# CANNTAB THERAPEUTICS LIMITED

## INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**THREE MONTHS ENDED AUGUST 31 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 AUGUST 31, 2021 AND MAY 31, 2021

***(Stated in $CAD)***

**(Unaudited - Prepared by Management)**

| | **August 31 2021** | May 31 2021 |
|---|---|---|
| **ASSETS** | | |
| **Current:** | | |
| Cash and cash equivalents (Note 5) | **$ 980,069** | $ 1,490,863 |
| Accounts receivable (Note 6) | **182,265** | 207,363 |
| Inventories (Note 7) | **1,697,606** | 1,720,646 |
| Prepaid expenses and deposits | **66,063** | 95,945 |
| | **2,926,003** | 3,514,817 |
| **Long term:** | | |
| Plant and equipment | **1,931,467** | 2,065,988 |
| Right-of-use assets | **444,503** | 490,932 |
| Intangible assets | **306,646** | 289,107 |
| | **$ 5,608,619** | $ 6,360,844 |
| **LIABILITIES** | | |
| **Current:** | | |
| Bank loan payable | **$ 60,000** | $ 60,000 |
| Accounts payable and accrued liabilities (Note 8) | **1,519,920** | 1,421,108 |
| Current portion of lease liabilities | **188,520** | 183,884 |
| | **1,768,440** | 1,664,992 |
| **Long term:** | | |
| Lease liabilities | **305,092** | 353,997 |
| Debentures payable (Note 9) | **1,037,795** | 968,032 |
| Derivative liabilities (Note 9) | **583,932** | 1,105,065 |
| | **3,695,259** | 4,092,086 |
| **SHAREHOLDERS' EQUITY** | | |
| Common shares (Note 10) | **12,654,280** | 11,606,235 |
| Shares to be issued (Note 10(e)) | **-** | 813,750 |
| Contributed surplus | **2,873,176** | 2,859,042 |
| Accumulated deficit | **(13,614,096)** | (13,010,269) |
| | **1,913,360** | 2,268,758 |
| | **$ 5,608,619** | $ 6,360,844 |

**Going concern** (Note 2(c))

**Subsequent events** (Note 15)

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

**Approved on behalf of the Board:**

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

# CANNTAB THERAPEUTICS LIMITED
## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
### THREE MONTHS ENDED AUGUST 31 AND 2020
***(Stated in $CAD)***
**(Unaudited - Prepared by Management)**

| | 2021 | 2020 |
|---|---|---|
| **Revenue** | | |
| Tablet sales | $ 34,511 | $ - |
| **Cost of sales** | | |
| Change in fair value of inventory sold | 23,040 | - |
| **Gross profit** | 11,471 | - |
| **Expenses** | | |
| Professional and consulting fees | 321,448 | 265,663 |
| Employee compensation and benefits | 307,697 | 162,200 |
| General and administrative | 57,515 | 36,366 |
| Marketing and regulatory expenses | 57,284 | 45,863 |
| Research and development | 29,574 | 15,297 |
| Interest | 121,490 | 7,383 |
| Share based compensation | 24,179 | 283,950 |
| Depreciation of plant and equipment and right-of-use assets | 209,890 | 76,132 |
| Amortization of intangible assets | 7,354 | 8,138 |
| | 1,136,431 | 900,992 |
| **Loss from operations** | (1,124,960) | (900,992) |
| **Other expenses** | | |
| Gain on derivatives (Note 9) | (521,133) | - |
| **Net loss and comprehensive loss** | $ (603,827) | $ (900,992) |
| **Basic and diluted loss per share** (Note 10(c)) | $ (0.02) | $ (0.03) |

