CANNTAB THERAPEUTICS LIMITED

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND NINE MONTHS ENDED FEBRUARY 28, 2021 AND 2020

(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 FEBRUARY 28, 2021 AND MAY 31, 2020
(Stated in $CAD)
(Unaudited - Prepared by Management)

	February 28 2021	May 31 2020
ASSETS		
Current:		
Cash and cash equivalents (Note 5)	**$ 1,434,375**	$ 2,090,438
Accounts receivable (Note 6)	**958,669**	161,339
Inventories (Note 7)	**1,061,644**	905,765
Prepaid expenses and deposits	**74,279**	160,728
Advance to supplier	**166,667**	166,667
	3,695,634	3,484,937
Long term:		
Plant and equipment (Note 9)	**2,157,779**	1,095,820
Right-of-use assets	**537,360**	676,646
Intangible assets	**290,762**	251,711
	$ 6,681,535	$ 5,509,114
LIABILITIES		
Current:		
Accounts payable and accrued liabilities (Note 10)	**$ 1,283,930**	$ 1,253,953
Current portion of lease liabilities	**179,363**	161,975
Current portion of debenture payable (Note 12)	**69,569**	-
	1,532,862	1,415,928
Long term:		
Lease liabilities	**401,698**	524,444
Term loan payable (Note 11)	**60,000**	40,000
Debentures payable, net of current portion (Note 12)	**1,316,484**	-
	3,311,044	1,980,372
SHAREHOLDERS' EQUITY		
Common shares (Note 13)	**11,269,999**	9,843,783
Contributed surplus	**2,806,431**	2,275,446
Accumulated deficit	**(10,705,939)**	(8,590,487)
	3,370,491	3,528,742
	$ 6,681,535	$ 5,509,114

Going concern (Note 2(h))

Subsequent events (Note 16)

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

Approved on behalf of the Board:

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

CANNTAB THERAPEUTICS LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

THREE AND NINE MONTHS ENDED FEBRUARY 28, 2021 AND 2020

(Stated in $CAD)

(Unaudited - Prepared by Management)

	Three months ended February 28 2021	**Nine months ended February 28 2021**	Three months ended February 29 2020	Nine months ended February 29 2020
Revenue				
Tablet sales	**$ 465,375**	**$ 843,375**	$ -	$ -
License fees	**-**	-	-	133,334
	465,375	**843,375**	-	133,334
Cost of sales				
Change in fair value of inventory sold	**290,255**	**576,611**	-	-
Gross profit	**175,120**	**266,764**	-	133,334
Expenses				
Employee compensation and benefits	**132,957**	**504,835**	170,737	565,646
Consulting fees	**91,993**	**429,169**	230,006	478,334
Professional fees	**99,215**	**217,188**	16,735	122,352
Marketing and regulatory expenses	**73,819**	**158,213**	27,441	72,517
General and administrative	**63,506**	**144,015**	69,769	207,864
Interest	**44,975**	**61,207**	7,562	18,064
Research and development	**(42,636)**	**26,877**	45,658	118,144
Share based compensation	**161,384**	**517,658**	46,001	120,020
Depreciation of plant and equipment and right-of-use assets	**143,923**	**297,119**	50,739	149,760
Amortization of intangible assets	**10,681**	**25,935**	6,256	14,519
	779,817	**2,382,216**	670,904	1,867,220
Net loss and comprehensive loss	**$ (604,697)**	**$ (2,115,452)**	$ (670,904)	$ (1,733,886)
Basic and diluted loss per share (Note 13**(e)**)	**$ (0.02)**	**$ (0.06)**	$ (0.03)	$ (0.07)

