CANNTAB THERAPEUTICS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 2020 AND 2019

(Stated in $CAD)

Independent Auditor's Report

To the Shareholders of Canntab Therapeutics Limited:

Opinion

We have audited the consolidated financial statements of Canntab Therapeutics Limited and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at May 31, 2020 and May 31, 2019, and the consolidated statements of net loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at May 31, 2020 and May 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2(c) in the consolidated financial statements, which indicates that the Company had a net loss and comprehensive loss of $2,607,244 for the year ended May 31, 2020 and had an accumulated deficit of $8,590,487 as of May 31, 2020. As stated in Note 2(c), these events or conditions, along with other matters as set forth in Note 2(c), indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter

Other Information

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

MNP LLP

Toronto, Ontario
September 28, 2020

Chartered Professional Accountants
Licensed Public Accountants

MNP

CANNTAB THERAPEUTICS LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT MAY 31, 2020 AND 2019
(Stated in $CAD)

	2020	2019
ASSETS		
Current:		
Cash and cash equivalents (Note 6)	**$ 2,090,438**	$ 413,978
Short term investment (Note 7)	**-**	1,175,000
Accounts receivable (Note 8)	**161,339**	239,762
Inventories (Note 9)	**905,765**	-
Prepaid expenses	**160,728**	75,434
Advance to supplier (Note 10)	**166,667**	-
	3,484,937	1,904,174
Long term:		
Advance to supplier (Note 10)	**-**	166,667
Plant and equipment (Note 11)	**1,095,820**	342,859
Right-of-use assets (Note 12)	**676,646**	-
Intangible assets (Note 13)	**251,711**	179,785
	$ 5,509,114	$ 2,593,485
LIABILITIES		
Current:		
Accounts payable and accrued liabilities (Note 14)	**$ 1,253,953**	$ 192,294
Current portion of lease liabilities (Note 15)	**161,975**	-
Current portion of contract liability (Note 17)	**-**	40,000
	1,415,928	232,294
Long term:		
Lease liabilities (Note 15)	**524,444**	-
Term loan payable (Note 16)	**40,000**	-
Contract liability (Note 17)	**-**	93,334
	1,980,372	325,628
SHAREHOLDERS' EQUITY		
Common shares (Note 18)	**9,843,783**	6,554,281
Contributed surplus	**2,275,446**	1,696,819
Accumulated deficit	**(8,590,487)**	(5,983,243)
	3,528,742	2,267,857
	$ 5,509,114	$ 2,593,485

Going concern (Note 2(c))

Commitments and contingencies (Note 26)

Subsequent events (Note 27)

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

Approved on behalf of the Board:

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

CANNTAB THERAPEUTICS LIMITED
CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
YEARS ENDED MAY 31, 2020 AND 2019
(Stated in $CAD)

	2020	2019
Revenue		
License fees (Note 17)	**$ 133,334**	$ 239,999
Expenses		
Employee compensation and benefits	**757,773**	620,930
Consulting fees	**574,598**	509,447
General and administrative	**221,772**	160,878
Professional fees	**198,596**	199,824
Research and development	**105,746**	128,144
Investor relations, marketing and regulatory expenses	**168,507**	423,183
Maintenance	**8,555**	96,385
Occupancy costs	**3,125**	120,000
Share based compensation	**414,751**	402,369
Depreciation of plant and equipment and right-of-use assets	**266,788**	66,932
Amortization of intangible assets	**28,828**	13,677
	2,749,039	2,741,769
Loss from operations	**(2,615,705)**	(2,501,770)
Other income		
Interest income	**8,461**	43,192
Net loss and comprehensive loss	**$ (2,607,244)**	$ (2,458,578)
Basic and diluted loss per share (Note 18(d))	**$ (0.10)**	$ (0.10)

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

CANNTAB THERAPEUTICS LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED MAY 31, 2020 AND 2019
(Stated in $CAD)

	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	**18(c)**	21,900	37,600	(15,700)	-	21,900
Net loss and comprehensive loss		-	-	-	(2,458,578)	(2,458,578)
Share based compensation	**19(e)**	-	-	402,369	-	402,369
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		-	-	-	(2,607,244)	(2,607,244)
Share based compensation	**19(e)**	-	-	414,751	-	414,751
Private placement	**18(b)**	7,287,000	3,589,420	54,080	-	3,643,500
Shares issued in exchange for services	**18(b)**	164,000	82,000	-	-	82,000
Share issue costs	**18(b)**	-	(272,122)	-	-	(272,122)
Broker warrants	**18(b)**	-	(109,796)	109,796	-	-
As at May 31, 2020		**32,757,601**	**$ 9,843,783**	**$ 2,275,446**	**$ (8,590,487)**	**$ 3,528,742**

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

CANNTAB THERAPEUTICS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MAY 31, 2020 AND 2019
(Stated in $CAD)

	2020	2019
Operating activities		
Net loss and comprehensive loss	**$ (2,607,244)**	$ (2,458,578)
Add (deduct) items not affecting cash:		
Share based compensation	**414,751**	402,369
Depreciation of plant and equipment and right-of-use assets	**266,788**	66,932
Amortization of contract liability	**(133,334)**	(239,999)
Amortization of intangible assets	**28,828**	13,677
	(2,030,211)	(2,215,599)
Change in non-cash working capital items		
Accounts receivable	**88,423**	(69,741)
Inventories	**(905,765)**	-
Advance to supplier	**-**	(166,667)
Term loan payable	**40,000**	-
Prepaid expenses	**(13,292)**	214
Accounts payable and accrued liabilities	**921,418**	(81,265)
Contract liability	**-**	200,000
	(1,899,427)	(2,333,058)
Investing activities		
Short term investment	**1,175,000**	2,325,000
Purchase of intangible assets	**(100,754)**	(67,766)
Prepayment on right-of-use assets	**(13,437)**	-
Purchase of plant and equipment	**(791,139)**	(249,948)
	269,670	2,007,286
Financing activities		
Repayment of lease liabilities	**(65,161)**	-
Proceeds from private placement	**3,643,500**	-
Share issue costs	**(272,122)**	-
Proceeds from issuance of broker warrants	**-**	21,900
	3,306,217	21,900
Change in cash and cash equivalents	**1,676,460**	(303,872)
Cash and cash equivalents, beginning of year	**413,978**	717,850
Cash and cash equivalents, end of year	**$ 2,090,438**	$ 413,978
Non-cash transactions:		
Shares issued in exchange for services	**$ 82,000**	$ -

