CANNABIX TECHNOLOGIES INC.

Financial Statements

Years Ended April 30, 2019 and 2018

(Expressed in Canadian dollars)

SATURNA GROUP
CHARTERED PROFESSIONAL ACCOUNTANTS LLP
1066 West Hastings Street, Suite 1250
Vancouver, BC Canada V6E 3X1

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cannabix Technologies Inc.

We have audited the financial statements of Cannabix Technologies Inc. (the "Company"), which comprise the statements of financial position as at April 30, 2019 and 2018, and the statements of operations and comprehensive loss, changes in equity, and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion
We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Statements and Auditor's Report Thereon
Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Lonny Wong.

Saturna Group LLP

Saturna Group Chartered Professional Accountants LLP

Vancouver, Canada

August 20, 2019

CANNABIX TECHNOLOGIES INC.
Statements of financial position
(Expressed in Canadian dollars)

	April 30, 2019 $	April 30, 2018 $
Assets		
Current assets		
Cash and cash equivalents	10,272,706	10,998,501
Amounts receivable	194,174	46,078
Prepaid expenses and deposits	10,007	14,519
Total current assets	10,476,887	11,059,098
Non-current assets		
Equipment (Note 3)	187,482	151,408
Deferred costs (Note 4)	3,893,163	3,893,163
Total non-current assets	4,080,645	4,044,571
Total assets	14,557,532	15,103,669
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	213,367	186,719
Total liabilities	213,367	186,719
Shareholders' equity		
Share capital	21,816,346	20,518,144
Share-based payment reserve	5,128,929	3,119,416
Deficit	(12,601,110)	(8,720,610)
Total shareholders' equity	14,344,165	14,916,950
Total liabilities and shareholders' equity	14,557,532	15,103,669

Subsequent event (Note 12)

Approved and authorized for issuance on behalf of the Board of Directors on August 20, 2019:

/s/ Ravinder Mlait
Ravinder Mlait, Director

/s/ Bryan Loree
Bryan Loree, Director

(The accompanying notes are an integral part of these financial statements)

CANNABIX TECHNOLOGIES INC.
Statements of operations and comprehensive loss
(Expressed in Canadian dollars)

	Year ended April 30, 2019 $	Year ended April 30, 2018 $
Expenses		
Consulting fees (Note 5)	406,799	370,000
Depreciation	20,332	17,106
Investor relations	83,142	48,923
Office and miscellaneous	32,286	20,325
Professional fees	37,521	30,268
Rent	14,747	–
Research and development (Note 5)	1,156,140	913,187
Share-based payments (Notes 5 and 8)	2,149,905	–
Transfer agent and filing fees	78,030	63,077
Travel	37,558	8,439
Total expenses	4,016,460	1,471,325
Loss before other income	(4,016,460)	(1,471,325)
Other income		
Interest income	135,960	3,288
Net loss and comprehensive loss for the year	(3,880,500)	(1,468,037)
Net loss per share, basic and diluted	(0.04)	(0.02)
Weighted average number of shares outstanding	101,969,841	90,787,442

(The accompanying notes are an integral part of these financial statements)

CANNABIX TECHNOLOGIES INC.
Statements of changes in equity
(Expressed in Canadian dollars)

	Share capital		Share-based payment reserve	Deficit	Total shareholders' equity
	Number of Shares	Amount $	$	$	$
Balance, April 30, 2017	86,426,653	11,439,250	3,251,490	(7,252,573)	7,438,167
Shares issued pursuant to private placements	4,850,000	5,577,500	–	–	5,577,500
Share issuance costs	–	(593,316)	204,186	–	(389,130)
Shares issued pursuant to warrants exercised	7,910,401	3,820,174	(244,224)	–	3,575,950
Shares issued pursuant to stock options exercised	1,380,000	274,536	(92,036)	–	182,500
Net loss for the year	–	–	–	(1,468,037)	(1,468,037)
Balance, April 30, 2018	100,567,054	20,518,144	3,119,416	(8,720,610)	14,916,950
Shares issued pursuant to warrants exercised	2,082,050	939,810	–	–	939,810
Shares issued pursuant to stock options exercised	1,375,000	358,392	(140,392)	–	218,000
Fair value of stock options granted	–	–	2,149,905	–	2,149,905
Net loss for the year	–	–	–	(3,880,500)	(3,880,500)
Balance, April 30, 2019	104,024,104	21,816,346	5,128,929	(12,601,110)	14,344,165