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 FEBRUARY 28, 2021
(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		-	-	-	(1,733,886)	**(1,733,886)**
Share based compensation	**13(f)**	-	-	120,020	-	**120,020**
Private placement	**13(a)**	6,160,000	2,839,376	240,624	-	**3,080,000**
Share issue costs	**13(a)**	-	(148,260)	-	-	**(148,260)**
Broker warrants	**13(a)**	-	(56,245)	56,245	-	**-**
As at February 29, 2020		**31,466,601**	**9,189,152**	**2,113,708**	**(7,717,129)**	**3,585,731**
Net loss and comprehensive loss		-	-	-	(873,358)	**(873,358)**
Share based compensation		-	-	294,731	-	**294,731**
Private placement	**13(a)**	1,127,000	750,044	(186,544)	-	**563,500**
Shares issued in exchange for services	**13(a)**	164,000	82,000	-	-	**82,000**
Share issue costs	**13(a)**	-	(123,862)	-	-	**(123,862)**
Broker warrants	**13(a)**	-	(53,551)	53,551	-	**-**
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		-	-	-	(2,115,452)	**(2,115,452)**
Share based compensation	**13(f)**	-	-	517,658	-	**517,658**
Exercise of broker warrants	**13(b)**	109,523	83,216	(28,455)	-	**54,761**
Exercise of stock options	**13(b)**	100,000	25,000	-	-	**25,000**
Shares issued on purchase of equipment from CMAX Technologies	**13(d)**	1,996,078	1,018,000	-	-	**1,018,000**
Shares issued on purchase of equipment from Pharmageneric Solutions	**13(d)**	588,235	300,000	-	-	**300,000**
Portion of debenture proceeds attributable to equity components	**12(c)**	-	-	41,782	-	**41,782**
As at February 28, 2021		**35,551,437**	**$ 11,269,999**	**$ 2,806,431**	**$ (10,705,939)**	**$ 3,370,491**

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

CANNTAB THERAPEUTICS LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED FEBRUARY 28, 2021 AND 2020

(Stated in $CAD)

(Unaudited - Prepared by Management)

	2021	2020
Operating activities		
Net loss and comprehensive loss	**$ (2,115,452)**	$ (1,733,886)
Add (deduct) items not affecting cash:		
Share based compensation	**517,658**	120,020
Depreciation of plant and equipment and right-of-use assets	**297,119**	149,760
Amortization of contract liability	**-**	(133,334)
Amortization of intangible assets	**25,935**	14,519
Interest accretion on debentures	**37,668**	-
	(1,237,072)	(1,582,921)
Change in non-cash working capital items		
Accounts receivable	**(797,330)**	136,850
Inventories	**(9,520)**	-
Term loan payable	**20,000**	-
Prepaid expenses and deposits	**86,449**	57,300
Accounts payable and accrued liabilities	**96,384**	519,211
	(1,841,089)	(869,560)
Investing activities		
Purchase of plant and equipment	**(154,558)**	(626,582)
Purchase of intangible assets	**(64,986)**	(90,595)
Short term investment	**-**	1,175,000
	(219,544)	457,823
Financing activities		
Proceeds from convertible debenture offering, net of transaction costs	**1,390,167**	-
Proceeds on exercise of broker compensation warrants	**54,761**	-
Proceeds on exercise of stock options	**25,000**	-
Repayment of lease liabilities	**(65,358)**	(65,673)
Proceeds from private placement	**-**	1,708,415
Share issue costs	**-**	(148,260)
	1,404,570	1,494,482
Change in cash and cash equivalents	**(656,063)**	1,082,745
Cash and cash equivalents, beginning of period	**2,090,438**	413,978
Cash and cash equivalents, end of period	**$ 1,434,375**	$ 1,496,723
Non-cash transactions:		
Shares issued on asset purchase from CMAX Technologies (Note 8(a))	**$ 1,018,000**	$ -
Shares issued on asset purchase from Pharmageneric (Note 8(b))	**300,000**	-
Depreciation capitalized into inventory	**146,359**	-
Lease liability payments offset against accounts payable	**40,000**	-
Share subscriptions receivable	**-**	1,371,585
Accounts payable settled through debenture issuance	**50,000**	-
Prior year accounts payable re capital assets cancelled (Note 9)	**(106,406)**	-
	$ 1,447,953	$ 1,371,585

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 pharmacies around the world.

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 OTCQB 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 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 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 April 28, 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).

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.

2. BASIS OF PRESENTATION, CONTINUED

(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.

(f) Debentures payable

When a contract contains an embedded derivative, the economic and risk characteristics of both the embedded derivative and host contract are analyzed to understand whether or not they are closely related and to decide whether the embedded derivative should be accounted for separately from the host contract.

The embedded features in the financial instrument issued by the Company are identified at inception. Each feature is evaluated separately and classified either as part of the host liability, as a separate embedded liability or an equity instrument in accordance with the substance of the contractual arrangement.

2. BASIS OF PRESENTATION, CONTINUED

(g) Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received, and all the required conditions are complied with. Government grants in respect of capital expenditures are credited to the carrying amount of the related asset and are released to income over the expected useful lives of the relevant assets. Government grants which are not associated with an asset are credited to income to net them against the expense to which they relate.

