CANNTAB THERAPEUTICS LIMITED

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND SIX MONTHS ENDED NOVEMBER 30, 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 NOVEMBER 30, 2020 AND MAY 31, 2020

(Stated in $CAD)

(Unaudited - Prepared by Management)

	November 30 2020	May 31 2020
ASSETS		
Current:		
Cash and cash equivalents (Note 5)	**$ 397,536**	$ 2,090,438
Accounts receivable (Note 6)	**587,030**	161,339
Inventories (Note 7)	**1,150,985**	905,765
Prepaid expenses and deposits	**67,079**	160,728
Advance to supplier	**166,667**	166,667
	2,369,297	3,484,937
Long term:		
Plant and equipment (Note 9)	**2,386,983**	1,095,820
Right-of-use assets	**583,789**	676,646
Intangible assets	**290,333**	251,711
	$ 5,630,402	$ 5,509,114
LIABILITIES		
Current:		
Accounts payable and accrued liabilities (Note 10)	**$ 1,220,207**	$ 1,253,953
Current portion of lease liabilities	**174,952**	161,975
	1,395,159	1,415,928
Long term:		
Lease liabilities	**448,227**	524,444
Term loan payable	**40,000**	40,000
	1,883,386	1,980,372
SHAREHOLDERS' EQUITY		
Common shares (Note 11)	**11,244,999**	9,843,783
Contributed surplus	**2,603,265**	2,275,446
Accumulated deficit	**(10,101,248)**	(8,590,487)
	3,747,016	3,528,742
	$ 5,630,402	$ 5,509,114

Going concern (Note 2(f))

Subsequent events (Note 14)

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

Approved on behalf of the Board:

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

CANNTAB THERAPEUTICS LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
THREE AND SIX MONTHS ENDED NOVEMBER 30, 2020 AND 2019

(Stated in $CAD)

(Unaudited - Prepared by Management)

	Three months ended November 30 2020	**Six months ended November 30 2020**	Three months ended November 30 219	Six months ended November 30 2019
Revenue				
Tablet sales	**$ 378,000**	**$ 378,000**	$ -	$ -
License fees	**-**	-	-	133,334
	378,000	**378,000**	-	133,334
Cost of sales				
Change in fair value of inventory sold	**286,356**	**286,356**	-	-
Gross profit	**91,644**	**91,644**	-	133,334
Expenses				
Employee compensation and benefits	**209,679**	**371,879**	191,833	394,909
Consulting fees	**129,579**	**337,176**	132,807	248,329
Professional fees	**59,904**	**117,973**	58,729	105,617
General and administrative	**53,002**	**96,745**	75,180	148,595
Marketing and regulatory expenses	**38,531**	**84,394**	19,379	45,076
Research and development	**54,215**	**69,513**	41,032	72,486
Share based compensation	**72,324**	**356,274**	49,346	74,019
Depreciation of plant and equipment and right-of-use assets	**77,064**	**153,197**	50,712	99,021
Amortization of intangible assets	**7,115**	**15,254**	4,084	8,262
	701,413	**1,602,405**	623,102	1,196,314
Net loss and comprehensive loss	**$ (609,769)**	**$ (1,510,761)**	$ (623,102)	$ (1,062,980)
Basic and diluted loss per share (Note 11(d))	**$ (0.02)**	**$ (0.05)**	$ (0.02)	$ (0.04)

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 NOVEMBER 30, 2020
(Stated in $CAD)
(Unaudited - Prepared by Management)

	Note	Common shares Number	Common shares Amount	Contributed surplus	Accumulated deficit	Total
As at May 31, 2019		**25,306,601**	**$ 6,554,281**	**$ 1,696,819**	**$ (5,983,243)**	**$ 2,267,857**
Net loss and comprehensive loss		-	-	-	(1,062,980)	(1,062,980)
Share based compensation	**11(e)**	-	-	74,019	-	74,019
As at November 30, 2019		**25,306,601**	**6,554,281**	**1,770,838**	**(7,046,223)**	**1,278,896**
Net loss and comprehensive loss		-	-	-	(1,544,264)	(1,544,264)
Share based compensation		-	-	340,732	-	340,732
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 30, 2020		**32,757,601**	**9,843,783**	**2,275,446**	**(8,590,487)**	**3,528,742**
Net loss and comprehensive loss		-	-	-	(1,510,761)	(1,510,761)
Share based compensation	**11(e)**	-	-	356,274	-	356,274
Exercise of broker warrants	**11(a)**	109,523	83,216	(28,455)	-	54,761
Shares issued on purchase of equipment from CMAX Technologies	**11(c)**	1,996,078	1,018,000	-	-	1,018,000
Shares issued on purchase of equipment from Pharmageneric Solutions	**11(c)**	588,235	300,000	-	-	300,000
As at November 30, 2020		**35,451,437**	**$ 11,244,999**	**$ 2,603,265**	**$ (10,101,248)**	**$ 3,747,016**