(The accompanying notes are an integral part of these financial statements)

CANNABIX TECHNOLOGIES INC.
Statements of cash flows
(Expressed in Canadian dollars)

	Year ended April 30, 2019 $	Year ended April 30, 2018 $
Operating activities		
Net loss for the year	(3,880,500)	(1,468,037)
Items not involving cash:		
Depreciation	20,332	17,106
Share-based payments	2,149,905	–
Changes in non-cash operating working capital:		
Amounts receivable	(148,096)	(16,432)
Prepaid expenses and deposits	4,512	56,974
Accounts payable and accrued liabilities	26,648	28,263
Net cash used in operating activities	(1,827,199)	(1,382,126)
Investing activities		
Purchase of equipment	(56,406)	(119,031)
Net cash used in investing activities	(56,406)	(119,031)
Financing activities		
Proceeds from issuance of shares and share subscriptions received	1,157,810	9,335,950
Share issuance costs	–	(389,130)
Net cash provided by financing activities	1,157,810	8,946,820
Change in cash and cash equivalents	(725,795)	7,445,663
Cash and cash equivalents, beginning of year	10,998,501	3,552,838
Cash and cash equivalents, end of year	10,272,706	10,998,501
Cash and cash equivalents is comprised of:		
Cash held in bank	1,755,456	8,481,251
Cashable guaranteed investment certificates	8,517,250	2,517,250
Total cash and cash equivalents	10,272,706	10,998,501
Non-cash investing and financing activities:		
Fair value of warrants transferred to share capital upon exercise	–	244,224
Fair value of stock options transferred to share capital upon exercise	140,392	92,036
Fair value of warrants issued as share issuance costs	–	204,186

(The accompanying notes are an integral part of these financial statements)

1. Nature of Operations and Continuance of Business

Cannabix Technologies Inc. (the “Company”) is a public company listed on the Canadian Securities Exchange (“CSE”) and trades under the symbol 'BLO'. The Company was incorporated on April 5, 2011 under the BC Business Corporations Act as West Point Resources Inc. and on August 12, 2014, the name of the Company was changed to Cannabix Technologies Inc. The Company’s corporate office and principal place of business is located at 501 – 3292 Production Way, Burnaby, BC.

The Company’s primary business is the development of the Cannabix marijuana breathalyzer, which is being acquired under license. The operations of the Company requires research and development of the technology.

2. Significant Accounting Policies

(a) Statement of Compliance and Basis of Presentation

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) on a going concern basis.

These financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value as explained in Note 2(i). The financial statements are presented in Canadian dollars, which is the Company’s functional currency.

(b) Application of New IFRS

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39, Financial Instruments: Recognition and Measurement.

IFRS 9 introduces a new expected credit loss ("ECL") model for all financial assets in scope of the impairment requirements. The new ECL will result in an allowance for credit losses being recorded on financial assets irrespective of whether there has been an actual loss event.

The Company adopted the amendments to IFRS 9 effective May 1, 2018 using the full retrospective method, with no significant impact on the Company's financial statements.

(c) Use of Estimates and Judgments

The preparation of these financial statements in conformity with IFRS requires the Company’s management to make judgments, estimates, and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Significant areas requiring the use of estimates include the useful life and recoverability of equipment, recoverability of deferred costs, fair value of share-based payments, and unrecognized deferred income tax assets.

2. Significant Accounting Policies

(d) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

(e) Intangible Assets

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Acquired intangible assets with indefinite useful lives are stated at cost and are not amortized.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal.

(f) Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probably that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of operations during the period in which they are incurred.

Depreciation of property and equipment is provided using the straight-line method at the following rates approximating their estimated useful lives:

Equipment	10 years

(g) Impairment of Non-Financial Assets

At each reporting date, the Company assesses whether there are indicators of impairment for its non-financial assets. If indicators exist, the Company determines if the recoverable amount of the asset or CGU is greater than its carrying amount. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The Company has used geographical proximity, geological similarities, analysis of shared infrastructure, commodity type, assessment of exposure to market risks and materiality to define its CGUs.

