CANNTAB THERAPEUTICS LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

THREE MONTHS ENDED AUGUST 31 AND 2020

CANNTAB THERAPEUTICS LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS
THREE MONTHS ENDED AUGUST 31 AND 2020

The following management discussion and analysis ("MD&A") of Canntab Therapeutics Limited ("Canntab" or "the Company") provides a review of corporate developments, results of operations and financial position for the three months ended August 31, 2021 and 2020 ("F2022 Q1 and "F2021 Q1" respectively). This discussion is prepared as of November 1, 2021 and should be read in conjunction with (i) the unaudited interim condensed consolidated financial statements and the accompanying notes for the three months ended August 31, 2021 and 2020, and (ii) both the audited consolidated financial statements and MD&A for the fiscal years ended May 31, 2021 and May 31, 2020. Additional information relating to the Company is available on Canntab's SEDAR profile at www.sedar.com and the Company's website at www.canntab.ca. The results reported in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, which is the Company's functional currency.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors (the "Board"), considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Company's common shares, (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision, or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or statements that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement.

Detailed information on risks and uncertainties is provided in the "Uncertainties and Principal Risk Factors" section of the annual MD&A for the year ended May 31, 2021.

COMPANY OVERVIEW

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 THERAPEUTICS LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS
THREE MONTHS ENDED AUGUST 31 AND 2020

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".

The Extended Release Tablet ("XR" or the "XR Tablet") is a proprietary phytocannabinoid vehicle that is designed to directly address the drawbacks and challenges of competing oral delivery systems. These challenges include, but are not limited to, accuracy of dosing, onset times, duration of action, bioavailability, discreetness of consumption, ease of spoilage and the reduction of side effects, and are all directly addressed by the unique formulation of the XR Tablet. The XR Tablet is designed to contain either THC, CBD or a combination of THC/CBD (depending on the composition of the medicine), permitting it to meet the demands of a broader patient base than the current synthetic-THC based pills in the market today.

Intellectual property underpins the value of XR Tablets in the form of four international patent applications already filed. Canntab is rapidly moving toward the commercialization phase by partnering with a best-in-class licensed producer of medicinal cannabis in Canada and gearing up for its first series of pre-clinical trials.

CURRENT HIGHLIGHTS

- Agreement with 36Eight Technologies Inc., a growing bioinformatics pharmacological healthcare data and technology company
- Signing of Memorandum of Understanding with MediPharm Labs Inc. on September 16, 2021
- Signing of Master Cannabis Supply Agreement with Ontario Cannabis Stores on September 14, 2021
- First commercial shipment to under Australian purchase order
- On July 30, 2021, the Company amalgamated with its 100% subsidiary, Canntab Therapeutics Subsidiary Limited, and was continued as Canntab Therapeutics Limited.

RECENT EVENTS

Agreement with Innovative Bioinformatics Company,

On October 18, 2021, the Company announced that it had reached an agreement with 36Eight Technologies Inc. ("36Eight"), a growing bioinformatics pharmacological healthcare data and technology company, which has developed a proprietary artificial intelligence and machine learning algorithm which augments the underlying clinical data/knowledge to efficiently understand a patient's unique medical needs. 36Eight's first-of-its-kind clinical intelligence software assists physicians, nurses, and pharmacists in screening for drug-cannabis interactions, and to optimize health outcomes via cannabis product dose combination, titration, and ongoing clinical assessment. 36Eight will list, market and support all of Canntab's market-exclusive and patent-protected solid and exact dose products, which can be time released, extended released and ODT (oral dissolvable) in a variety of strengths and combinations, on its platform

MediPharm Memorandum of Understanding

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 is $797,278 (2020 - $535,009) *(see discussion below on "Change of market penetration strategy")*.

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, for which the Company made an initial provision of $145,125. As required under IFRS 15, the Company is required to revise 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.

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. This estimate was later confirmed by the Memorandum of Understanding ("MOU") detailed below. All the inventory sold to MediPharm remained on hand at their facility as at May 31, 2021.

Subsequent to May 31, 2021, the Company and MediPharm executed an MOU dated September 16, 2021 whereby MediPharm would return all the tablets purchased from Canntab. 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.

The return of tablets subsequent to May 31, 2021 corroborates the return provision and right to recover assets recorded as at May 31, 2021. The refund liability to MediPharm has been recorded against the MediPharm accounts receivable as the Company does not expect collection for the amounts receivable related to this sale. 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 interim consolidated financial statements as of August 31, 2021 as the criteria for the liability to be extinguished were not met.