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
SIX MONTHS ENDED NOVEMBER 30, 2020 AND 2019

(Stated in $CAD)

(Unaudited - Prepared by Management)

	2020	2019
Operating activities		
Net loss and comprehensive loss	$ (1,510,761)	$ (1,062,980)
Add (deduct) items not affecting cash:		
Share based compensation	356,274	74,019
Depreciation of plant and equipment and right-of-use assets	153,197	99,021
Amortization of contract liability	-	(133,334)
Amortization of intangible assets	15,254	8,262
	(986,036)	(1,015,012)
Change in non-cash working capital items		
Accounts receivable	(425,691)	175,815
Inventories	(149,743)	-
Prepaid expenses and deposits	83,649	26,668
Accounts payable and accrued liabilities	(33,748)	142,764
	(1,511,569)	(669,765)
Investing activities		
Purchase of intangible assets	(53,875)	(79,029)
Purchase of plant and equipment	(128,979)	(614,106)
Short term investment	-	1,175,000
	(182,854)	481,865
Financing activities		
Proceeds on exercise of broker compensation warrants	54,761	-
Repayment of lease liabilities	(53,240)	(43,234)
	1,521	(43,234)
Change in cash and cash equivalents	(1,692,902)	(231,134)
Cash and cash equivalents, beginning of period	2,090,438	413,978
Cash and cash equivalents, end of period	$ 397,536	$ 182,844
Non-cash transactions:		
Shares issued on asset purchase from CMAX Technologies (Note 8(a)	$ 1,018,000	$ -
Shares issued on asset purchase from Pharmageneric Solutions (Note 8(b))	300,000	-
Depreciation capitalized into inventory	95,477	-
Prepaid rent deposit applied against lease liability	10,000	-
	$ 1,423,477	$ -

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

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.

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, except as detailed below, that were described in note 3 to the Company's annual consolidated financial statements for the year ended May 30, 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 January 29, 2021.

(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.

(c) Revenue

The Company generates revenue primarily from the sale of tablets of hard pill cannabinoid formulations. The Company uses the following five-step contract-based analysis of transactions to determine if, when and how much revenue can be recognized:

(i) Identify the contract with a customer;
(ii) Identify the performance obligation(s) in the contract;
(iii) Determine the transaction price;
(iv) Allocate the transaction price to the performance obligation(s) in the contract; and
(v) Recognize revenue when or as the Company satisfies the performance obligation(s).

2. Basis Of Presentation, continued

Revenue from the sale of tablets is generally recognized when control over the goods has been transferred to the customer. Payment is due within a specified time period as permitted by the underlying agreement and the Company's credit policy upon the transfer of goods to the customer. The Company generally satisfies its performance obligation and transfers control to the customer upon delivery and acceptance by the customer. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled, net of any estimated product returns.

(d) Accounts receivable

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less any provisions for impairment. Financial assets measured at amortized cost are assessed for impairment at the end of each reporting period. Impairment provisions are estimated using the expected credit loss impairment model where any expected future credit losses are provided for, irrespective of whether a loss event has occurred at the reporting date.

Estimates of expected credit losses take into account the Company's collection history, deterioration of collection rates during the average credit period, as well as observable changes in and forecasts of future economic conditions that affect default risk. Where applicable, the carrying amount of a trade receivable is reduced for any expected credit losses through the use of an allowance for doubtful accounts ("AFDA") provision. Changes in the AFDA provision are recognized in the statement of net loss and comprehensive loss. When the Company determines that no recovery of the amount owing is possible, the amount is deemed irrecoverable and the financial asset is written off.