During the nine month period February 28, 2021, the Company has received the following:

- $142,429 under the Canadian Employment Wage Subsidy ("CEWS") program, which has been netted against payroll costs included in the employee compensation and benefits line in the statement of net loss and comprehensive loss.
- $48,962 under the Scientific Research and Expenditure Development ("SR&ED") program, which has been netted against costs included in the research and development line in the statement of net loss and comprehensive loss.

(h) 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 February 28, 2021, the Company had an accumulated deficit of $10,705,939 (May 31, 2020 - $8,590,487). Working capital as at February 28, 2021 was $2,162,772 compared to $2,069,009 as at May 31, 2020. Net loss and comprehensive loss for the nine month period ended February 28, 2021 was $2,115,452 (2020 - $1,733,886). Other than some initial licensing fees received and the first two commercial sales being recognized this fiscal year *(see note 15(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.

2. Basis Of Presentation, continued

As well as recognizing its first two commercial sales, the Company closed a convertible debenture offering for gross proceeds of $1,575,000 on December 30, 2020 *(see note 12(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:

4. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS, continued

(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.

(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

	February 28 2021	May 31 2020
Cash	**$ 1,408,924**	$ 563,112
Guaranteed investment certificates	**-**	1,500,000
Cash in Company lawyer's trust account	**25,451**	27,326
	$ 1,434,375	$ 2,090,438

The cash in the Company lawyer's trust account is unrestricted. The balance as at February 28, 2021 represents remaining undisbursed proceeds received under a private placement that closed in March, 2020.

6. Accounts Receivable

	February 28 2021	May 31 2020
Trade accounts receivable	**$ 928,530**	$ -
HST recoverable	**-**	123,134
Non-trade accounts receivable	**30,139**	38,205
	$ 958,669	$ 161,339

The Company had made its first two commercial shipments by the end of 2021 Q3, with the third and final shipment expected to be completed by the end of F2021.. The entire balance in trade accounts receivable relate to an order from one customer. The purchase liability for certain of the raw materials used in the production process, which were all acquired from the same company, are included in trade accounts payable in the amount of$797,278 *(see note 10)*.

7. Inventory

	February 28 2021	May 31 2020
Work-in-progress	**$ (1)**	$ -
Finished goods	**111,378**	-
Work-in-progress	**796,258**	-
Cannabis oil raw materials	**128,136**	797,170
Non-cannabis raw materials	**25,873**	108,595
	$ 1,061,644	$ 905,765

The Company started commercial production during 2021 Q1. Inventory has been valued as follows: (i) raw materials: initial cost on acquisition, and (ii) 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 initially capitalized to inventory to the end of 2021 Q3 totalled $398,207, including $138,141 of direct labor and $146,359 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 13(d))*.

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 13(d))*.

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 31, 2020	**634,271**	**27,631**	**12,949**	**326,856**	**365,375**	**-**	**1,367,082**
Additions	71,072	14,381	4,885	64,220	-	-	154,558
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
Prior year accounts payable cancelled	-	-	-	-	(106,406)	-	(106,406)
As at February 28, 2021	**$ 1,588,343**	**$ 42,012**	**$ 17,834**	**$ 826,076**	**$ 258,969**	**$ -**	**$ 2,733,234**
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 31, 2020	**215,286**	**5,780**	**6,057**	**16,736**	**27,403**	**-**	**271,262**
Depreciation	167,853	4,357	2,101	83,960	45,922	-	304,193
As at February 28, 2021	**$ 383,139**	**$ 10,137**	**$ 8,158**	**$ 100,696**	**$ 73,325**	**$ -**	**$ 575,455**
Net book value							
As at May 31, 2020	**$ 418,985**	**$ 21,851**	**$ 6,892**	**$ 310,120**	**$ 337,972**	**$ -**	**$ 1,095,820**
As at February 28, 2021	**$ 1,205,204**	**$ 31,875**	**$ 9,676**	**$ 725,380**	**$ 185,644**	**$ -**	**$ 2,157,779**

10. Accounts Payable And Accrued Liabilities

	February 28 2021	May 31 2020
Accounts Payable And Accrued Liabilities	**$ (1)**	$ -
Trade accounts payable	**953,472**	942,434
Accrued liabilities	**241,717**	256,090
Accounts payable - related company	**62,045**	55,429
HST payable	**26,697**	-
	$ 1,283,930	$ 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 14(c))*.

Trade accounts payable includes $797,278 due to the same company that comprises the entire trade accounts receivable of $928,530 *(see note 6)*. This balance represents the purchase liability for certain of the raw materials used in the production process for shipments of finished goods to that company

11. 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. An additional $20,000 was received under this program in January, 2021. 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.