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

1. NATURE OF OPERATIONS

(a) Canntab Therapeutics Limited ("Canntab" or the "Company") was incorporated on April 20, 2016 under the Canada Business Corporations Act. The Company, with its head office located at 223 Riviera Drive, Markham, Ontario, L3R 5J6, is a Canadian 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.

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"

(b) COVID-19 pandemic:

In March 2020, the World Health Organization characterized the outbreak of the novel strain of coronavirus, specifically identified as COVID-19, as a global pandemic. This has resulted in governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to business, resulting in a global economic slowdown. Equity markets have experienced significant volatility and weakness and the governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position in the future. The ultimate duration and magnitude of the impact and the efficacy of government and Bank of Canada interventions on the economy and the financial effect on the Company is not known at this time. The extent of such impact will depend on future developments, which are highly uncertain and not in the Company's control, including new information which may emerge concerning the spread and severity of COVID-19 and actions taken to address its impact, among others. The repercussions of this health crisis could have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

The Company has been deemed an "essential service" by the Ontario government, and therefore is permitted to continue full operations. In response to COVID-19, the Company has implemented working practices to address potential impacts to its operations, employees and customers, and will take further measures in the future if and as required. At present, the Company has not identified any material continuity-risks specifically associated with COVID-19.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). They were authorized for issuance by the Board of Directors on September 28, 2020.

(b) Basis of presentation

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

(c) Going concern

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

As at May 31, 2020, the Company had no source of operating cash flow and had an accumulated deficit of $8,590,487 (May 31, 2019 - $5,983,243). Working capital as at May 31, 2020 was $2,069,009 compared to $1,671,880 as at May 31, 2019. For the year ended May 31, 2020, net loss and comprehensive loss for the year ended May 31, 2020 was $2,607,244 (2019 - $2,458,578), and the Company had no sources of operating cash flow. Other than some initial licensing fees received *(see note 17)*, operations since inception have been funded from the issuance of share capital and exercise of stock options and warrants.

As evidenced by its accumulated deficit, the Company has, during its start-up phase, made significant capital and operational investments from the funds raised from its initial seed capital, the go-public process and the closing of the private placement in March, 2020 *(see note 18(b)*. These funds have been used to build out the legal and operating infrastructure, the intellectual property portfolio and to obtain the production and dales licences necessary to capitalize on the opportunities within the cannabis marketplace in Canada and internationally.

2. BASIS OF PRESENTATION, CONTINUED

Though the Company anticipates it will have sufficient cash on hand to service its liabilities and fund operating costs for the immediate future, there is uncertainty as to how long these funds will last. The Company believes that, based on its revenue forecasts, expected opportunities in the marketplace and the ability to reduce expenditures, if required, it could continue as a going concern for the foreseeable future. To achieve that, the Company will need to (i) develop its marketing opportunities into revenue generating transactions, and (ii) arrange future financing that will largely depend upon prevailing capital market and the continued support of its shareholder base. Management is actively working on the delivery of its products on an existing purchase order which will generate the Company's first sales revenue, but timing is still uncertain. Management is also reviewing financing options to raise the funds required to continue its strategy of expanding its product line, manufacturing facilities, research and development and geographic coverage, but there can be no assurance that management's fund raising plans will be successful. As a result, these factors indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Canntab Therapeutics Subsidiary Limited, 420 Therapeutics Inc. and Canntab USA, Inc., a newly incorporated Delaware company. 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.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(b) Financial instruments

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

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

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

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

Caption	Classification under Measurement
Cash and cash equivalents	FVTPL
Short term investment	FVTPL
Accounts receivable	Amortized cost
Advance to supplier	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Term loan payable	Amortized cost

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

3. Significant Accounting Policies, continued

(b) Financial instruments, continued

Financial assets at amortized cost

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

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

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

(c) Cash and cash equivalents

The Company considers short term, highly liquid investments that are readily convertible into known amounts of cash and which are not subject to significant risk of change in value to be cash equivalents. Cash equivalents have a short maturity of three months or less from the date of acquisition.

(d) Inventory

Inventory, which consists of purchased raw materials and packing materials, is recorded at the lower of cost and net realizable value. Cost is determined using the weighted average cost method and is measured on a FIFO basis. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory is written down to net realizable value.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(e) Plant and equipment and right-of-use assets

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

Production equipment	-	20%	Declining balance
Furniture and fixtures	-	20%	Declining balance
Computer hardware	-	30%	Declining balance
Security equipment	-	30%	Declining balance
Leasehold improvements	-		Straight line over lease term

Right-of-use assets, which consist of the capitalized value of occupancy leases, are amortized on a straight-line basis over the terms of the respective leases, ranging from 43 to 60 months.

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

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

(f) Intangible assets

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

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

License agreement	-	20	years
Patent costs	-	10	years
Computer software	-	2	years

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Impairment of non-financial assets

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

No impairments were recorded during the years ended May 31, 2020 and 2019.