(e) Inventory

Inventory consists of raw materials, supplies and consumables used in the inventory process, finished goods and work-in-progress. Inventory is valued at the lower of cost and net realizable value, with cost determined using the weighted average cost method. Costs are capitalized to inventory, until substantially ready for sale. Costs include direct and indirect labor, consumables, materials, packaging supplies, utilities, facility costs, quality and testing costs, production related depreciation and other overhead costs. The Company records inventory reserves for obsolete and slow-moving inventory. Inventory reserves are based on inventory obsolescence trends, historical experience and application of the specific identification method. When assessing net realizable value, the Company considers the impact of price fluctuation, inventory spoilage, inventory excess, age and damage.

2. BASIS OF PRESENTATION, CONTINUED

(f) 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, continue to 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 November 30, 2020, the Company had an accumulated deficit of $10,101,248 (May 30, 2020 - $8,590,487). Working capital as at November 30, 2020 was $974,138 compared to $2,069,009 as at May 30, 2020. Net loss and comprehensive loss for the six month period ended November 30, 2020 was $1,510,761 (2019 - $1,062,980). Other than some initial licensing fees received and the first commercial sale being recognized this quarter *(see note 13(b))*, 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 dales licences necessary to capitalize on the opportunities within the cannabis marketplace in Canada and internationally.

As well as recognizing its first commercial sale, the Company closed a convertible debenture offering of $1,575,000 on December 31, 2020 *(see note 14(a))*. The Company anticipates that, upon taking these transactions into account, it will have sufficient cash on hand to service its liabilities and fund operating costs for the immediate future, but 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) finalize delivery on existing purchase orders and continue to develop its marketing opportunities into further revenue generating transactions, and (ii) arrange future financing that will largely depend upon prevailing capital market conditions and the continued support of its shareholder base. Management will need to continue assessing its financing options to raise the funds required to continue its strategy of expanding its product line, manufacturing facilities, research and development and geographic coverage. However, 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. 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 contributions to the ability to create outputs. The amendment is effective for annual periods beginning on or after January I, 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 I, 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 l, 2022. The Company has not yet assessed the impact of the amendments on the unaudited interim condensed consolidated financial statements.

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

	November 30 2020	May 31 2020
Cash	$ **372,085**	$ 563,112
Guaranteed investment certificates	**-**	1,500,000
Cash in Company lawyer's trust account	**25,451**	27,326
	$ **397,536**	$ 2,090,438

The cash in the Company lawyer's trust account is unrestricted. The balance as at November 30, 2020 represents remaining undisbursed proceeds received under a private placement that closed in March, 2020.

6. Accounts Receivable

	November 30 2020	May 31 2020
Trade accounts receivable	$ **391,980**	$ -
HST recoverable	**169,911**	123,134
Non-trade accounts receivable	**25,139**	38,205
	$ **587,030**	$ 161,339

7. Inventory

	November 30 2021	May 31 2020
Finished goods	$ **90,378**	$ -
Work-in-progress	**832,420**	-
Cannabis oil raw materials	**178,423**	797,170
Non-cannabis raw materials	**49,764**	108,595
	$ **1,150,985**	$ 905,765

The Company started commercial production during 2021 Q1, and made its first commercial sale towards the end of 2021 Q2. 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 $259,919, including $94,586 of direct labor and $95,477 of depreciation.

8. ASSET PURCHASE AGREEMENTS

In October, 2020, the Company closed 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 was satisfied through the issuance of 1,996,078 common shares of the Company at a deemed price of $0.51 per share *(see note 11(c))*.

The CMAX purchase is considered a related party transaction as three of the Company's four directors are also officers, directors and/or shareholders of CMAX. The CMAX purchase has been approved by the independent director of the Company.

(b) Pharmagenerics asset purchase

The Company entered into a binding asset purchase agreement with Pharmagenerics Solutions Inc. ("Pharma") to purchase certain cannabis-processing equipment owned by Pharma for a purchase price of $300,000. The purchase price of the Pharma assets was satisfied through the issuance of 588,235 common shares of the Company at a deemed price of $0.51 per share *(see note 11(c))*.

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 CMAX purchase has been approved by the Board of Directors of the Company.

