



CANNTAB THERAPEUTICS LIMITED
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2020 AND 2019
(Stated in \$CAD)

(Unaudited - Prepared by Management)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

CANNTAB THERAPEUTICS LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT AUGUST 31, 2020 AND MAY 31, 2020

(Stated in \$CAD)

(Unaudited - Prepared by Management)

| | <u>August 31</u> <u>2020</u> | <u>May 31</u> <u>2020</u> |
|---------------------------------------------------|---------------------------------|------------------------------|
| ASSETS | | |
| Current: | | |
| Cash and cash equivalents (Note 5) | \$ 1,058,809 | \$ 2,090,438 |
| Accounts receivable (Note 6) | 225,479 | 161,339 |
| Inventories (Note 7) | 1,281,247 | 905,765 |
| Prepaid expenses and deposits (Note 8) | 239,226 | 160,728 |
| Advance to supplier | 166,667 | 166,667 |
| | <u>2,971,428</u> | <u>3,484,937</u> |
| Long term: | | |
| Plant and equipment | 1,104,514 | 1,095,820 |
| Right-of-use assets | 630,217 | 676,646 |
| Intangible assets | 261,789 | 251,711 |
| | <u>\$ 4,967,948</u> | <u>\$ 5,509,114</u> |
| LIABILITIES | | |
| Current: | | |
| Accounts payable and accrued liabilities (Note 9) | \$ 1,195,225 | \$ 1,253,953 |
| Current portion of lease liabilities | 170,650 | 161,975 |
| | <u>1,365,875</u> | <u>1,415,928</u> |
| Long term: | | |
| Lease liabilities | 493,612 | 524,444 |
| Term loan payable | 40,000 | 40,000 |
| | <u>1,899,487</u> | <u>1,980,372</u> |
| SHAREHOLDERS' EQUITY | | |
| Common shares (Note 10) | 10,011,370 | 9,843,783 |
| Contributed surplus | 2,548,570 | 2,275,446 |
| Accumulated deficit | (9,491,479) | (8,590,487) |
| | <u>3,068,461</u> | <u>3,528,742</u> |
| | <u>\$ 4,967,948</u> | <u>\$ 5,509,114</u> |

Going concern (Note 2(c))

Subsequent events (Note 13)

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 MONTHS ENDED AUGUST 31, 2020 AND 2019
(Stated in \$CAD)
(Unaudited - Prepared by Management)

| | <u>2020</u> | <u>2019</u> |
|-------------------------------------------------------------|----------------------------|----------------------------|
| Revenue | | |
| License fees | \$ - | \$ 133,334 |
| Expenses | | |
| Consulting fees | 207,597 | 115,521 |
| Employee compensation and benefits | 162,200 | 203,076 |
| Professional fees | 58,069 | 46,893 |
| General and administrative | 46,822 | 77,364 |
| Marketing and regulatory expenses | 45,863 | 25,697 |
| Research and development | 12,996 | 31,453 |
| Share based compensation | 283,950 | 24,673 |
| Depreciation of plant and equipment and right-of-use assets | 78,433 | 48,309 |
| Amortization of intangible assets | 8,138 | 4,179 |
| | <u>904,068</u> | <u>577,165</u> |
| Loss from operations | (904,068) | (443,831) |
| Other income | | |
| Interest income | 3,076 | 3,954 |
| Net loss and comprehensive loss | <u>\$ (900,992)</u> | <u>\$ (439,877)</u> |
| Basic and diluted loss per share (Note 10(e)) | <u>\$ (0.03)</u> | <u>\$ (0.02)</u> |