*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 | Shares to be issued | Accumulated deficit | Total |
|---|---|---|---|---|---|---|---|
| **As at May 31, 2020** | | **32,757,601** | **$ 9,843,783** | **$ 2,275,446** | **$ -** | **$ (8,590,487)** | **$ 3,528,742** |
| Net loss and comprehensive loss | | - | - | - | - | (900,992) | **(900,992)** |
| Share based compensation | | - | - | 283,950 | - | - | **283,950** |
| Exercise of broker warrants | **10(a)** | 109,523 | 65,587 | (10,826) | - | - | **54,761** |
| Deposit on equipment purchase | **10(b)** | 200,000 | 102,000 | - | - | - | **102,000** |
| **As at August 31, 2020** | | **33,067,124** | **10,011,370** | **2,548,570** | **-** | **(9,491,479)** | **3,068,461** |
| Net loss and comprehensive loss | | - | - | - | - | (3,518,790) | **(3,518,790)** |
| Share based compensation | | - | - | 348,824 | - | - | **348,824** |
| Exercise of broker warrants | | 7,000 | 21,129 | (17,629) | - | - | **3,500** |
| Exercise of stock options | | 100,000 | 69,978 | (44,978) | - | - | **25,000** |
| Exercise of share purchase warrants | | 380,000 | 287,758 | (2,758) | - | - | **285,000** |
| Shares issued on equipment purchases | | 2,384,313 | 1,216,000 | - | - | - | **1,216,000** |
| Proceeds on shares to be issued | | - | - | - | 813,750 | - | **813,750** |
| Issuance of broker warrants in connection with debenture offering | | - | - | 27,013 | - | - | **27,013** |
| **As at May 31, 2021** | | **35,938,437** | **11,606,235** | **2,859,042** | **813,750** | **(13,010,269)** | **2,268,758** |
| Net loss and comprehensive loss | | - | - | - | - | (603,827) | **(603,827)** |
| Share based compensation | | - | - | 24,179 | - | - | **24,179** |
| Exercise of share purchase warrants | **10(a)** | 1,384,000 | 1,048,045 | (10,045) | (813,750) | - | **224,250** |
| **As at August 31, 2021** | | **37,322,437** | **$ 12,654,280** | **$ 2,873,176** | **$ -** | **$ (13,614,096)** | **$ 1,913,360** |

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

# CANNTAB THERAPEUTICS LIMITED
## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
## THREE MONTHS ENDED AUGUST 31 AND 2020

***(Stated in $CAD)***

**(Unaudited - Prepared by Management)**

| | 2021 | 2020 |
|---|---|---|
| **Operating activities** | | |
| **Net loss and comprehensive loss** | **$ (603,827)** | $ (900,992) |
| Add (deduct) items not affecting cash: | | |
| Share based compensation | **24,179** | 283,950 |
| Depreciation of plant and equipment and right-of-use assets | **209,890** | 78,433 |
| Amortization of intangible assets | **7,354** | 8,138 |
| Interest accretion on debentures | **69,763** | - |
| Loss on derivatives | **(521,133)** | - |
| | **(813,774)** | (530,471) |
| **Change in non-cash working capital items** | | |
| Accounts receivable | **25,098** | (64,140) |
| Inventories | **23,040** | (330,887) |
| Prepaid expenses and deposits | **29,882** | 23,502 |
| Accounts payable and accrued liabilities | **68,812** | (68,728) |
| | **(666,942)** | (970,724) |
| **Investing activities** | | |
| Purchase of plant and equipment | **(28,941)** | (85,293) |
| Purchase of intangible assets | **(24,892)** | (18,216) |
| | **(53,833)** | (103,509) |
| **Financing activities** | | |
| Proceeds on exercise of broker compensation warrants | **-** | 54,761 |
| Repayment of lease liabilities | **(14,269)** | (12,157) |
| Proceeds on exercise of share purchase warrants | **224,250** | - |
| | **209,981** | 42,604 |
| **Change in cash and cash equivalents** | **(510,794)** | (1,031,629) |
| Cash and cash equivalents, beginning of period | **1,490,863** | 2,090,438 |
| **Cash and cash equivalents, end of period** | **$ 980,069** | $ 1,058,809 |
| **Non-cash transactions:** | | |

*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 and a Cannabis Research 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.

## 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. To date, the business has not experienced negative consequences due to interruptions in its supply chain.