12. Debentures Payable

(a) On December 30, 2020, the Company closed on a private placement of $1,575,000 of secured debentures, issued at a price of $1,000 per debenture with a term of two years and due by December 30, 2022. The proceeds will be used to fund working capital for the Company, and for general corporate purposes.

(b) The major terms of the debentures are as follows:

- **(i)** The principal amount will bear interest at a rate of 10% per annum. Interest is to be calculated from the issue date and paid up front in cash (in the amount of $78,750) for the initial 6 months, thereafter payable quarterly in cash on the last business day of each calendar quarter, first interest payment being paid on September 30, 2021. If the debenture holder elects, in its sole and absolute discretion, Interest may be paid in common shares at the conversion price at any time following the issue date.

12. DEBENTURES PAYABLE, CONTINUED

(ii) The 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. Beginning on the date that is four months and one day following the closing date of the offering, 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.

(iii) 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.

(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, or 1,968,750 warrants in total. The warrants are exercisable for a period of three 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 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.

12. DEBENTURES PAYABLE, CONTINUED

(vii) In the event of a change in control, as defined in the indenture agreement. the Company will be required to make an offer to the holders of the debentures to repurchase the debentures at a price equal to 105% of the principal amount plus accrued and unpaid interest.

(c) The debentures were therefore recorded as a financial instrument. After applying a discount rate of 12.0%, the principal amount of the debentures of $1,575,000, less transaction costs of $106,083, was recorded at fair value of $1,427,315. Each material embedded feature, including the conversion feature of the debentures and the attached common share purchase warrants, was evaluated separately. It was determined that the economic and risk characteristics of certain prepayment options were closely related to the host contract and therefore, are considered as equity and have been valued at $41,782.

(d) The debentures are measured subsequently at amortized cost using the effective interest method over the life of the debentures. The balance of the convertible debentures as at December 31, 2020 consists of the following:

	February 28 2021	May 31 2020
Principal balance	$ 1,575,000	$ -
Issuance costs	(106,083)	-
Portion attributed to equity	(41,782)	-
Fair value	1,427,135	-
Accretion during the period	37,668	-
Prepaid interest applied	(78,750)	-
Balance, end of year	1,386,053	-
Current portion	(69,569)	-
Long-term portion	$ 1,316,484	$ -

13. 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 February 28, 2021. Descriptions of the changes in shareholders' equity are as follows:

13 SHARE CAPITAL, CONTINUED

(a) Private placement during 2020 Q3 and 2020 Q4

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. Share issue costs of $272,122 were incurred related to the private placement, including commissions and legal fees.

(b) Exercise of broker compensation warrants and stock options

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.

In December, 2020, 100,000 stock options were exercised for cash proceeds of $25,000, resulting in the issuance of 100,000 common shares.

(c) 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.

13 SHARE CAPITAL, CONTINUED

(iii) On December 30, 2020, the Company granted 182,926 options to an individual who is both an officer and director of the Company. Each option entitles the holder to purchase one common share of the Company at a price of $0.80 per share expiring in 3 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 0.20%, (2) expected volatility of 93.6%, (3) expected life of 2 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.48.

(iv) On February 3, 2021, the Company granted 50,000 options to a consultant. Each option entitles the holder 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 0.17%, (2) expected volatility of 91.2%, (3) expected life of 2 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.37.

(d) 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 588,2355 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)*).

13 SHARE CAPITAL, CONTINUED

(e) Loss per share

Basic loss per share is computed using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three and nine month periods ended February 28, 2021 were 35,518,104 and 34,199,829 respectively (three and nine month periods ended February 29, 2020 - 25,656,229 and 25,329,165 respectively).

The potentially dilutive equity instruments outstanding as at February 28, 2021 were (i) 2,052,926 stock options (2020 - 1,505,000), (ii) 2,897,500 special warrants (2020 - 2,862,500), (iii) 408,480 broker compensation warrants (2020 - 337,190), and (iv) 9,419,750 common share purchase warrants (2020 - 7,451,000).

(f) Share based compensation

Total share based compensation of $517,658 was recognized during the nine month period ended February 28, 2021 (2020 - $120,020) based on currently issued and previously granted options and special warrants expected to vest in the reporting period.

14. RELATED PARTY TRANSACTIONS

During the nine month periods ended February 28, 2021 and 2020, 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 $140,000 were recorded during the nine month period ended February 28, 2021 (2020 - $90,000) 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 $7,200 during the nine month period ended February 28, 2021 (2020 - $3,200).