(h) Contract liability

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

(i) Foreign currency translation

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

(j) Equity

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. The Company accounts for warrants using the relevant valuation models at the date of issuance. The value of the warrants at the date of issuance is included in contributed surplus.

(k) Share based compensation

The Company has a stock option plan for directors, officers and employees. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over each tranche's vesting period, based on the number of awards expected to vest, with the offset credited to contributed surplus.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

The proceeds from the exercise of stock options or warrants are recognized in share capital upon exercise at the exercise price paid by the holder.

(l) Revenue recognition

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

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

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

(m) Research and development costs

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(n) Income taxes

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

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

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

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

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

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

(o) Loss per share

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

Diluted loss per share amounts are calculated by dividing the consolidated net loss attributable to common shareholders by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(p) Provisions and contingencies

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

(q) Critical accounting estimates and judgements

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

Areas where estimates and judgements are significant to these consolidated financial statements are as follows:

- **Inventory:** Management is required to make a number of estimates in calculating the total value of inventory. The impairment loss of inventories assessment requires a degree of estimation and judgment. The level of the provision is assessed by considering recent sales experience, the ageing of inventories, damaged, obsolete, slow moving inventories and other factors that affect inventory obsolescence.

- **Share based compensation:** Stock option and special warrant fair values utilize option pricing models that require the input of assumptions, including the expected life, volatility of the Company's stock price, forfeitures and the risk free rate. Given the Company's minimal trading history, volatility has been estimated using that of similar sized competitors. Changes in the assumptions can materially affect the fair value estimate and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the stock option or warrants issued.

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

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(q) Critical accounting estimates and judgements, continued

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

- **Going concern:** The assessment of whether the going concern assumption is appropriate requires management to consider all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

(r) Leases

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, 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.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

4. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

(a) IFRS 16 "Leases"

In January 2016, the IASB issued IFRS 16 Leases ("IFRS 16"), which supersedes IAS 17 Leases, as well as several interpretations of 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 right-of-use ("ROU") assets representing its rights to use the underlying assets *(see note 12)* and lease liabilities representing its obligation to make lease payments *(see note 15)*. The details of the accounting policy adopted are disclosed in note 3((r)).

Transition

The Company adopted IFRS 16 in its financial statements for the period beginning June 1, 2019, using the modified retrospective approach under which the cumulative effect of initial application, if any, is recognized in retained earnings at June 1, 2019.

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

a. Leases with a remaining lease term of fewer than twelve months on June 1, 2019 are classified as short-term leases.
b. Leases of low dollar value continue to be expensed as incurred.
c. Initial direct costs from the measurement of the right-of-use asset at the date of initial application have been excluded.

There were no long-term leases as of June 1, 2019 such that there was no initial recognition of ROU assets and lease liabilities on transition to IFRS 16.

(b) IFRIC 23 "Uncertainty Over Income Tax Treatments"

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (the "Interpretation"). The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments.

The Interpretation requires:

an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

The Company adopted the Interpretation in its financial statements for the period beginning on June 1, 2019. The adoption of the Interpretation did not have a material impact on the Company's financial statements.

5. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

(a) IFRS 3 "Business Combinations"

This standard has been amended to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contributions to the ability to create outputs. The amendments are effective for annual periods beginning on or after January 1, 2020.

(b) IAS 16 "Property, Plant and Equipment"

This standard has been amended to prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use, clarify that an entity is "testing whether the asset is functioning properly" when it assesses the technical and physical performance of the asset and requires certain related disclosures. The amendments are effective for annual periods beginning on or after January l, 2022. The Company has not yet assessed the impact of the amendments on the consolidated financial statements.

6. CASH AND CASH EQUIVALENTS

	2020	2019
Cash	$ 563,112	$ 78,859
Guaranteed investment certificates	1,500,000	-
Cash in Company lawyer's trust account	27,326	335,119
	$ 2,090,438	$ 413,978

The Company has two guaranteed investment certificates that bear interest at rates ranging from 0.90% to 0.95% per annum and mature on June 21, 2020 and July 21, 2020 respectively.

The cash in the Company lawyer's trust account is unrestricted. The balance as at May 31, 2020 represents proceeds received under a private placement that closed on March, 2020 *(see note 18(d))*.

7. SHORT TERM INVESTMENT

	2020	2019
Short term investments	**$ -**	$ 1,175,000

The short-term investment certificate bore interest at 1.80% per annum, came due on January 20, 2020, and was cashable at any time in whole or part without penalty.

8. ACCOUNTS RECEIVABLE

	2020	2019
HST ITC's recoverable	**$ 123,134**	$ 233,585
Accrued interest receivable	**1,497**	6,177
Non-trade accounts receivable	**36,708**	-
	$ 161,339	$ 239,762

9. INVENTORY

	2020	2019
Cannabis oil raw materials	**$ 797,170**	$ -
Non-cannabis raw materials	**108,595**	-
	$ 905,765	$ -

The Company has not commenced any commercial production as of May 31, 2020, such that inventory does not contain any work-in-progress or finished goods. The value of inventory is based on initial cost on acquisition.

10. ADVANCE TO SUPPLIER

	2020	2019
Advance to supplier	**$ 166,667**	$ 166,667

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

- **(i)** A supply agreement dated February 8, 2019 (the "2019 Supply Agreement"),
- **(ii)** A supply agreement dated February 25, 2019 (the "5 Year Supply Agreement"), and
- **(iii)** A security agreement dated March 7, 2019 (the "Security Agreement")

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

(c) On February 25, 2019, the Company, as part of the Secured Party, entered into the 5 Year Supply Agreement under which the Supplier grants the Purchasers the right of first refusal to purchase up to $5.0 million of the Supplier's hemp crop for a period of 5 years commencing in 2019 at a purchase price of $100.0 per kg per 1% of CBD extracted from the flower. Based on the agreement, the anticipated purchase price for the 2019 crop is $1.0 million plus applicable taxes. Of this amount, $500,000 will be paid by the Purchasers as a loan to the Supplier, with the intention, as outlined in the agreement, that it is to be paid by in the form of purchases of hemp.