If the carrying amount exceeds the recoverable amount, the asset or CGU is recorded at its recoverable amount with the reduction recognized in the statement of operations. The recoverable amount is the greater of the value in use or fair value less costs to sell. Fair value is the amount the asset could be sold for in an arm’s length transaction. The value in use is the present value of the estimated future cash flows of the asset from its continued use. The fair value less costs to sell considers the continued development of a property and market transactions in a valuation model.

Impairments are reversed in subsequent periods when there has been an increase in the recoverable amount of a previously impaired asset or CGU and these reversals are recognized in the statement of operations. The recovery is limited to the original carrying amount less depreciation, if any, that would have been recorded had the asset not been impaired.

2. Significant Accounting Policies (continued)

(h) Research and Development Costs

Research costs are charged to operations as incurred. Research costs consist primarily of consulting expenses and parts related to the design, testing, and manufacture of the Cannabix marijuana breathalyzer. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable, and the Company intends to or has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets. Other development expenditure is recognized in the statement of operations as incurred.

(i) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the respective instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are included in the initial carrying value of the related instrument and are amortized using the effective interest method. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in the statement of operations.

Fair value estimates are made at the statement of financial position date based on relevant market information and information about the financial instrument. All financial instruments are classified into either: fair value through profit or loss ("FVTPL") or amortized cost.

The Company has made the following classifications:

Cash and cash equivalents	Amortized cost
Amounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

2. Significant Accounting Policies (continued)

(i) Financial Instruments (continued)

Financial assets at amortized cost

Financial assets at amortized cost are non-derivative financial assets which are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition. Subsequent to initial recognition, financial assets are measured at amortized cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been decreased.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are offset against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of operations. Loss allowances are based on the lifetime ECL's that result from all possible default events over the expected life of the trade receivable, using the simplified approach.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the statement of operations to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(j) Financial Liabilities and Equity Instruments

Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized as the proceeds received, net of direct issue costs.

2. Significant Accounting Policies (continued)

(j) Financial Liabilities and Equity Instruments (continued)

Other financial liabilities

Other financial liabilities (including loans and borrowings and trade payables and other liabilities) are initially measured at fair value, net of transaction costs. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(k) Foreign Currency Translation

The functional and reporting currency is the Canadian dollar. Transactions denominated in foreign currencies are translated using the exchange rate in effect on the transaction date or at an average rate. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the statement of financial position date. Non-monetary items are translated using the historical rate on the date of the transaction. Revenue and expenses are translated at average rates for the periods. Foreign exchange gains and losses are included in the statement of operations.

(l) Income Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in the statement of operations. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the statement of financial position method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2. Significant Accounting Policies (continued)

(m) Share-based Payments

The grant date fair value of share-based payment awards granted to employees is recognized as stock-based compensation expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where equity instruments are granted to parties other than employees, they are recorded by reference to the fair value of the services received. If the fair value of the services received cannot be reliably estimated, the Company measures the services received by reference to the fair value of the equity instruments granted, measured at the date the counterparty renders service.

All equity-settled share-based payments are reflected in share-based payment reserve, unless exercised. Upon exercise, shares are issued from treasury and the amount reflected in share-based payment reserve is credited to share capital, adjusted for any consideration paid.

(n) Loss Per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted loss per share, whereby all “in the money” stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted loss per share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive. As at April 30, 2019, the Company had 10,956,500 (2018 – 12,863,550) potentially dilutive shares outstanding.

(o) Comprehensive Loss

Comprehensive loss is the change in the Company’s net assets that results from transactions, events and circumstances from sources other than the Company’s shareholders and includes items that are not included in the statement of operations. For the years ended April 30, 2019 and 2018, the Company did not have any transactions impacting comprehensive income (loss).

(p) Accounting Standards Issued But Not Yet Effective

The following new standards, and amendments to standards and interpretations, are effective for the year ended April 30, 2019, and have not been applied in preparing these financial statements:

New standard IFRS 16, “Leases”

The Company has not early adopted this new standard and it will not have a material impact on the Company’s financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company’s financial statements.