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, 2019 TO AUGUST 31, 2020
(Stated in \$CAD)
(Unaudited - Prepared by Management)

| | <u>Note</u> | <u>Common shares</u> <u>Number</u> | <u>Amount</u> | <u>Contributed</u> <u>surplus</u> | <u>Accumulated</u> <u>deficit</u> | <u>Total</u> |
|--------------------------------------------|-------------|---------------------------------------|----------------------|--------------------------------------|--------------------------------------|---------------------|
| 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 | | - | - | - | (439,877) | (439,877) |
| Share based compensation | | - | - | 24,673 | - | 24,673 |
| As at August 31, 2019 | | 25,306,601 | 6,554,281 | 1,721,492 | (6,423,120) | 1,852,653 |
| Net loss and comprehensive loss | | - | - | - | (2,167,367) | (2,167,367) |
| Share based compensation | | - | - | 390,078 | - | 390,078 |
| Private placement | | 7,287,000 | 3,589,420 | 54,080 | - | 3,643,500 |
| Shares issued in exchange for services | | 164,000 | 82,000 | - | - | 82,000 |
| Share issue costs | | - | (272,122) | - | - | (272,122) |
| Broker warrants | | - | (109,796) | 109,796 | - | - |
| As at May 31, 2020 | | 32,757,601 | 9,843,783 | 2,275,446 | (8,590,487) | 3,528,742 |
| Net loss and comprehensive loss | | - | - | - | (900,992) | (900,992) |
| Share based compensation | | - | - | 283,950 | - | 283,950 |
| Exercise of broker warrants | 10(a) | 109,523 | 65,587 | (10,826) | - | 54,761 |
| Deposit on purchase of equipment from CMAX | 10(c) | 200,000 | 102,000 | - | - | 102,000 |
| As at August 31, 2020 | | 33,067,124 | \$ 10,011,370 | \$ 2,548,570 | \$ (9,491,479) | \$ 3,068,461 |

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
THREE MONTHS ENDED AUGUST 31, 2020 AND 2019
(Stated in \$CAD)
(Unaudited - Prepared by Management)

| | 2020 | 2019 |
|-------------------------------------------------------------|---------------------|---------------------|
| Operating activities | | |
| Net loss and comprehensive loss | \$ (900,992) | \$ (439,877) |
| Add (deduct) items not affecting cash: | | |
| Share based compensation | 283,950 | 24,673 |
| Depreciation of plant and equipment and right-of-use assets | 78,433 | 48,309 |
| Amortization of contract liability | - | (133,334) |
| Amortization of intangible assets | 8,138 | 4,179 |
| | (530,471) | (496,050) |
| Change in non-cash working capital items | | |
| Accounts receivable | (64,140) | (82,524) |
| Inventories | (330,887) | - |
| Prepaid expenses and deposits | 23,502 | 31,144 |
| Accounts payable and accrued liabilities | (68,728) | 124,714 |
| | (970,724) | (422,716) |
| Investing activities | | |
| Purchase of intangible assets | (18,216) | (27,463) |
| Purchase of plant and equipment | (85,293) | (504,887) |
| Short term investment | - | 1,000,000 |
| | (103,509) | 467,650 |
| Financing activities | | |
| Proceeds on exercise of broker compensation warrants | 54,761 | - |
| Repayment of lease liabilities | (12,157) | (21,348) |
| | 42,604 | (21,348) |
| Change in cash and cash equivalents | (1,031,629) | 23,586 |
| Cash and cash equivalents, beginning of period | 2,090,438 | 413,978 |
| Cash and cash equivalents, end of period | \$ 1,058,809 | \$ 437,564 |
| Non-cash transaction: | | |
| Shares issued as deposit on CMAX asset purchase (Note 8(a)) | \$ 102,000 | \$ - |

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

CANNTAB THERAPEUTICS LIMITED
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2020 AND 2019
(Stated in \$CAD)
(Unaudited - Prepared by Management)

1. NATURE OF OPERATIONS

(a) Nature of operations

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

CANNTAB THERAPEUTICS LIMITED
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2020 AND 2019
(Stated in \$CAD)
(Unaudited - Prepared by Management)

1. NATURE OF OPERATIONS, CONTINUED

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 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, 2020 which were prepared in accordance with IFRS as issued by the IASB.

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 October 30, 2020.

(b) Basis of presentation

The unaudited interim condensed consolidated financial statements are prepared on a going concern basis under the historical cost convention. 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.

CANNTAB THERAPEUTICS LIMITED
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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2. BASIS OF PRESENTATION, CONTINUED

(c) Going concern

These unaudited interim condensed 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 unaudited interim condensed 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 unaudited interim condensed consolidated financial statements. Such adjustments could be material.