## 2. BASIS OF PRESENTATION

### (a) Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"), and accordingly do not include all the information required for full annual financial statements by International Financial Reporting Standards ("IFRS"). They have been prepared using the same accounting policies that were described in note 3 to the Company's annual consolidated financial statements for the year ended May 31, 2021 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 November 1, 2021.

### (b) Basis of presentation

The unaudited interim condensed consolidated financial statements are prepared on a going concern basis under the historical cost convention, except for certain financial instruments that are measured at fair value. 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.

## 2. BASIS OF PRESENTATION, CONTINUED

### (c) Going concern

These unaudited interim condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Company will, in the foreseeable future, 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 August 31, 2021, the Company had an accumulated deficit of $13,614,096 (May 31, 2021 - $13,010,269). Working capital as at August 31, 2021 was $1,157,563 compared to $1,849,825 as at May 31, 2021. Net loss and comprehensive loss for the three month period ended August 31, 2021 was $603,827 (2020 - $900,992). Other than some initial licensing fees received, operations since inception have been funded from the issuance of shares and convertible debentures and the 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. These funds have been used to build out the legal and operating infrastructure, the intellectual property portfolio and to obtain the production and sales licences necessary to capitalize on the opportunities within the cannabis marketplace in Canada and internationally.

The Company closed a convertible debenture offering for gross proceeds of $1,575,000 on December 30, 2020 *(see note 9(a))*, and raised a further $1,038,000 from exercise of share purchase warrants from April, 2021 to June, 2021. The Company anticipates that 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. While the Company has been successful in recent fundraising efforts as noted above, there can be no assurance that additional funds could be raised in the future. 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 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) 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.

### (b) 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 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 that liabilities are classified as either current or non-current depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. This amendment also clarifies the meaning of settlement of a liability. This amendment is effective for annual periods beginning on or after January l, 2023. The Company has not yet assessed the impact of the amendment on the unaudited interim condensed consolidated financial statements.

### (d) IAS 12 "Income Taxes"

This standard has been amended to require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company has not yet assessed the impact of the amendment on the unaudited interim condensed consolidated financial statements.

## 3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS, continued

### (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.

## 4. MEDIPHARM MEMORANDUM OF UNDERSTANDING

**(a)** During the year ended May 31, 2020, the Company acquired distillate from MediPharm Labs Inc. ("MediPharm"), and recorded this distillate in inventory as the Company controlled the distillate purchase. The total amount acquired in fiscal 2020 was for a pre-HST purchase price of $473,460. During the year ended May 31, 2021, the Company acquired additional distillate for a pre-HST purchase price of $232,980. No amounts have been paid to MediPharm related to these purchases such that the HST-included amount owing as at May 31, 2021 and August 31, 2021 was $797,278 (May 31, 2020 - $535,009).

**(b)** During the year ended May 31, 2021, the Company entered into two sales transactions with MediPharm whereby the Company shipped tablets to MediPharm and initially recognized gross revenue of $967,500 as the Company transferred control of the tablets to MediPharm. The sales orders to MediPharm contained a return provision whereby any unsold tablets could be returned to the Company for the original sales price. As required under IFRS 15, the Company assesses its estimate of expected returns at each reporting period for contracts that permit customer returns and revenue is only recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

**(c)** As at May 31, 2021, it became apparent that there was a high likelihood that most product would be returned as the throughput of sales by MediPharm to its end customers had not been achieved. As such, the Company revised the estimate of the transaction price to zero, reversed all revenue previously recognized, and recorded a right to recover goods returned of $459,038 *(see note 7)*. This estimate was later confirmed by the Memorandum of Understanding detailed below. All the inventory sold to MediPharm remained on hand at their facility as at May 31, 2021 and August 31, 2021.

**(d)** Subsequent to year end, the Company and MediPharm executed a Memorandum of Understanding ("MOU") dated September 16, 2021 whereby MediPharm would return all the tablets purchased from Canntab, which would settle the accounts receivable owing. Commencing within sixty days after Canntab's first sale of the returned product, Canntab will pay MediPharm $20,000 per month for a period of twelve and a half consecutive months, to a maximum amount of $250,000. Upon MediPharm being paid $250,000 in accordance with the payment terms above, the amounts payable for the distillate will be considered paid in full, which would settle the amounts otherwise due under the distillate purchase orders.