9. PLANT AND EQUIPMENT

	Production equipment	Furniture and fixtures	Computer hardware	Leasehold improvements	Security equipment	Construction in progress	Total
Cost							
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 process completed	-	-	-	126,009	-	(126,009)	-
As at May 30, 2020	**634,271**	**27,631**	**12,949**	**326,856**	**365,375**	**-**	**1,367,082**
Additions	58,827	1,047	4,885	64,220	-	-	128,979
Asset purchase from CMAX Technologies *(see note 8(a))*.	583,000	-	-	435,000	-	-	1,018,000
Asset purchase from Pharmageneric Solutions *(see note 8(b))*.	300,000	-	-	-	-	-	300,000
As at November 30, 2020	**$ 1,576,098**	**$ 28,678**	**$ 17,834**	**$ 826,076**	**$ 365,375**	**$ -**	**$ 2,814,061**
Accumulated depreciation							
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 30, 2020	**215,286**	**5,780**	**6,057**	**16,736**	**27,403**	**-**	**271,262**
Depreciation	67,258	2,238	1,401	34,223	50,696	-	155,816
As at November 30, 2020	**$ 282,544**	**$ 8,018**	**$ 7,458**	**$ 50,959**	**$ 78,099**	**$ -**	**$ 427,078**
Net book value							
As at May 30, 2020	**$ 418,985**	**$ 21,851**	**$ 6,892**	**$ 310,120**	**$ 337,972**	**$ -**	**$ 1,095,820**
As at November 30, 2020	**$ 1,293,554**	**$ 20,660**	**$ 10,376**	**$ 775,117**	**$ 287,276**	**$ -**	**$ 2,386,983**

10. Accounts Payable And Accrued Liabilities

	November 30 2020	May 31 2020
Trade accounts payable	**$ 979,849**	$ 942,434
Accrued liabilities	**171,029**	256,090
Accounts payable - related company	**69,329**	55,429
	$ 1,220,207	$ 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 12(c))*.

11. 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 November 30, 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.

(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.

11 SHARE CAPITAL, CONTINUED

(c) Asset purchases

CMAX Technologies Inc. ("CMAX")

In August, 2020, the Company agreed to an asset purchase agreement with CMAX, a related party to the Company, for a purchase price of $1,018,000 *(see note 8(a))*. At the time, $102,000 was paid as a deposit on the transaction through the issuance of 200,000 common shares at a deemed price of $0.51 per share. In October, 2020, the balance of the purchase price of $916,000 was satisfied through the issuance of a further 1,796,078 common shares of the Company at a deemed price of $0.51 per share. In total, 1,996,078 common shares were issued with respect to this purchase.

Pharmagenerics Solutions Inc. ("Pharma")

In October, 2020, the Company issued 588,235 common shares of the Company at a deemed price of $0.51 per share for a total of $300,000 to close an asset purchase agreement with Pharma (*see note 8(b)*).

(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 and six month periods ended November 30, 2020 were 34,272,382 and 33,551,497 respectively (three and six month periods ended November 30, 2019 - 25,306,601 and 25,306,601 respectively).

(e) Share based compensation

Total share based compensation of $356,274 was recognized during the six month period ended November 30, 2020 (2019 - $74,019) based on currently issued and previously granted options and special warrants expected to vest in the reporting period.

12. RELATED PARTY TRANSACTIONS

During the six month periods ended November 30, 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 $60,000 were recorded during the six month period ended November 30, 2020 (2019 - $60,000) 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 $4,800 during the six month period ended November 30, 2020 (2019 - $3,816).

12. Related Party Transactions, continued

(b) Under the terms of a consulting contract effective January, 2017, fees of $37,500 were recorded during the six month period ended November 30, 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 six month period ended November 30, 2020 totalled $37,500 (2019 - $75,000).

The Company recognized a car allowance credited to this individual of $4,800 during the six month period ended November 30, 2020 (2019 - $3,816).

(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 six month period ended November 30, 2020, the Company made payments of $60,000 (2019 - $60,000) which were applied against the operating lease now capitalized under IFRS 16.

(d) For the six month period ended November 30, 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 $143,167 (2019 - $Nil)

(e) Accounts payable and accrued liabilities as at November 30, 2020 includes $118,526 (May 30, 2020 - $106,490) with respect to balances owing to related parties for the transactions disclosed above.

13. 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.

13. 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:

			November 30, 2020		May 30, 2020	
Assets/liabilities	**Category**	**Measurement**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
			$	**$**	$	$
Cash and cash equivalents	FVTPL	Amortized cost	**397,536**	**397,536**	2,090,438	2,090,438
Accounts receivable	Loans and receivables	Amortized cost	**587,030**	**587,030**	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	**1,220,207**	**1,220,207**	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, which is comprised of trade receivables, 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.

