entitle the holder thereof to purchase one common share at a price of $0.50 for a period of 24 months. Using the same Black-Scholes assumptions noted above, the fair value attributed to the broker warrants was $56,245, which has been deducted from share capital.

(e) Total share based payments of $120,020 was recognized during the nine month period ended February 29, 2020 (February 28, 2019 - $276,528) based on accrual of previously granted options and special warrants expected to vest in the reporting period.

14. **RELATED PARTY TRANSACTIONS**

During the nine month periods ended February 29, 2020 and February 28, 2019, the Company had the following related party transactions:

(a) Under the terms of a consulting contract effective January, 2017, fees of $90,000 were recorded during the nine month period ended February 29, 2020 (February 28, 2019 - $90,000) by an entity controlled by an individual who is both an officer and director of the Company for his services as CFO.

This individual also received payments with respect to a car allowance of $3,200 during the nine month period ended February 29, 2020 (February 28, 2019 - $16,000).

As at February 29, 2020, accounts payable and accrued liabilities included $45,200 (May 31, 2019 - $11,300) owing to this entity.

(b) Under the terms of a consulting contract effective January, 2017, fees of $50,000 were recorded covering four months of the nine month period ended February 29, 2020 (February 28, 2019 - $20,000) 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, 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 covering five months of the nine month period ended February 29, 2020 totalled $62,500 (February 28, 2019 - $87,500).

This individual also received payments with respect to a car allowance of $3,816 during the nine month period ended February 29, 2020 (February 28, 2019 - $16,800).

As at February 29, 2020, accounts payable and accrued liabilities included $56,500 (May 31, 2019 - $11,300) owing to this entity.

(c) The Company is related to CMAX Technologies Inc. by virtue of common control. The Company entered into a lease renewal agreement dated December 1, 2018 with CMAX under which it is obligated to make monthly rent payments of $10,000 until expiry on December 31, 2022. During the nine month period ended February 29, 2020, the Company made payments of $90,000 which were applied against the operating lease now capitalized under IFRS 16 *(see note 11)*. During the nine month period ended February 28, 2019, rent of $90,000 was paid to CMAX.

As at February 29, 2020, accounts payable and accrued liabilities included $35,429 (May 31, 2019 - $5,880) owing to this entity.

(d) Legal fees recorded during the nine month period ended February 29, 2020 from a law firm of which a director is a partner totalled $43,359 (February 28, 2019 - $22,681). As at February 29, 2020, accounts payable and accrued liabilities included $49,876 (May 31, 2019 - $15,676) owing to this firm.

14. RELATED PARTY TRANSACTIONS, CONTINUED

(e) During the nine month period ended February 28, 2019, an entity related to an officer and director received financing compensation from the Company in connection with Tranches 1 and 2 of the private placement that closed on February 28, 2020 *(see note 13(d))* as follows: 125,350 broker compensation warrants were granted, for which the fair value was $25,245. Total cash payments of $62,675 were also made with respect to commissions.

15. 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:

		February 29, 2020		May 31, 2019	
Assets/liabilities	**Measurement**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
		$	**$**	$	$
Cash	Amortized cost	**1,496,723**	**1,496,723**	413,978	413,978
Short term investment	Amortized cost	**-**	**-**	1,175,000	1,175,000
Accounts receivable	Amortized cost	**1,371,585**	**1,371,585**	-	-
Share subscriptions receivable	Amortized cost	**102,912**	**102,912**	239,762	239,762
Advance to supplier	Amortized cost	**166,667**	**166,667**	166,667	166,667
Accounts payable and accrued liabilities	Amortized cost	**711,506**	**711,506**	192,294	192,294

(b) **Credit risk**

The Company's credit risk is attributable to its accounts receivable (comprised mostly of refundable HST ITC's) and the advance to a supplier. Management believes that credit risk with respect to (i) accounts receivable is minimal, as HST refunds are now received within one month of filing, 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.

15. FINANCIAL INSTRUMENTS AND RISK FACTORS, CONTINUED

(c) Liquidity risk

The business of the Company necessitates the management of liquidity risk. Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due in the short-term due to a shortfall of working capital. The Company's objective is to mitigate short-term liquidity risk by maintaining adequate working capital reserves and its long-term liquidity risk through good relations with external capital markets. The Company closed on Tranches 1 and 2 of a private placement for gross proceeds of $3,080,000 *(see note 13(d))* to continue its strategy of expanding its manufacturing facilities, its research and development and geographic coverage. With current working capital of $2,348,962 as at February 29, 2020, the Company believes its exposure to liquidity risk is limited.

(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.

16. COMMITMENTS

As at February 29, 2020, the Company was committed to:

(i) an occupancy lease until December, 2022 at a monthly rate of $10,000 *(see note 14(c))*

(ii) consulting and employment contracts with the Company's officers at monthly rates of $10,000 *(see note 14(a))* and $12,500 *(see note 14(b))* respectively

17. **SUBSEQUENT EVENTS**

(a) Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as 'COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposing quarantine period and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown currently, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the future financial results and condition of the Company.

(b) On March 3, 2020, the Board of Directors passed a resolution to issue 1,300,000 special warrants to employees, advisors and consultants of the Company to purchase common shares of the Company. Each special warrant will entitle the holder to acquire one common share at a price of $0.60 until March 4, 2025.

Of the 1,300,000 special warrants being issued, (i) 600,000 are to replace existing stock options, (ii) 300,000 are to replace existing special warrants, and (iii) 400,000 are being issued as an incentive to certain employees, advisors and consultants. of the Company. The special warrants will be subject to a vesting period of two years, with 1/3 vesting on the date of grant, and 1/3 on each subsequent one-year anniversary of the grant.

(c) On March 6, 2020, the Board of Directors passed a resolution to issue 500,000 special warrants to a consultant to purchase common shares of the Company. These special warrants are to replace an equivalent number of special warrants issued to the consultant on December 23, 2019 *(see note 13(c))*. Each special warrant entitles the holder thereof to purchase one common share of the Company at a price of $0.60 per share. The special warrants vest as to 100,000 immediately, 200,000 on the first anniversary of the grant, and 100,000 on each of second and third anniversaries. The special warrants expire 2 years from each respective vesting period.

Subject to Health Canada approval, Canntab intends to appoint the consultant as a director and Executive Chairman of the Board.

(d) On March 16th, 2020, the Company announced that it had closed Tranche 3 of its previously announced private placement by issuing a further 1,291,000 units at a price of $0.50 per unit for gross proceeds of $645,500. Together with the funds raised under Tranche 1 and 2 *(see note 13(c)*, the Company has issued 7,451,000 units for gross proceeds of $3,725,500. Each unit consists of one common share and one full warrant to acquire an additional common share at a price of $0.75 per share for a period of 24 months.

In connection with Tranche 3, the Company paid further fees to a syndicate of registrants that were comprised of cash fees of $54,626 and issued 110,670 broker warrants, which entitle the holder thereof to purchase one common share at a price of $0.50 for a period of 24 months. In total, cash fees of $167,886 and 337,190 broker warrants were paid with respect to this entire private placement.

(e) On April 8, 2020, the Company entered into an occupancy lease agreement with an arm's length party for additional premises adjacent to their current location. The lease is for a five year term from May 1, 2020 to April 30, 2025 with base of $107,500 for the first three years and $115,000 for the last two years.

(f) On April 16, 2020, 328,644 broker warrants from a placement completed in April, 2018 expired unexercised.