(Expressed in Canadian dollars)

3. Equipment

	Equipment $
Cost:	
Balance, April 30, 2017	52,039
Additions	119,031
Balance, April 30, 2018	171,070
Additions	56,406
Balance, April 30, 2019	227,476
Accumulated depreciation:	
Balance, April 30, 2017	2,556
Additions	17,106
Balance, April 30, 2018	19,662
Additions	20,332
Balance, April 30, 2019	39,994
Carrying amounts:	
As at April 30, 2018	151,408
As at April 30, 2019	187,482

4. Deferred Costs

A continuity of deferred license costs capitalized is as follows:

	$
Balance, April 30, 2016	3,760,312
603,870 common shares issued August 8, 2016	132,851
Balance, April 30, 2017, 2018 and 2019	3,893,163

On June 5, 2014, the Company and a company controlled by the President of the Company, Cannabix Breathalyzer Inc. (“Licensor”), entered into a definitive licensing agreement (the “Agreement”). The Agreement provides the Company exclusive license rights (“License Rights”) to make, use and sell the products and to practice the inventories covered by the medical marijuana patent in the United States as defined in the patent application filed by the Licensor. The territory covered in the agreement is the United States and its territories and possessions, and all other countries that are deemed to constitute the North American Continent (“Territory”). In consideration for the License Rights, the Company issued 7,500,000 common shares at a fair value of $375,000 and issued 7,500,000 share purchase warrants exercisable at $0.075 per share expiring on June 26, 2015 at a fair value of $122,812. The fair value of the share purchase warrants was determined using the Black-Scholes pricing model.

The Agreement outlines future share payments upon reaching the following milestones: The issuance of 7,500,000 common shares of the Company within fourteen business days of prototype delivery to the Company (shares issued April 9, 2015 at a fair value of $3,262,500). Furthermore, upon receipt of the final patent, the Company will issue 5,000,000 common shares of the Company. As the final patent has yet to be received, these 5,000,000 common shares have not yet been issued. The Agreement is also subject to a royalty of 3% of the selling price for each product manufactured, used, sold, or imported by the Company into the Territory that may be developed under the patent.

4. Deferred Costs (continued)

There is no assurance that a prototype or that a final patent will be issued by the U.S. patent office, however, it is management's belief and judgement that a patent will ultimately be received. As the patent has yet to be obtained, the $3,760,312 fair value of consideration issued to the licensor is presented as deferred costs on the statement of financial position. On July 28, 2016, the Licensor assigned its right, title, and interest in certain US and Canadian patent applications to the Company.

On July 25, 2016, the Company entered into an exclusive worldwide license agreement for intellectual property relating to breath diagnostic applications of controlled substances with the University of Florida Research Foundation, Incorporated ("UFRF"). As consideration, the Company issued 603,870 common shares at a fair value of $132,851 to UFRF on August 8, 2016.

5. Related Party Transactions

(a) During the year ended April 30, 2019, the Company incurred consulting fees of $142,000 (2018 - $110,000l) to the Chief Executive Officer of the Company.

(b) During the year ended April 30, 2019, the Company incurred consulting fees of $124,000 (2018 - $92,000) to the Chief Financial Officer of the Company.

(c) During the year ended April 30, 2019, the Company incurred consulting fees of $168,000 (2018 - $168,000) and research and development costs of $28,000 (2018 - $nil) to a company controlled by the President of the Company.

(d) During the year ended April 30, 2019, the Company incurred research and development costs of $124,000 (2018 - $92,000) to a director of the Company.

(e) During the year ended April 30, 2019, the Company issued nil (2018 – 630,000) common shares to the Chief Executive Officer of the Company for proceeds of $nil (2018 - $78,750) pursuant to the exercise of stock options.

(f) During the year ended April 30, 2019, the Company issued 205,000 (2018 – nil) common shares to the Chief Financial Officer of the Company for proceeds of $20,500 (2018 - $nil) pursuant to the exercise of stock options.

(g) During the year ended April 30, 2019, the Company issued nil (2018 – 90,000) common shares to a director of the Company for proceeds of $nil (2018 - $14,500) pursuant to the exercise of stock options.