The Company made its first commercial sale towards the end of 2021 Q2. All of the balance in trade accounts receivable of $391,980 relate to this one sale made to one customer. The credit quality of the Company's customer is considered high, and is monitored on an on-going basis and allowances are provided for potential losses that have been incurred at the period end date.

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.

13. Financial Instruments And Risk Factors, continued

(c) Liquidity risk

The business of the Company necessitates the management of liquidity risk. Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due in the short-term due to a shortfall of working capital. The Company's objective is to mitigate short-term liquidity risk by maintaining adequate working capital reserves and its long-term liquidity risk through good relations with external capital markets. The Company closed on 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 November 30, 2020, the Company had working capital of $974,138 (May 30, 2020 - $2,069,009), and therefore believes its exposure to liquidity risk is limited.

14. Subsequent events

(a) Convertible debentures

On December 31, 2020, the Company announced the closing of a non-brokered private placement (the "Offering") of secured convertible debentures for gross proceeds of $1,575,000. The proceeds will be used to fund working capital for the Company, and for general corporate purposes. The major terms of the convertible debenture are as follows:

(i) The convertible debentures are convertible into common shares of the Company at a conversion price of $0.80 per share, and will mature two years from the date of issuance (the "Maturity Date"). Beginning on the date that is four months and one day following the closing date of the Offering (the "Closing Date"), the Company will have the right to prepay or redeem a part or the entire principal amount of the convertible debentures plus any accrued and unpaid interest at any time by providing a minimum of 20 days and a maximum 60 days of redemption notice prior to the redemption date. The conversion price will be subject to customary adjustments in certain events.

(ii) The Company also has the right to force the conversion of all of the principal amount of the then outstanding convertible debentures at the conversion price upon giving the debenture holders not less than 30 days advance written notice, should the volume weighted average trading price of the shares on the Canadian Securities Exchange be greater than $1.20 per share for the preceding 15 consecutive trading days.

(iii) The convertible debentures shall bear interest at a rate of 10.0% per annum from the Closing Date, paid upfront in cash for the initial 6 months, thereafter payable quarterly in cash on the last business day of each calendar quarter. Any accrued but unpaid interest is convertible into shares at the option of the holder at the Conversion Price at any time following the Closing Date.

14. Subsequent Events, continued

(iv) The convertible debentures are secured by way of an agency and interlender security agreement made in favor of a collateral agent acting as agent for all of the holders of the debentures, granting a security interest in substantially all of the Company's assets. The Company will have the right to prepay any or part of the convertible debentures at any time prior to the Maturity Date by paying the principal amount of the convertible debentures.

(v) On closing, the Company issued to the purchasers of the convertible debentures one share purchase warrant for each share underlying the convertible debenture purchased. The warrants are exercisable for a period of three (3) years from issuance into shares of the Company with each warrant entitling the holder thereof to acquire one share at an exercise price of $1.00 per Share (the "Exercise Price"). The warrants are subject to an acceleration right exercisable by the Company at its option if, for the preceding 15 consecutive trading days, the volume weighted average trading price of the shares is greater than $2.00 per share. If the Company provides notice that it intends to exercise its acceleration right, the accelerated expiry date of the warrants will be the 30th calendar day following the date of such notice of exercise.

(vi) If at any time during the term of the warrants and the convertible debentures, the Company issues securities at a price deemed lower than the Conversion Price or Exercise Price then in effect or issues any warrants or options with an exercise price at a lower price than the Conversion Price or Exercise Price then in effect (but exclusive of options or other forms of equity issued under the Company's stock option plan or warrants to employees or contractors of the Company, up to a maximum limit of 10% of the issued and outstanding shares as of the Closing Date), then the Exercise Price and the Conversion Price, as the case may be, will be adjusted downward to such lower exercise price if warrants or options were issued, or 125% of the deemed issuance price of the securities if no warrants or options were issued.

In connection with the offering, the Company paid fees to three arm's-length third parties comprised of cash fees of $17,000 and issued 47,813 finder's warrants, which entitle the holder thereof to purchase one share at a price of $0.80 for a period of 24 months.

The Company also issued 50,000 warrants to an arm's-length consultant at an exercise price of $0.80 for a period of 2 years from the date of grant.

(b) Stock options

On December 31, 2020, the Company granted 150,000 stock options to the individual described in note 12(a) in accordance with the Company's incentive stock option plan. Each option is exercisable into one share at a price of $0.82 per share for a period of 3 years from the date of grant.