As at August 31, 2020, the Company had no source of operating cash flow and had an accumulated deficit of \$9,491,479 (May 31, 2020 - \$8,590,487). Working capital as at August 31, 2020 was \$1,605,553 compared to \$2,069,009 as at May 31, 2020. Net loss and comprehensive loss for the three month period ended August 31, 2020 was \$900,992 (2019 - \$439,877), and the Company has no current sources of operating cash flow. Other than some initial licensing fees received, 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. These funds have been used to build out the legal and operating infrastructure, the intellectual property portfolio and to obtain the production and sales licences necessary to capitalize on the opportunities within the cannabis marketplace in Canada and internationally.

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.

CANNTAB THERAPEUTICS LIMITED
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2020 AND 2019
(Stated in \$CAD)
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3. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

(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 contributes to the ability to create outputs. The amendment is effective for annual periods beginning on or after January 1, 2020. The adoption of this amendment did not have a significant impact on the unaudited interim condensed consolidated financial statements.

(b) IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"

These standards have been amended to use a consistent definition of materiality throughout all accounting standards, clarify the explanation of the definition of material and incorporate some of the guidance in IAS 1 about immaterial information. The amendments are effective for annual periods beginning on or after January 1, 2020. The adoption of these amendments did not have a significant impact on the unaudited interim condensed consolidated financial statements.

4. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

(a) IFRS 16, "Leases"

This standard has been amended to provide lessees with an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. This amendment is effective for annual periods beginning on or after June 1, 2020. At this time, the Company has not received rent concessions related to COVID-19 and therefore, this amendment is not expected to have a significant impact on the unaudited interim condensed consolidated financial statements.

(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 1, 2022. The Company has not yet assessed the impact of the amendments on the unaudited interim condensed consolidated financial statements.

CANNTAB THERAPEUTICS LIMITED
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Stated in \$CAD)

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4. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS, continued

(c) IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"

This standard has been amended to clarify the classification of liabilities as current or non-current. This amendment is effective for annual periods beginning on or after January 1, 2022. The Company has not yet assessed the impact of the amendment on the unaudited interim condensed consolidated financial statements.

(d) IAS 37 "Provisions"

This standard has been amended to clarify that, before a separate provision for an onerous contract is established, an entity recognizes an impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract and to clarify the meaning of costs to fulfil a contract. The amendments are effective for annual periods beginning on or after January 1, 2022. The Company has not yet assessed the impact of the amendments on the unaudited interim condensed consolidated financial statements.

(e) IFRS 9 "Financial Instruments"

This standard has been amended to address which fees should be included in the 10% test for derecognition of financial liabilities. This amendment is effective for annual periods beginning on or after January 1, 2022. The Company has not yet assessed the impact of the amendment on the unaudited interim condensed consolidated financial statements.

5. CASH AND CASH EQUIVALENTS

| | August 31 | May 31 |
|----------------------------------------|----------------------------|---------------------|
| | 2020 | 2020 |
| Cash | \$ 531,483 | \$ 563,112 |
| Guaranteed investment certificates | 500,000 | 1,500,000 |
| Cash in Company lawyer's trust account | 27,326 | 27,326 |
| | <u>\$ 1,058,809</u> | <u>\$ 2,090,438</u> |

The cash in the Company lawyer's trust account is unrestricted. The balance as at August 31, 2020 represents proceeds received under a private placement that closed in March, 2020.

CANNTAB THERAPEUTICS LIMITED
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2020 AND 2019
(Stated in \$CAD)
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6. ACCOUNTS RECEIVABLE

| | August 31 | May 31 |
|-------------------------------|-------------------|-------------------|
| | 2020 | 2020 |
| HST ITC's recoverable | \$ 183,538 | \$ 123,134 |
| Accrued interest receivable | 1,497 | 1,497 |
| Non-trade accounts receivable | 40,444 | 36,708 |
| | \$ 225,479 | \$ 161,339 |

7. INVENTORY

| | August 31 | May 31 |
|----------------------------|---------------------|-------------------|
| | 2021 | 2020 |
| Work-in-progress | \$ 553,972 | \$ - |
| Cannabis oil raw materials | 694,501 | 797,170 |
| Non-cannabis raw materials | 32,774 | 108,595 |
| | \$ 1,281,247 | \$ 905,765 |

The Company started commercial production during the current quarter, but has not yet made any commercial sales as of August 31, 2020. Inventory has been valued as follows:

- (a) raw materials: initial cost on acquisition
- (b) work in progress: raw material cost plus capitalized costs such as direct labor and production overhead. Production overhead includes depreciation of production equipment, maintenance of production buildings and equipment and production management. Total costs capitalized to inventory in the period totalled \$120,815, including \$51,030 of direct labor and \$44,595 of depreciation.