## 4. MediPharm Memorandum Of Understanding, continued

**(e)** The return of tablets under the MOU, corroborates the return provision and right to recover assets recorded as at May 31, 2021. As there is no reasonable expectation of collection of the accounts receivable, the amount has been written off and no refund liability has been recorded. However, the legal settlement of the distillate initially purchased in fiscal 2020 of $797,278 (HST included) did not occur until subsequent to May 31, 2021 and as such, the revised obligation of $250,000 has not been adjusted in these consolidated financial statements as the criteria for the liability to be extinguished were not met.

## 5. Cash and Cash Equivalents

| | **August 31 2021** | May 31 2021 |
|---|---|---|
| Cash | **$ 940,307** | $ 412,358 |
| Cash in Company lawyer's trust account | **39,762** | 1,078,505 |
| | **$ 980,069** | $ 1,490,863 |

The cash in the Company lawyer's trust account is unrestricted. The majority of this balance as at August 31, 2021 includes undisbursed proceeds received after exercise of share purchase warrants in May, 2021 *(see notes 10(e) and )*, and were disbursed to the Company in June, 2021.

## 6. Accounts Receivable

| | **August 31 2021** | May 31 2021 |
|---|---|---|
| Other | **$ (6,109)** | $ - |
| HST recoverable | **178,374** | 197,363 |
| Non-trade accounts receivable | **10,000** | 10,000 |
| | **$ 182,265** | $ 207,363 |

**(a)** As outlined in note 4, the refund liability recorded related to the MediPharm transaction has been recorded against the accounts receivable due from MediPharm, as there was no expectation that this receivable would be recoverable once the product is returned. Subsequent to year end, the Company reached an agreement with MediPharm to recover all products sold for no consideration, corroborating the fact that no payment from MediPharm would be made *(see note 4)*.

**(b)** HST recoverable includes $125,775 of HST payable on sales previously reported, filed and paid that is now recoverable given the reversal of the previous MediPharm sales *(see note 4(c))*.

**(c)** The sale recognized on the initial shipment under an Australian order in the reporting period was prepaid, such there is no trade accounts receivable as at August 31, 2021.

## 7. INVENTORY

| | **August 31 2022** | May 31 2021 |
|---|---|---|
| Work-in-progress | **$ -** | $ 459,038 |
| Non-cannabis raw materials | **162,878** | 162,878 |
| Cannabis oil raw materials | **139,976** | 139,976 |
| Work-in-progress | **192,255** | 192,255 |
| Finished goods | **743,459** | 766,499 |
| Right to recover returned goods (Note 4(c)) | **459,038** | - |
| | **$ 1,697,606** | $ 1,720,646 |

The Company has recognized a provision for inventory obsolescence as at August 31, 2021 of $263,312 (May 31, 2021 - $263,312).

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | **August 31 2021** | May 31 2021 |
|---|---|---|
| Trade accounts payable | **$ 983,673** | $ 1,015,318 |
| Accrued liabilities | **445,204** | 288,626 |
| Accounts payable - related company (Note 11(a)) | **91,043** | 76,544 |
| Customer deposit | **-** | 40,620 |
| | **$ 1,519,920** | $ 1,421,108 |

Trade accounts payable as at May 31, 2021 includes $797,278 (May 31, 2021 - $797,278) due to MediPharm *(see note 4(a))*. Under the terms of the MediPharm Memorandum of Understanding dated September 16, 2021, the companies have agreed to settle this obligation for $250,000 (plus applicable HST) *(see note 4(d))*.

## 9. DEBENTURES PAYABLE AND DERIVATIVE LIABILITIES

**(a)** On December 30, 2020, the Company closed on a private placement of $1,525,000 of secured debentures, issued at a price of $1,000 per debenture with a term of two years and due by December 30, 2022. In addition, the Company granted compensation to its CFO in the form of convertible debentures of $50,000. The total face value of convertible debentures outstanding as at May 31, 2021 is $1,575,000 (2020 - $Nil).