Change of market distribution strategy

Since the second delivery to MediPharm in February, 2021, management had been looking forward to seeing Canntab's tablets available to the public through MediPharm's already established customer network. Unfortunately until now, MediPharm was unsuccessful in obtaining from the Ontario Cannabis Retail Corporation "(OCS") the listing necessary to introduce our tablets to the market. Canntab's management had also been dealing with OCS and received a listing for one of our THC products and expects to receive a listing for a CBD product on OCS's next listing allocation. The Company executed a Master Cannabis Supply Agreement with OCS dated September 14, 2021 and has now been informed that an order for our THC product will be placed with a delivery date of November 9, 2021. The order quantity is unknown, but quantities will be as required by OCS to supply the 1,000 stores it regulates.

Based on the current situation, and after careful consideration, management felt that the introduction of our tablets into the market would be accelerated by Canntab. As a result of the above, Canntab and MediPharm renegotiated our existing agreements. As previously announced, Canntab acquired cannibanoid oil from MediPharm and used some of it to produce the tablets that it delivered to MediPharm. Under the new agreement, Canntab agreed to take back all the tablets it delivered to MediPharm and MediPharm agreed to reduce the purchase price of the oil it sold to Canntab to $250,000.

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 (ASX: CGB) ("CANN Global") of Australia. The products ordered by Cann Global on October 26, 2020 are expected to be distributed, through its management partnership with Medcan Australia Pty Ltd ("Medcan Australia"), throughout Australia to medical distributors, including doctors, pharmacies, and hospitals.

The first part of that order, comprising 10% or approximately $40,000, was successfully shipped in F2022 Q1. The Company has received the required import permits from Australia for the second part of the order, and has now received the export permits from Health Canada under which approximately $200,000 of goods will be shipped there near the end of F2022 Q2 as the second part of the order.

Future sales initiatives

The Company is working on numerous sales initiatives as follows:

(a) Canntab is in the final stages of receiving the required amendment to its Health Canada license application to sell its 12 Health Canada approved SKU's (instant release tablets delivering THC, CBD and a combination of THC/CBD in 12 different strengths) directly to the consumer.

(b) In May 2021, Health Canada conducted a comprehensive operational audit which the Company completed successfully. The Company has since received a preliminary indication from Health Canada that its application to amend its sale license to permit direct sales to the consumer meets all the requirements and is making its way through the regulatory channels. Management expects to receive the formal approval shortly. Receipt of this amendment will allow the Company to complete the testing of our e-commerce web site enabling us to sell directly to the consumer and to specialty providers, such as pain and sleep clinic

(c) Management is confident of further future listings and significant orders from OCS under the Master Cannabis Supply Agreement. The Company is also actively engaged with other provinces to complete the application process to list our products with their respective regulatory bodies.

(d) The Company is engaged in discussions with marketing agencies to design programs to create awareness of Canntab's products and create/increase demand by consumers and medical and wellness professionals. A plan has been developed with marketing and sales agencies to call upon over 700 independent cannabis retailers in Ontario to list and support Canntab listings.

(e) Management is in advanced discussion to sell our products to:
Established pharmaceutical and medical groups interested in using our pills in pain reduction;
First Nations Indigenous communities in Ontario interested in using our pills in their opiate user reduction programs; and
Internationally, management is looking to build on its success in Australia through dialogues with England and New Zealand. (GK - is this still relevant?)

(f) Management is in final discussions with a large Canadian-based pain clinic group to be a preferred supplier for prescribed medical cannabis

(g) The Company has developed an oral dissolvable tablet product that has a sublingual delivery system, a highly desirable product preferred by prescribers for groups of patients

Although there are no guarantees that these initiatives will be successful, management is confident that we are dealing with parties that are knowledgeable, understand the uniqueness and health value of our products, are financially solid and are genuinely interested in being our partners.

Convertible debentures

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 have been used to fund working capital for the Company and for general corporate purposes. Some of the major terms of the issuance 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 $78,250) 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.

(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) 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.

(iv) There are numerous other conditions with respect to conversion features, ratchet features and/or redemption privileges that caused the conversion feature and warrants to be classified as derivative liabilities and revalued each reporting period.

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.

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, 2020 - $13,010,269). Working capital as at August 31, 2021 was $1,157,563 compared to $1,849,825 as at May 31, 2020. For the three months ended August 31, 2021, net loss and comprehensive loss 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 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 dales 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 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.

PRODUCTS

The Company has developed the formulation and prototype for its first product, the Extended Release Tablet ("XR Tablet"), which delivers standardized medical cannabis extract from selective strains in a solid, extended release pharmaceutical dosage. The XR Tablet is a proprietary phytocannabinoid vehicle that is designed to directly address the drawbacks and challenges of competing oral delivery systems, including, but not limited to, accuracy of dosing, onset times, duration of action, bioavailability, ease of spoilage, and the reduction of side effects. The Company is rapidly moving toward the commercialization phase and gearing up for its first series of pre-clinical trials. The Company plans to manufacture and distribute the XR Tablet in legal medical cannabis jurisdictions including Canada, select states within the United States, Australia, and Germany.