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

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

- **(ii)** The loan is due by December 31, 2020 and, in the event of default, bears interest at 5% per annum. The loan is to be repaid out of product from the 2019 and/or 2020 crops. To date, there have been repayments made out of product.

11. Plant And Equipment

	Production equipment	Furniture and fixtures	Computer hardware	Leasehold improvements	Security equipment	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	327,646	15,619	1,891	200,847	365,375	-	911,378
Construction in progress completed	-	-	-	126,009	-	(126,009)	-
As at May 31, 2020	$ 634,271	$ 27,631	$ 12,949	$ 326,856	$ 365,375	$ -	$ 1,367,082
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	108,219	3,511	2,548	16,736	27,403	-	158,417
As at May 31, 2020	$ 215,286	$ 5,780	$ 6,057	$ 16,736	$ 27,403	$ -	$ 271,262
Net book value							
As at May 31, 2019	$ 199,558	$ 9,743	$ 7,549	$ -	$ -	$ 126,009	$ 342,859
As at May 31, 2020	$ 418,985	$ 21,851	$ 6,892	$ 310,120	$ 337,972	$ -	$ 1,095,820

Construction on leasehold improvements 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 marked the final step required to obtain a licence to process cannabis at the facility, which was received during the fiscal year.

12. RIGHT OF USE ASSETS

	Building	Total
Cost		
As at May 31, 2019	$ -	$ -
Additions *(see note 15)*	785,017	785,017
As at May 31, 2020	**$ 785,017**	**$ 785,017**
Accumulated depreciation		
As at May 31, 2019	$ -	$ -
Depreciation	108,371	108,371
As at May 31, 2020	**$ 108,371**	**$ 108,371**
Net book value		
As at May 31, 2020	**$ 676,646**	**$ 676,646**

13. INTANGIBLE ASSETS

	License agreements	Patent costs	Computer software	Website under development	Total
Cost					
As at May 31, 2018	**$ 60,000**	**$ 72,880**	**$ -**	**$ -**	**$ 132,880**
Additions	-	67,766	-	-	67,766
As at May 31, 2019	**60,000**	**140,646**	**-**	**-**	**200,646**
Additions	-	69,116	16,615	15,023	100,754
As at May 31, 2020	**$ 60,000**	**$ 209,762**	**$ 16,615**	**$ 15,023**	**$ 301,400**
Accumulated amortization					
As at May 31, 2018	**$ 3,500**	**$ 3,684**	**$ -**	**$ -**	**$ 7,184**
Amortization	3,000	10,677	-	-	13,677
As at May 31, 2019	**6,500**	**14,361**	**-**	**-**	**20,861**
Amortization	3,000	17,251	8,577	-	28,828
As at May 31, 2020	**$ 9,500**	**$ 31,612**	**$ 8,577**	**$ -**	**$ 49,689**
Net book value					
As at May 31, 2019	**$ 53,500**	**$ 126,285**	**$ -**	**$ -**	**$ 179,785**
As at May 31, 2020	**$ 50,500**	**$ 178,150**	**$ 8,038**	**$ 15,023**	**$ 251,711**

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2020	2019
Trade accounts payable	**$ 962,434**	$ 51,316
Accrued liabilities	**256,090**	135,098
Accounts payable - related company	**35,429**	5,880
	$ 1,253,953	$ 192,294

Certain operating costs of the Company were paid on its behalf by CMAX Technologies Inc., a company by related ownership and management control *(see note 23(c))*.

15. LEASE LIABILITIES

The Company entered into two separate occupancy leases during the year, as follows:

(a) a lease at 223 Riviera Drive, Markham, Ontario with CMAX Technologies Inc., the related company described in note 23(c) with a monthly payment of $10,000 until expiry by December 31, 2022

(b) a lease at 225 Riviera Drive, Markham, Ontario with an arm's length company with base rent ranging from $8,958 to $9,583 per month over the five year lease term ending April 30, 2025.

As result, the Company recognized lease liabilities of $785,017 measured at the present value of lease payments, discounted using the Company's borrowing rate of 10%. The associated right-of-use assets were measured at the lease liability amount *(see note 12)*. Movement in these lease liabilities consisted of the following:

	2020	2019
Lease liabilities, beginning of year	**$ -**	$ -
Lease liabilities for assets acquired under lease	**771,579**	-
Interest payable on lease liabilities	**34,840**	-
Repayments during the year	**(120,000)**	-
Lease liabilities, end of year	**686,419**	-
Less current portion	**(161,975)**	-
Long-term portion	**$ 524,444**	$ -

The following amounts were recognized in profit and loss during the year:

Interest expense on lease liabilities	**$ 34,840**	$ -
Depreciation on right-of-use assets	**108,371**	-
Expense related to short-term leases	**3,125**	-

16. TERM LOAN PAYABLE

In May, 2020, the Company received loan proceeds of $40,000 under the Government of Canada's Canada Emergency Business Account "CEBA") program. The loan has an initial term date of December 31, 2022, under which no principal or interest payments are required. If 75% of the loan is repaid prior to the initial term date, the remaining 25% will be forgiven by the lender.