**(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 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.

## 9. Debentures Payable And Derivative Liabilities, continued

**(ii)** The debentures are convertible into common shares of the Company at a conversion price, subject to adjustments, 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.

**(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 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 *(see note )*. 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, then the exercise price and the conversion price would be adjusted downward.

**(c)** As a result of the adjustment, the conversion feature and warrants do not meet equity classification, as they contain contractual terms that result in a potential adjustment in the conversion price and exercise price of the warrants. In failing the equity classification, the conversion feature and share purchase warrants were accounted for as derivative liabilities. The effect is that the convertible debenture host debt instrument is accounted for at amortized cost, with the derivative liabilities being measured at fair value with changes in value being recorded in profit or loss. In addition to the above, the prepayment option represents an embedded derivative liability. The prepayment option was valued at $Nil initially and as at May 31, 2021.

## 9. DEBENTURES PAYABLE AND DERIVATIVE LIABILITIES, CONTINUED

**(d)** As a result of the above, the Company was required to first fair value the conversion feature and share purchase warrants at fair value as at December 30, 2020 and the residual was allocated to the host debt instrument. Below is a summary of the components of the convertible debentures and derivative liabilities:

| | Convertible debentures | Derivative liability: conversion feature | Derivative liability: share purchase warrants | Derivative liability: total | Total |
|---|---|---|---|---|---|
| Balance, May 31, 2020 | $ - | $ - | $ - | $ - | $ - |
| Fair values on issuance on December 30, 2020 | 940,256 | 250,838 | 383,906 | 634,744 | 1,575,000 |
| Transaction costs | (49,608) | - | - | - | (49,608) |
| Interest and accretion | 77,384 | - | - | - | 77,384 |
| Revaluation | - | 283,289 | 187,032 | 470,321 | 470,321 |
| Balance, May 31, 2021 | 968,032 | 534,127 | 570,938 | 1,105,065 | 3,178,162 |
| Interest and accretion | 69,763 | - | - | - | 69,763 |
| Revaluation | - | (199,439) | (321,694) | (521,133) | (521,133) |
| Balance, August 31, 2021 | $ 1,037,795 | $ 334,688 | $ 249,244 | $ 583,932 | $ 1,621,727 |

## 10. SHARE CAPITAL

Continuity schedules for each component of the Company's share capital and other equity instruments are disclosed in the unaudited interim condensed consolidated statements of changes in shareholders' equity for the period from June 1, 2020 to August 31, 2021. Descriptions of the changes in shareholders' equity are as follows:

### (a) Share issuances

In June, 2021, 1,384,000 common shares were issued for gross proceeds of $1,038,000 upon exercise of 1,384,000 share purchase warrants issued in connection with the private placement that closed in March, 2020. Of the total proceeds, $813,750 were received prior to May 31, 2021, presented as shares to be issued on the consolidated statement of financial position as at May 31, 2021, and transferred to share capital in the current period.

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) Deposit on asset purchase

In August 2020, 200,000 common shares were issued to CMAX at a deemed price of $0.51 per share as a deposit on an asset purchase *(see note 11(b))*.

## 10 SHARE CAPITAL, CONTINUED

### (c) Loss per share

Basic loss per share is computed using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the three month period ended August 31, 2021 was 37,153,274 (2020 - 32,838,450).

### (d) Share based compensation

Total share based compensation of $24,179 was recognized during the three month period ended August 31, 2021 (2020 - $283,950) based on currently issued and previously granted options and special warrants expected to vest in the reporting period.

## 11. RELATED PARTY TRANSACTIONS

During the three month periods ended August 31, 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 officers and directors, as follows:

| | 2021 | 2020 |
|---|---|---|
| Salary | $ 33,142 | $ 31,667 |
| Consulting fees | 57,000 | 94,500 |
| Car allowances | 2,400 | 4,800 |
| Share based compensation | 24,179 | - |
| | $ 116,721 | $ 130,967 |

**(a)** The Company is related to CMAX Technologies Inc. by virtue of common ownership and management. The Company entered into a lease renewal agreement with CMAX in fiscal 2020 under which it is obligated to make monthly rental payments of $10,000 until expiry on December 31, 2022. During the three month period ended August 31, 2021, the Company made payments of $30,000 (2020 - $30,000).