(b) Under the terms of a consulting contract effective January, 2017, fees of $37,500 were recorded during the nine month period ended February 28, 2021 (2020 - $50,000) 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 nine month period ended February 28, 2021 totalled $75,000 (2020 - $62,500).

The Company recognized a car allowance credited to this individual of $7,200 during the nine month period ended February 28, 2021 (2020 - $3,816).

14. RELATED PARTY TRANSACTIONS, continued

(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 nine month period ended February 28, 2021, the Company made payments of $90,000 (2020 - $90,000) which were applied against the operating lease now capitalized under IFRS 16.

(d) For the nine month period ended February 28, 2021, compensation to other officers and directors, other than separately disclosed above, includes:

- share based compensation of $132,565 (2020 - $Nil)
- consulting fees and salary of $214,667 (2020 - $Nil)

(e) Legal fees recorded during the nine month period ended February 28, 2021 from law firms of which a director is a partner totalled $2,355 (2020 - $43,359).

(f) During the nine month period ended February 29, 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 *(see note 13(a))* as follows: 125,350 broker compensation warrants were granted, for which the fair value was $25,245. Total cash payments of $62,675 were also made with respect to commissions.

(g) Accounts payable and accrued liabilities as at February 28, 2021 includes $89,244 (2020 - $186,825) with respect to balances owing to related parties for the transactions disclosed above.

15. FINANCIAL INSTRUMENTS AND RISK FACTORS

(a) Fair value of financial instruments

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and term loan payable 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.

The fair value of the convertible debentures as at February 28, 2021 was approximately $1,386,053. The fair value was determined using the discounted cash flow method using a discount rate of 12%. The discount rate used is management's best estimate reflective of the Company's specific credit risk. The debentures are categorized as Level 3 under the fair value hierarchy.

15. 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	February 28, 2021 Carrying amount	February 28, 2021 Fair value	May 31, 2020 Carrying amount	May 31, 2020 Fair value
			$	**$**	$	$
Cash and cash equivalents	FVTPL	Amortized cost	**1,434,375**	**1,434,375**	2,090,438	2,090,438
Accounts receivable	Loans and receivables	Amortized cost	**958,669**	**958,669**	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	**1,283,930**	**1,283,930**	1,253,953	1,253,953
Term loan payable	Financial liabilities	Amortized cost	**60,000**	**60,000**	40,000	40,000
Debentures payable	Financial liabilities	Amortized cost	**1,575,000**	**1,386,053**	-	-

(b) Credit risk

The Company's credit risk is attributable to its accounts receivable, which is comprised mostly of trade receivables and the advance to a supplier. Management believes that credit risk with respect to the advance to a supplier is minimal as the amount is secured and is expected to offset against future purchases of hemp.

The entire balance in trade accounts receivable of $928,530 relate to sales made to one customer *(see note 6)*. 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. Any credit risk is substantially reduced by a commercially agreed-to right of offset between the parties against the liability in trade accounts payable in the amount of $797,278 to the same company (for certain of the raw materials used in the production process) *(see note 10)*.

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.

15. Financial Instruments And Risk Factors, continued

(c) Liquidity risk

The business of the Company necessitates the management of liquidity risk. Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due in the short-term due to a shortfall of working capital. The Company's objective is to mitigate short-term liquidity risk by maintaining adequate working capital reserves and its long-term liquidity risk through good relations with external capital markets. The Company closed on a debenture offering in December, 2020 for net proceeds of $1,390,167 to continue its strategy of expanding its manufacturing facilities, its research and development and geographic coverage. As at February 28, 2021, the Company had working capital of $2,162,772 (May 31, 2020 - $2,069,009), and therefore believes its exposure to liquidity risk is limited.

16. Subsequent events

(a) Patent issuance

On March 9, 2021, the Company announced that the Australian Patent Office ("IP Australia") has granted Australian Patent No. AU 2018210690 to Canntab, related to its proprietary cannabidiol formulations with a priority date of January 23, 2017. The term of the patent expires on January 22, 2038.

(b) Australian order

On March 30, 2021, Health Canada granted the company an export license under which Canntab can now fulfill the initial purchase order of CAD $406,200 received from Cann Global Limited ("Cann Global") of Australia. The products ordered by Cann Global are expected to be distributed throughout Australia to medical distributors, including doctors, pharmacies, and hospitals.

(c) Share issuances

Subsequent to period-end, the Company issued 27,000 common shares after the exercise of 7,000 broker compensation warrants and 20,000 common share purchase warrants.