If the loan is not repaid by December 31, 2022, interest only becomes payable monthly at an annual rate of 5%. The principal amount of the loan is due by December 31, 2025.

17. CONTRACT LIABILITY

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

(a) On October 3, 2017, the Company entered into an exclusive collaboration and license agreement (“the License Agreement”) with Emblem Corp. (“Emblem”), now a 100% subsidiary of Aleafia Health Inc. "(ALEF: TSX-V"). Under the License Agreement, Emblem and the Company were to collaborate on the pre-clinical formulation, clinical development, regulatory approval, manufacturing and commercialization of the Company’s patent-pending oral sustained release formulation for cannabinoids.

(b) The Company received an initial $200,000 payment upon execution of the License Agreement. This amount was initially recorded as a contract liability and was being amortized over the contract term as of the date of receipt, to a maximum of 5 years. However, on June 24, 2019, the Company gave notice of termination of the License Agreement to Emblem for reasons of non-performance and breach of contract. As a result, the Company recognized the remainder of the balance in contract liability as revenue as the initial payment is non-refundable and there are no further performance obligations to be made by the Company.

(c) In September 2018, the Company received $200,000 upon successful completion of a milestone with regards to the development of a patent-pending oral extended release formulation for cannabinoids. This milestone payment was recorded as revenue in the year ended May 31, 2019.

18. SHARE CAPITAL

Continuity schedules for each component of the Company's share capital and other equity instruments are disclosed in the consolidated statements of changes in shareholders' equity for the period the years ended May 31, 2020 and 2019. Descriptions of the changes in shareholders' equity are as follows:

(a) Authorized share capital

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

(b) Private placement during the year ended May 31, 2020

On March 12, 2020, the Company completed a private placement by issuing 7,287,000 units at a price of $0.50 for gross proceeds of $3,643,500. Each unit consisted 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 addition, the Company issued 164,000 units valued at $82,000 in exchange of services provided. The fair value of the services approximates the value of the Company's common shares on the date of issuance.

The common share purchase warrants were ascribed a value of $54,080 using the residual method of valuation for the excess of the unit price over the trading price of the common shares on the closing date. A total of 470,190 broker compensation warrants valued at $109,796 were deducted from share capital *(see note 21(c))*. Share issue costs of $272,122 were incurred related to the private placement, including commissions and legal fees.

(c) Exercise of warrants

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

(d) 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 year ended May 31, 2020 was 27,168,563 (2019 - 25,299,401).

The potentially dilutive equity instruments outstanding as at May 31, 2020 were (i) 1,495,000 stock options (2019 - 2,110,000), (ii) 2,847,500 special warrants (2019 - 1,462,500, (iii) 470,190 broker compensation warrants (2019 - 328,644), and (iv) 7,451,000 common share purchase warrants (2019 - Nil).

19. STOCK OPTIONS

On April 20, 2016, the Company's directors approved and adopted a stock option plan for directors, officers, employees and consultants. The aggregate number of shares that may be reserved for issuance under the plan cannot exceed 10% of the total outstanding shares issued.

Stock option activity during the years ended May 31, 2020 and 2019 was as follows:

	Year ended May 31, 2020		Year ended May 31, 2019	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding, beginning of year	**2,110,000**	**$ 0.48**	1,910,000	$ 0.42
Grant of options *(see note 19(a))*	**-**	**-**	100,000	1.00
Grant of options *(see note 19(b))*	**-**	**-**	100,000	1.22
Grant of options *(see note 19(c))*	**20,000**	**1.21**	-	-
Exchanged for special warrants *(see note 19(d))*	**(585,000)**	**1.00**	-	-
Expired unexercised upon holders' departure	**(50,000)**	**1.00**	-	-
Outstanding, end of year	**1,495,000**	**$ 0.25**	2,110,000	$ 0.48

As at May 31, 2020, the outstanding options to acquire common shares of the Company were as follows:

	Number of options				
Grant date	**Granted**	**Exercisable**	**Exercise price ($)**	**Remaining life**	**Expiry date**
February 21, 2017	1,480,000	1,480,000	0.25	1.7	February 21, 2022
April 18, 2018	15,000	15,000	1.00	0.9	April 18, 2021
	1,495,000	1,495,000	0.26	1.7	

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

The fair value of these options was calculated using the Black-Scholes option pricing model. Under the assumptions of: (1) risk free interest rate of 2.0%, (2) expected volatility of 132%, (3) expected life of 3.00 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.41.

19. STOCK OPTIONS, CONTINUED

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

The fair value of these options was calculated using the Black-Scholes option pricing model. Under the assumptions of: (1) risk free interest rate of 2.16%, (2) expected volatility of 123%, (3) expected life of 3.00 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.88.

(c) On 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.

(d) On March 3, 2020, the Board of Directors approved an option exchange under which 585,000 previously issued stock options were terminated in exchange for 585,000 special warrants *(see note 20(g))*. The terminated options had exercise prices ranging from $1.00 to $1.22 with expiry dates ranging from April 18, 2021 to July 31, 2022. The special warrants issued in exchange are exercisable for 5 years from date of issuance to purchase one common share at a price of $0.60.

(e) Share based compensation for the year ended May 31, 2020, from the recognized vesting of both stock options and special warrants, totalled $414,751 (2019 - $402,369) *(see notes 19 and 20)*.