**(b)** In August, 2020, the Company made a deposit of $102,000 on a related party asset acquisitions *(see note 11(b)))*.

**(c)** Accounts payable and accrued liabilities as at August 31, 2021 includes $173,700 (2020 - $127,995) with respect to balances owing to related parties for the transactions disclosed above.

## 12. 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 bank 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 August 31, 2021 was approximately $1,395,000. The fair value was determined using the discounted cash flow method using a discount rate of 20%. The discount rate used is management's best estimate reflective of the Company's specific credit risk.

### (b) Credit risk

Credit risk arises from deposits with banks, HST receivable and trade accounts receivable. The maximum exposure to credit risk as at August 31, 2021 is $1,162,334 of cash and cash equivalents and accounts receivable in the consolidated statement of financial position.

The Company’s credit risk is attributable to its accounts receivable, which is comprised mostly of refundable HST ITC's. The receivable arising from the Company's sales transaction in the current period was fully prepaid, such that there is no trade accounts receivable as at August 31, 2021..

Cash and cash equivalents consists of bank deposits 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 regularly monitors its credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss.

### (c) Liquidity risk

The business of the Company necessitates the management of liquidity risk. 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 is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. Most of the Company’s financial liabilities are due within one year except for finance lease obligations and convertible debenture.

The Company manages liquidity risk through the management of its capital structure and resources to ensure that it has sufficient liquidity to settle obligations and liabilities when they are due. Management keeps track of its operational needs and creates budgets and cash flow estimates to determine cash flow requirements for general business and working capital needs, as well as growth projects. The Company's ability to meet its operational needs is dependent on future operating results and cash flows, which are determined by economic, financial, competitive, market, regulatory factors and other factors.

## 12. Financial Instruments And Risk Factors, continued

The Company closed on a convertible debenture offering in December, 2020 for net proceeds of $1,491,519 to continue its strategy of expanding its manufacturing facilities, its research and development and geographic coverage. This transaction followed the closing of a private placement in March, 2020 for net proceeds of $3,371,378. As at August 31, 2021, the Company had working capital of $1,157,563 (May 31, 2021 - $1,849,825).

### (d) Market risk

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

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

(ii) Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is subject to interest rate risk from its convertible debentures. Debentures owed by the Company are all fixed rate instruments.

## 13. Comparative Figures

Certain comparative information have been reclassified to conform with the current period presentation. The major reclassifications were made with respect to the statement of net loss and comprehensive loss for the purposes of (1) reclassifying interest expense from the general and administrative financial statement caption into its own caption, (2) merging professional and consulting fee captions, and (3) merging other prior year immaterial captions with general and administrative expense.

## 14. Segmented Information

The Company's operations comprise a single operating segment engaged in the medical marijuana business. All property and equipment, right-of-use assets and intangible assets are located in Canada.

## 15. Subsequent events

### (a) Share issuances

In June, 2021, 1,384,000 common shares were issued upon exercise of 1,384,000 share purchase warrants issued in connection with the private placement that closed in March, 2020 *(see note 10(a))*.

## 15. Subsequent Events, continued

### (b) Stock options

In September, 2021, the Board of Directors approved the issuance of 465,000 stock options to certain employees of the Company. The options are exercisable at a price $0.80 per option, expire by September 1, 2025, and vest as to 1/6 immediately, and 1/6 for each subsequent six month period, such that they are fully vested by March 1, 2024.

### (c) MediPharm Memorandum of Understanding

On September 16, 2021, the Company entered a Memorandum of Understanding to govern prior shipments and billings with MediPharm *(see note 4)*.

### (d) Ontario Cannabis Retail Corporation

The Company has executed a Master Cannabis Supply Agreement dated September 14, 2021 with the Ontario Cannabis Retail Corporation o/a Ontario Cannabis Stores.