8. ASSET PURCHASE AGREEMENTS

In August, 2020, the Company entered into binding asset purchase agreements to acquire certain cannabis-processing equipment and leasehold improvements as detailed below:

(a) CMAX asset purchase

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 August 19, 2020, 200,000 common shares were issued to CMAX as a deposit on this transaction (*see note 10(c)*), and have been included in prepaid expenses and deposits.

CANNTAB THERAPEUTICS LIMITED
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2020 AND 2019

(Stated in \$CAD)

(Unaudited - Prepared by Management)

8. ASSET PURCHASE AGREEMENTS, CONTINUED

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 occurred on October 19, 2020 through the issuance of a further 1,796,078 common shares of the Company.

(b) Pharmagenetics asset purchase

In August, 2020, the Company entered into a binding asset purchase agreement with Pharmagenetics Solutions Inc. ("Pharma") 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 occurred on October 19, 2020 through the issuance of 300,000 common shares of the Company.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | August 31 2020 | May 31 2020 |
|------------------------------------|---------------------------|------------------------|
| Trade accounts payable | \$ 821,826 | \$ 942,434 |
| Accrued liabilities | 307,970 | 256,090 |
| Accounts payable - related company | 65,429 | 55,429 |
| | \$ 1,195,225 | \$ 1,253,953 |

Certain operating costs of the Company were paid on its behalf by CMAX Technologies Inc., a company related by common ownership and management (*see note 11(c)*).

10. SHARE CAPITAL

Continuity schedules for each component of the Company's share capital and other equity instruments are disclosed in the unaudited interim condensed consolidated statements of changes in shareholders' equity for the period from June 1, 2019 to August 31, 2020. Descriptions of the changes in shareholders' equity are as follows:

(a) Exercise of broker compensation warrants

In July, 2020, 109,523 broker compensation warrants were exercised for cash proceeds of \$54,761, resulting in the issuance of 109,523 common shares.

CANNTAB THERAPEUTICS LIMITED
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Stated in \$CAD)

(Unaudited - Prepared by Management)

10 SHARE CAPITAL, CONTINUED

(b) Stock options

- (i) On June 8, 2020, the Company granted 150,000 options to certain employees and consultants. Each option entitles the holder thereof to purchase one common share of the Company at a price of \$1.00 per share expiring in 2 years and vested immediately.

The fair value of these stock options was calculated using the Black-Scholes option pricing model. Under the assumptions of: (1) risk free interest rate of 0.32%, (2) expected volatility of 116%, (3) expected life of 2 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was \$0.58.

- (ii) On July 13, 2020, the Company granted 275,000 options to certain 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 vested immediately.

The fair value of these stock options was calculated using the Black-Scholes option pricing model. Under the assumptions of: (1) risk free interest rate of 0.28%, (2) expected volatility of 117%, (3) expected life of 2 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was \$0.45.

(c) CMAX asset purchase

On August 19, 2020, 200,000 common shares were issued to CMAX at a deemed price of \$0.51 per share as a deposit on the asset purchase as described in note 8(a).

(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 three month period ended August 31, 2020 was 32,838,450 (2019 - 25,306,601).

(e) Share based compensation

Total share based compensation of \$283,950 was recognized during the three month period ended August 31, 2020 (August 31, 2019 - \$24,673) based on currently issued and previously granted options and special warrants expected to vest in the reporting period.

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11. RELATED PARTY TRANSACTIONS

During the three month periods ended August 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 \$30,000 were recorded during the three month period ended August 31, 2020 (2019 - \$30,000) 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 a car allowance credited to this individual of \$2,400 during the three month period ended August 31, 2020 (2019 - \$2,400).