20. SPECIAL WARRANTS

Special warrant activity during the years ended May 31, 2020 and 2019 was as follows:

	Year ended May 31, 2020		Year ended May 31, 2019	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding, beginning of year	**1,462,500**	**$ 0.59**	800,000	$ 0.25
Grant of special warrants *(see note 20(a))*	**-**	**-**	200,000	1.02
Grant of special warrants *(see note 20(b))*	**-**	**-**	250,000	1.02
Forfeiture of special warrants *(see note 20(b))*	**-**	**-**	(187,500)	1.02
Grant, and subsequent cancellation, of special warrants *(see note 20(c))*	**(100,000)**	**1.02**	100,000	1.02
Grant of special warrants *(see note 20(d))*	**-**	**-**	300,000	1.00
Grant of special warrants *(see note 20(e))*	**500,000**	**1.00**	-	-
Issuance of special warrants for replacement special warrants *(see note 20(f))*	**800,000**	**0.60**	-	-
Cancellation and replacement of special warrants *(see note 20(f))*	**(800,000)**	**1.00**	-	-
Issuance of special warrants to replace stock options *(see note 20(g))*	**585,000**	**0.60**	-	-
Grant of special warrants *(see note 20(h))*	**400,000**	**0.60**	-	-
Outstanding, end of year	**2,847,500**	**$ 0.54**	1,462,500	$ 0.59
Weighted-average remaining life		**3.6**		2.6

(a) On September 12, 2018, an arm's length consulting firm, Mackie Research Capital ("Mackie"), was issued 200,000 special warrants under the terms of its consulting agreement. Each special warrant entitles the holder to purchase 1 common share of the Company at $1.02 per share at any time up to 36 months from the grant date. 100,000 special warrants were to vest immediately and the balance of 100,000 special warrants were to vest if the daily volume weighted average trading price of the Issuer's common shares was greater than $1.25 for 20 consecutive trading days within six months of issuance. This condition was met during the year ended May 31, 2019.

20. SPECIAL WARRANTS, CONTINUED

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

(i) The fair value of the special warrants that vested immediately was based on a Black-Scholes valuation model. Under the assumptions of: (1) risk free interest rate of 2.16%, (2) expected volatility of 123%, (3) expected life of 3.00 years, and (4) dividend yield of 0.0%, the fair value attributed to these special warrants was $0.75

(ii) The fair value of the special warrants with the market based condition was based on a Monte Carlo valuation model. Under the assumptions of: (1) risk free interest rate of 2.16%, (2) expected volatility of 123%, (3) expected life of 3.00 years, and (4) historical stock price on valuation dates of $1.04, the fair value attributed to these special warrant was $0.46.

(b) On September 12, 2018, an arm's length consulting firm, Hybrid Financial ("Hybrid"), was issued 250,000 special warrants under the terms of its consulting agreement. Each special warrant entitles the holder to purchase 1 common share of the Company at $1.02 per share at any time up to 5 years from the grant date. The special warrants are subject to a vesting period as follows: 1/4 of the options vesting on each of December 12, 2018, March 12, 2019, June 12, 2019 and September 12, 2019.

The services were only retained for one three-month period, such that only 62,500 of the special warrants vested on December 12, 2018. The remainder of the 187,500 special warrants were effectively cancelled on termination of the consulting agreement in 2019.

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

(c) On extension of its contract on January 24, 2019, Mackie was issued a further 100,000 special warrants. The warrants will vest if, within six months of the date of their issuance, the Company's common shares have a daily volume weighted average trading price of more than $1.25 for 20 consecutive trading days. Each warrant will entitle the holder thereof to purchase one common share in the capital of the Company at an exercise price of $1.02 at any time up to 36 months from the grant date. The trading price threshold was not within six months of issuance, so the warrants have been cancelled.

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

(d) On March 28, 2019, 300,000 special warrants were granted to the Company's investor relations firm, Relations Publiques Paradox, under the terms of its consulting agreement. The special warrants are subject to a vesting period as follows: 1/4 of the options vesting on each of June 28, 2019, September 28, 2019, December 28, 2019 and March 28, 2020.

20. SPECIAL WARRANTS, CONTINUED

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

(e) On December 23, 2019, the Company granted 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.

(f) On March 3, 2020, the Company cancelled the 500,000 special warrants detailed in note 20(e) and issued 500,000 replacement special warrants. Each special warrant entitles the holder thereof to purchase one common share of the Company at a price of $0.60 per share expiring in 5 years, and 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.

On March 3, 2020, the Company also cancelled the 300,000 special warrants detailed in note 20(d) and issued 300,000 replacement special warrants. Each special warrant entitles the holder thereof to purchase one common share of the Company at a price of $0.60 per share expiring in 5 years, and vest as to 75,000 immediately and 75,000 on each the next three anniversary dates.

The fair value of these modified special warrants was calculated using the Black-Scholes option pricing model. Under the assumptions of: (1) risk free interest rate of 0.88%, (2) expected volatility of 115%, (3) expected life of 5 years, and (4) dividend yield of 0.0%, the fair value attributed to each special warrant was $0.43. The incremental value of the special warrants resulting from this modification was $87,468, and has been credited to contributed surplus with a corresponding charge to share based compensation.

(g) On March 3, 2020, the Company issued 585,000 special warrants to replace 585,000 previously issued stock options *(see note 19(d))*. Each special warrant entitles the holder thereof to purchase one common share of the Company at a price of $0.60 per share expiring in 5 years, and vest as to 435,000 immediately, 100,000 on the first anniversary of the grant, and the remainder on the second anniversary.

The fair value of these modified special warrants was calculated using the Black-Scholes option pricing model. Under the assumptions of: (1) risk free interest rate of 0.88%, (2) expected volatility of 115%, (3) expected life of 5 years, and (4) dividend yield of 0.0%, the fair value attributed to each special warrant was $0.43. The incremental value of the special warrants resulting from this modification was $130,212, and has been credited to contributed surplus with a corresponding charge to share based compensation.