Canntab holds a Cannabis Standard Processing and Sales for Medical Purposes Licence and a Cannabis Research Licence from Health Canada. As part of its overall business plan and strategy, the Company will continue to seek Health Canada approval for its formulations of cannabinoid medications. The Company has plans to apply to Health Canada to add the XR Tablet to the approved list under the Access to Cannabis for Medical Purposes Regulations ("ACMPR"). The XR Tablets use pharmaceutical grade excipients, all approved by Health Canada, and, in order to facilitate the approval process, the Company intends to present to Health Canada the similarities of the XR Tablet to existing room temperature oils inside gel capsules which have been approved under the ACMPR.

INTELLECTUAL PROPERTY

The success of the Company's business depends in part on its ability to protect its technology and formulations related to pharmaceutical preparations containing natural or synthetic cannabinoids. In recognition of this, the Company continues to expand its intellectual property portfolio, which includes patent and trademark applications in the United States and Canada. On September 21, 2020, the Company announced it had been awarded a US patent titled "Modified Release Multi-Layer Tablet Cannabinoid Formulations" *(see discussion under "Recent Events" section above)*. The Company's intellectual property portfolio includes numerous patent applications in Canada, the United States and internationally.

The Canadian patents/patent applications that were filed pertain to a variety of Canntab's innovative technologies related to oral dosage formulations of pharmaceutical cannabis, including Sustained Release Cannabinoid Formulations and Sustained Release Cannabinoid Pellets, Immediate Release Cannabidiol Formulations; Modified-Release Multi-Layer Cannabinoid Formulations; Flash-Melt Cannabinoid Formulations; and Bi-layer Cannabinoid Tablets.

These patent applications are part of Canntab's continuing strategy to develop a comprehensive intellectual property portfolio which covers the company's technology and formulations related to pharmaceutical preparations which contain natural or synthetic cannabinoids. Canntab is currently developing a number of products which utilize this technology, including a variety of extended released tablets containing a mixture of THC (Tetrahydrocannabinol) and CBD (Cannabidiol) that may be helpful in the treatment of a number of ailments, such as sleep disorders, post-traumatic stress disorder (PTSD), social anxiety, addiction, arthritis, general pain, pain management and appetite loss associated with cancer treatments, and addiction treatment therapy of opioids and other painkillers.

In addition to patents, the Company also has numerous trademark applications in the United States and Canada that cover four potential trade names for the XR Tablet.

QUARTERLY PERFORMANCE

The following table highlights certain key quarterly financial highlights. Commentary on the selected highlights is included under "Results of Operations" and "Liquidity and Capital Resources".

	Aug-2021 2022 Q1 $	May-2021 2021 Q4 $	Feb-2021 2021 Q3 $	Nov-2020 2021 Q2 $	Aug-2020 2021 Q1 $	May-2020 2020 Q4 $	Feb-2020 2020 Q3 $	Nov-2019 2020 Q2 $
Balance sheet								
Cash and cash equivalents	980,069	1,490,863	1,434,375	397,536	1,058,809	2,090,438	1,496,723	182,844
Working capital	1,157,565	1,849,824	2,181,522	934,139	1,565,548	2,029,007	2,348,962	34,770
Shareholders' equity	1,913,360	1,455,006	3,370,490	3,747,016	3,068,459	3,528,742	3,585,731	1,278,896
Income statement								
Tablet sales	34,511	(843,375)	465,375	378,000	-	-	-	-
Operating expenses	773,518	671,349	418,850	536,055	525,391	438,776	560,348	513,156
Net loss and comprehensive loss	(603,827)	(2,304,324)	(604,697)	(609,769)	(900,992)	(873,361)	(670,904)	(623,102)

RESULTS OF OPERATIONS

Three months ended August 31, 2021 compared to May 31, 2020

The Company had a net loss of $603,827 for F2022 Q1 compared to $900,992 for F2021 Q1.

As a result of the provisions of the MediPharm MOU *(see discussion under "MediPharm Memorandum of Understanding" section above)*, the Company did not record any sales revenue during F2021. During F2022 Q1, the Company recognized revenue of $34,511 on the first component of its Australian order.