- (b) Under the terms of a consulting contract effective January, 2017, fees of \$37,500 were recorded during the three month period ended August 31, 2020 (2019 - \$Nil) 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 three month period ended August 31, 2020 totalled \$Nil (2019 - \$37,500).

The Company recognized a car allowance credited to this individual of \$2,400 during the three month period ended August 31, 2020 (2019 - \$2,400).

- (c) The Company is related to CMAX Technologies Inc. by virtue of common ownership and management. The Company entered into a lease renewal agreement with CMAX in fiscal 2020 under which it is obligated to make monthly rental payments of \$10,000 until expiry on December 31, 2022. During the three month period ended August 31, 2020, the Company made payments of \$30,000 (2019 - \$30,000) which were applied against the operating lease now capitalized under IFRS 16.

- (d) For the three month period ended August 31, 2020, compensation to other officers and directors, other than separately disclosed above, includes:
- share based compensation of \$44,980 (2019 - \$Nil)
 - consulting fees and salary of \$71,500 (2019 - \$Nil)

- (e) Accounts payable and accrued liabilities as at August 31, 2020 includes \$118,526 (May 31, 2020 - \$106,490) with respect to balances owing to related parties for the transactions disclosed above.

12. 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.

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12. FINANCIAL INSTRUMENTS AND RISK FACTORS, continued

(a) Classification of financial instruments

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

| Assets/liabilities | Category | Measurement | August 31, 2020 | | May 31, 2020 | |
|------------------------------------------|-----------------------|----------------|-----------------|------------|-----------------|------------|
| | | | Carrying amount | Fair value | Carrying amount | Fair value |
| | | | \$ | \$ | \$ | \$ |
| Cash and cash equivalents | FVTPL | Amortized cost | 1,058,809 | 1,058,809 | 2,090,438 | 2,090,438 |
| Accounts receivable | Loans and receivables | Amortized cost | 225,479 | 225,479 | 161,339 | 161,339 |
| 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 | 1,195,225 | 1,195,225 | 1,253,953 | 1,253,953 |
| Term loan payable | Financial liabilities | Amortized cost | 40,000 | 40,000 | 40,000 | 40,000 |

(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, guaranteed investment certificates and unrestricted funds held in the Company lawyer's trust account. 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 \$3,643,500 to continue its strategy of expanding its manufacturing facilities, its research and development and geographic coverage. As at August 31, 2020, the Company had working capital of \$1,605,553 (May 31, 2020 - \$2,069,009), and therefore believes its exposure to liquidity risk is limited.

CANNTAB THERAPEUTICS LIMITED
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2020 AND 2019
(Stated in \$CAD)
(Unaudited - Prepared by Management)

13. SUBSEQUENT EVENTS

- (a) 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.
- (b) On October 19, 2020, the Company closed the two asset purchases as disclosed in note 8 through the issuance of 2,096,078 common shares of the Company.
- (c) On October 26, 2020, the Company announced the impending launch of its suite of hard pill cannabinoid formulations in Australia with its partner CANN Global Ltd. (ASX: CGB) ("CANN Global") and participation in Australia's largest cannabis research study.

CANN Global, through its management partnership with Medcan Australia Pty Ltd ("Medcan Australia"), received an import permit and have placed an initial order for Canntab's products. Canntab will immediately apply for an export permit with Health Canada, which will allow it to fulfill this purchase order. The Company intends to ship its suite of patented and patent pending products, including THC, CBD and THC/CBD combination hard pill formulations to CANN Global before the end of calendar 2020.

Applied Cannabis Research ("ACR"), a leading Australian contract research organization focused exclusively on medical cannabis treatments, has launched Australia's largest observational study ever undertaken for medical cannabis. Canntab, through the products it supplies to CANN Global Ltd., which is a direct participant in the study, will be participating in this clinical collaboration with major Australian clinics and hospitals to complete the Cannabinoid Medicine Observational Study ("CMOS") that will collect data from 20,000 patients nationwide over 5 years. CMOS aims to assess the safety and efficacy of medicinal cannabis products for a range of refractory conditions including fibromyalgia, chronic pain syndromes, PTSD, epilepsy and other mental health and neurological conditions using cannabis, including Canntab's Hard Pill Cannabinoid Formulations.