20. SPECIAL WARRANTS, CONTINUED

(h) On March 3, 2020, the Company granted 400,000 special warrants to employees and external consultants. Each special warrant entitles the holder thereof to purchase one common share of the Company at a price of $0.60 per share expiring in 5 years, and vest as to 100,000 immediately and 100,000 on each the next three anniversary dates.

The fair value of these replacement special warrants was calculated using the Black-Scholes option pricing model. Under the assumptions of: (1) risk free interest rate of 0.88%, (2) expected volatility of 115%, (3) expected life of 5 years, and (4) dividend yield of 0.0%, the fair value attributed to each special warrant was $0.88.

21. BROKER COMPENSATION WARRANTS

Broker compensation warrant activity during the years ended May 31, 2020 and 2019 was as follows:

	Year ended May 31, 2020		Year ended May 31, 2019	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding, beginning of year	**328,644**	**$ 1.00**	671,544	$ 0.64
Exercised in September, 2018 *(see note 21(a))*	**-**	**-**	(21,900)	1.00
Expired unexercised in February, 2019 *(see note 21(b))*	**-**	**-**	(321,000)	0.25
Issuance of broker compensation warrants in February, 2020 and March, 2020 *(see note 21(c))*	**470,190**	**0.57**	-	-
Expired unexercised in April, 2020 *(see note 21(d))*	**(328,644)**	**1.00**	-	-
Outstanding, end of year	**470,190**	**$ 0.57**	328,644	$ 1.00
Weighted-average remaining life		**1.8**		0.9

(a) In September, 2018, 21,900 broker compensation warrants were exercised for cash proceeds of $21,900, resulting in the issuance of 21,900 common shares *(see note 18(c))*.

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

21. BROKER COMPENSATION WARRANTS, CONTINUED

(c) On the closing of the private placement in March, 2020, the Company issued 470,190 broker compensation warrants that expire in 2 years and vested fully on issuance. Of these warrants, 140,000 are exercisable at $0.75 each, and 337,190 are exercisable at $0.50 each. The fair value of the broker compensation warrants issued was $109,796, which was deducted from share capital and credited to contributed surplus. It was calculated with the Black-Scholes option pricing model using the assumptions of (1) risk-free interest rate of 1.14%, (2) expected volatility of 100%, (3) expected life of 2 years, and (4) dividend yield of 0.0%.

(d) In April, 2020, 328,644 broker compensation warrants that were issued in April, 2018 expired unexercised.

22. INCOME TAXES

(a) Income tax rate reconciliation

The reconciliation of the combined Canadian federal and provincial statutory income tax rates on the net loss for the years ended May 31, 2020 and 2019 is as follows:

	2020	2019
Net loss before recovery of income taxes	**$ (2,607,244)**	$ (2,458,578)
Statutory tax rates	**26.50%**	26.50%
Expected income tax recovery	**(690,920)**	(651,523)
Decrease (increase) resulting from:		
Share compensation and non-deductible expenses	**111,719**	111,491
Other adjustments	**(63,594)**	13,907
Change in unrecognized deferred tax assets	**642,795**	526,125
Income tax expense	**$ -**	$ -

(b) Deferred tax

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

	2020	2019
Plant and equipment	**16,897**	-
Non-capital losses	**6,540,723**	4,157,885
Share issue costs	**540,028**	434,915
Contract liability	**-**	133,333
Other	**34,525**	-

22. INCOME TAXES, CONTINUED

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

2036	$ 411,311
2037	1,248,959
2038	326,510
2039	1,999,290
2040	2,554,653
	$ 6,540,723

23. RELATED PARTY TRANSACTIONS

During the years ended May 31, 2020 and 2019, the Company had the following related party transactions, including (i) compensation of key management personnel and directors, and (ii) transactions with entities related to or controlled by directors, as follows:

(a) Under the terms of a consulting contract effective January, 2017, fees of $120,000 were recorded during the year ended May 31, 2020 (2019 - $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 Company recognized car allowances credited to this individual of $9,600 during the year ended May 31, 2020 (2019 - $18,400).

(b) Under the terms of a consulting contract effective January, 2017, fees of $92,500 were recorded during the year ended May 31, 2020 (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. Salary paid to this individual during the year ended May 31, 2020 totalled $62,500 (2019 - $122,500).

The Company recognized car allowances credited to this individual of $10,216 during the year ended May 31, 2020 (2019 - $18,400).

(c) The Company is related to CMAX Technologies Inc. by virtue of common control. The Company entered into a lease renewal agreement with CMAX as detailed in note 15. During the year ended May 31, 2020, the Company made payments of $120,000 which were applied against the operating lease now capitalized under IFRS 16 *(see note 15)*. During the year ended May 31, 2019, rent of $120,000 was paid to CMAX.

(d) Legal fees recorded during the year ended May 31, 2020 from law firms of which a director is a partner totalled $76,002 (2019 - $87,134).

23. RELATED PARTY TRANSACTIONS, CONTINUED

(e) During the year ended May 31, 2020, an entity that is a related party to an officer and director received financing compensation from the Company in connection with the private placement that closed in March, 2020 *(see note 18(b))* as follows: 153,222 broker compensation warrants were granted, for which the fair value was $38,045. Total cash payments of $80,111 were also made with respect to commissions.

(f) Included in the private placement that closed in March, 2020 *(see note 18(b))* are subscriptions from related parties for 610,000 units at $0.50 per unit for cash proceeds of $305,000.

(g) Accounts payable and accrued liabilities as at May 31, 2020 includes $84,490 (2019 - $32,856) with respect to balances owing to related parties for the transactions disclosed above.