As the Company has become active operationally, operating expenses in F2022 Q1 of $773,518 increased by $248,127 compared to F2021 Q1 of $525,391. The major components of the operating expenses (defined as total expenses less interest and non-cash items such as share based compensation, depreciation and amortization, impairment losses and losses on derivatives) are as follows:

- Employee compensation and benefits were $307,697 in F2022 Q1 compared to $162,200 in F2021 Q1, an increase of $145,497. The headcount increased in F2022 Q1 compared to F2021 Q1 as the Company hired a new Chief Executive Officer, a new Chief Scientific Officer and higher level staffing as commercial production has now started. Employee compensation costs capitalized into inventory for F2022 Q1 were $Nil (F2021 Q1 - $51,030).
- Professional and consulting fees increased by $55,785 from $265,663 in F2021 Q1 to $321,448 in F2022 Q1, mostly related to the engagement of contract finance staff and increased legal and audit fees.

- Marketing and regulatory expenses in F2022 Q1 were $57,284 compared to $45,863 in F2021 Q1, an increase of $11,421, largely attributable to higher Health Canada licensing costs.
- General and administrative expenses in F2022 Q1 were $57,515 compared to $36,366 in F2021 Q1, an increase of $21,149 mostly due an increase in external storage costs.

Share based compensation totalled $24,179 in F2022 Q1 compared to $283,952 in F2021 Q1, largely related to the issuance of 882,926 stock options in F2021 Q1 that vested immediately.

Depreciation of plant and equipment and right-of-use assets totalled $209,890 in F2022 Q1 compared to $76,132 in F2021 Q1, an increase of $133,758. The increase was a result of depreciation of leasehold improvements and renovation costs that had not yet been incurred by F2021 Q1.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased by $510,794 to $980,069 as at August 31, 2021 from $1,490,863 as at May 31, 2020. Working capital as at August 31, 2021 was $1,157,563 compared to $1,849,825 as at May 31, 2020, a decrease of $692,262. The major components of the decrease in cash and cash equivalents were the net of the following major transaction flows:

(1) proceeds from exercise of share purchase warrants in June, 2021 of $224,250, less
(2) operating expenses in F2022 Q1 of $773,518 *(see "Results of Operations" section above)*, and
(3) the purchase of plant and equipment and intangible assets in F2022 Q1 for $53,833.

Accounts receivable as at August 31, 2021 of $182,265 (May 31, 2020 - $207,363) is comprised mostly of recoverable HST, including $125,775 of HST payable previously reported that is now recoverable given the reversal of the previous MediPharm sales (*see further discussion under "MediPharm Memorandum of Understanding" section above).*

With no production in the reporting period, inventory as at August 31, 2021 decreased by $23,040 to $1,697,606, compared to $1,720,646 at May 31, 2020. The decrease is the cost of sales on the first part of the Australian order..

Accounts payable as at August 31, 2021 nominally increased by $98,812 to $1,519,920, compared to $1,421,108 at May 31, 2020. Trade accounts payable includes $797,278 due to MediPharm (*see further discussion under "MediPharm Memorandum of Understanding" section above).*

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. The difference of $224,250 was received in F2022 Q1.

The carrying value of the debentures payable was accreted to its carrying value as at August 31, 2021 of $1,037,795 from $968,032 as at May 31, 2021. The derivative liabilities were revalued on a mark-to-market basis to their carrying value as at August 31, 2021 of $583,932 compared to $1,105,065 as at May 31, 2021, a gain of $521,133.

CAPITALIZATION

The Company has common shares and other equity instruments outstanding at each reporting date as follows:

	August 31, 2021	May 31, 2020	Change in reporting period
Common shares	37,322,437	35,938,437	1,384,000
Share purchase warrants	7,655,750	9,039,750	(1,384,000)
Stock options	2,417,926	2,417,926	-
Special warrants	2,687,500	2,687,500	-
Broker compensation warrants	401,480	401,480	-
Total equity instruments	50,485,093	50,485,093	-

The details of the major changes in each equity category over F2022 Q1 are as follows:

Common shares and share purchase warrants

- 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 *(see further discussion above in "Liquidity and Capital Resources" section).*

RELATED PARTY TRANSACTIONS AND BALANCES

During the three months ended August 31, 2021 and 2020, the Company had the following related party transactions:

	F2022 Q1	F2021 Q1
	$	$
Salary	**58,750**	31,667
Consulting fees	**57,000**	94,500
Car allowances	**2,400**	4,800
Share based compensation	**24,179**	-

(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 months ended August 31, 2021, the Company made payments of $30,000 (2020 - $30,000).

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

SUBSEQUENT EVENTS

- 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.
- On September 16, 2021, the Company entered into the MediPharm MOU (*see discussion under "MediPharm Memorandum of Understanding" section above).*
- The Company has executed a Master Cannabis Supply Agreement dated September 14, 2021 with the Ontario Cannabis Retail Corporation o/a Ontario Cannabis Stores.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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.

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.

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.

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.

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.

CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and ensure sufficient liquidity in order to develop its resources properties so that it can provide adequate returns for shareholders. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital as total shareholders' equity.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, an effect on the results of operations or financial condition of the Company.