24. FINANCIAL INSTRUMENTS AND RISK FACTORS

Fair value of financial instruments

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

(a) Classification of financial instruments

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

			May 31, 2020		**May 31, 2019**	
Assets/liabilities	**Category**	**Measurement**	**Carrying amount $**	**Fair value $**	**Carrying amount $**	**Fair value $**
Cash and cash equivalents	FVTPL	Amortized cost	**2,090,438**	**2,090,438**	413,978	413,978
Short term investment	FVTPL	Amortized cost	**-**	**-**	1,175,000	1,175,000
Accounts receivable	Loans and receivables	Amortized cost	**161,339**	**161,339**	239,762	239,762
Advance to supplier	Loans and receivables	Amortized cost	**166,667**	**166,667**	166,667	166,667
Accounts payable and accrued liabilities	Financial liabilities	Amortized cost	**1,253,953**	**1,253,953**	192,294	192,294
Term loan payable	Financial liabilities	Amortized cost	**40,000**	**40,000**	-	-

24. Financial Instruments And Risk Factors, continued

(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) the advance to a supplier is minimal as the amount is secured and is expected to offset against future purchases of hemp.

Cash and cash equivalents consists of bank deposits and unrestricted funds held in the Company lawyer's trust account. The short term investment is a guaranteed investment certificate cashable at any time in whole or in part with no penalty. All of the above have been invested with a Canadian chartered bank, from which management believes the risk of loss to be remote. The Company has no material concentration of credit risk arising from operations.

(c) Liquidity risk

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 a private placement in March, 2020 for net proceeds of $3,371,378 *(see note 18(b))* to continue its strategy of expanding its manufacturing facilities, its research and development and geographic coverage. As at May 31, 2020, the Company had working capital of $2,069,009 (2019 - $1,671,880), and therefore believes its exposure to liquidity risk is limited.

The following table outlines the Company's contractual undiscounted obligations. The Company analyzes contractual obligations for financial liabilities in conjunction with other commitments in managing liquidity risk. Contractual obligations include accounts payable and accrued liabilities, term loan payable and lease liabilities.

	<1 year	2 years	3-4 years	5 years	Total
Accounts payable and accrued liabilities	1,253,953	-	-	-	1,253,953
Term loan payable	-	-	40,000	-	40,000
Lease liabilities	209,583	227,500	293,125	105,417	835,625
Total contractual obligations	1,463,536	227,500	333,125	105,417	2,129,578

24. Financial Instruments And Risk Factors, continued

(d) Market risk

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

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

(ii) Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risks. Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. As the Company's investments are short-term in nature, interest rate risk is remote.

25. Capital Disclosures

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The Company includes equity, comprised of share capital, contributed surplus and accumulated deficit, in its definition of capital.

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

The Company is not subject to externally imposed capital requirements and its overall strategy with respect to capital risk management remains unchanged from the year ended May 31, 2019.

26. Commitments and contingencies

(a) Commitments

As at May 31, 2020, the Company had the following non-cancellable purchase commitments, all due within 1 year

	<1 year	2 years	Total
Marketing/branding project and related website development	282,590	-	282,590
Software licensing	60,400	10,067	70,467
Total purchase commitments	342,990	10,067	353,057

(b) Contingencies

The Company is involved in potential litigation matters arising out of the ordinary course and conduct of its business. The likelihood of contingent liabilities arising from these matters is not determinable and related potential losses cannot be reasonably estimated. No loss provision has been recorded as a result.

27. SUBSEQUENT EVENTS

(a) In August, 2020, the Company agreed to a binding asset purchase agreement to acquire certain cannabis-processing equipment and leasehold improvements located at its 223 Riviera Drive, Markham, Ontario facility from CMAX Technologies Inc. ("CMAX"), a related party to the Company, for a purchase price of $1,018,000. The purchase price was based upon third-party valuations, and will be satisfied through the issuance of 1,996,078 common shares of the Company at a deemed price of $0.51 per share. On July 15, 2020, 200,000 common shares were issued to CMAX as a deposit on this transaction.

The CMAX purchase is considered a related party transaction as three of the Company's four directors also officers, directors and/or shareholders of CMAX. The CMAX purchase has been approved by the independent director of the Company. The closing of the acquisition is subject to customary closing conditions contained in transactions of this nature, and is dependent upon approval by CMAX shareholders.

(b) In August, 2020, the Company entered into a binding asset purchase agreement with Pharmagenerics Solutions Inc. ("Phama") to purchase cannabis-processing equipment owned by Pharma for a purchase price of $300,000. The purchase price of the Pharma assets will be satisfied through the issuance of 588,235 common shares of the Company at a deemed price of $0.51 per share.

The Pharma purchase is considered a related party transaction as the sole officer, director and shareholder of Pharma is the Chief Scientific Officer of the Company. The closing of the acquisition is subject to customary closing conditions contained in transactions of this nature.

(c) On September 21, 2020, the Company announced that, pursuant to a filing made in March 2017, the U.S. Patent and Trademark Office has issued U.S. Patent No. 10,772,837 to Canntab, titled "Modified Release Multi-Layer Tablet Cannabinoid Formulations. The term of the patent expires on March 15, 2038. This is the first patent that has been issued out of the 13 that the Company has applied for. The patent granted is for Canntab's bi-layer or multi- layer tablets consisting of both Instant Release ("IR") and Extended Release ("XR") formulations with THC, CBD and a variety of terpenes and other cannabinoids found in full spectrum cannabis and hemp oil resin.

(d) On July 13, 2020, the Company granted 275,000 options to employees and a director Each option entitles the holder thereof to purchase one common share of the Company at a price of $0.80 per share expiring in 2 years, and vest immediately.

(e) On July 15, 2020, 109,523 shares were issued on the exercise of brokers compensation warrants initially issued as part of the private placement that closed in March, 2020 *(see note 21(c))*.