(h) During the year ended April 30, 2019, the Company issued nil (2018 – 630,000) common shares to the President of the Company for proceeds of $nil (2018 - $78,750) pursuant to the exercise of stock options.

(i) During the year ended April 30, 2019, the Company granted 1,350,000 (2018 – nil) stock options with a fair value of $1,963,411 (2018 - $nil) to directors and officers of the Company.

(j) During the year ended April 30, 2019, the Company issued 250,000 (2018 – nil) common shares to the Chief Executive Officer of the Company for proceeds of $50,000 (2018 - $nil) pursuant to the exercise of share purchase warrants.

(k) During the year ended April 30, 2019, the Company issued 500,000 (2018 – nil) common shares to the Chief Financial Officer of the Company for proceeds of $100,000 (2018 - $nil) pursuant to the exercise of share purchase warrants.

(Expressed in Canadian dollars)

6. Share Capital

Authorized: Unlimited number of common shares without par value

Share transactions for the year ended April 30, 2019:

(a) During the year ended April 30, 2019, the Company issued 2,082,050 common shares for proceeds of $939,810 pursuant to the exercise of share purchase warrants.

(b) During the year ended April 30, 2019, the Company issued 1,375,000 common shares for proceeds of $218,000 pursuant to the exercise of stock options. The fair value of the stock options exercised of $140,392 was reallocated from share-based payment reserve to share capital.

Share transactions for the year ended April 30, 2018:

(c) On December 7, 2017, the Company issued 4,850,000 units at $1.15 per unit for gross proceeds of $5,577,500. Each unit was comprised of one common share and one common share purchase warrant exercisable at $1.60 per common share for a period of three years from the date of closing. The Company paid fees of $389,130 and issued 240,000 share purchase warrants with a fair value of $204,186 to the finders.

(d) During the year ended April 30, 2018, the Company issued 7,910,401 common shares for proceeds of $3,575,950 pursuant to the exercise of share purchase warrants. The fair value of the share purchase warrants exercised of $244,224 was reallocated from share-based payment reserve to share capital.

(e) During the year ended April 30, 2018, the Company issued 1,380,000 common shares for proceeds of $182,500 pursuant to the exercise of stock options. The fair value of the stock options exercised of $92,036 was reallocated from share-based payment reserve to share capital.

7. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

	Number of warrants	Weighted average exercise price $
Balance, April 30, 2017	8,488,766	0.24
Issued	5,090,000	1.60
Exercised	(7,364,268)	0.44
Expired	(426,948)	0.25
Balance, April 30, 2018	5,787,550	1.18
Exercised	(2,082,050)	0.45
Expired	(24,000)	0.20
Balance, April 30, 2019	3,681,500	1.60

As at April 30, 2019, the following share purchase warrants were outstanding:

Number of warrants outstanding	Exercise price $	Expiry date
3,681,500	1.60	December 7, 2020

(Expressed in Canadian dollars)

7. Share Purchase Warrants (continued)

Agent's Warrants

The following table summarizes the continuity of agent's warrants:

	Number of warrants	Weighted average exercise price $
Balance, April 30, 2017	306,134	0.25
Issued	240,000	1.15
Exercised	(546,134)	0.65
Balance, April 30, 2018 and 2019	–	–

The fair value for agents' warrants issued have been estimated using the Black-Scholes option pricing model assuming no expected dividends and forfeitures, and the following weighted average assumptions:

	2019	2018
Risk-free interest rate	–	1.57%
Expected life (in years)	–	2
Expected volatility	–	105%

The weighted average fair value of the agents' warrants granted during the year ended April 30, 2019 was $nil (2018 - $0.91) per warrant. The weighted average share price for agents' warrants exercised during the year ended April 30, 2019 was $nil (2018 - $0.65).

8. Stock Options

The Company has adopted a stock option plan pursuant to which options may be granted to directors, officers, employees and consultants of the Company to a maximum of 10% of the issued and outstanding common shares. The aggregate number of options granted to any one optionee in a one year period is limited to 5% of the issued shares of the corporation. The exercise price of each option is set by the Board of Directors at the time of grant. Options vest immediately when granted and can have a maximum term of ten years.

The following table summarizes the continuity of the Company's stock options:

	Number of stock options	Weighted average exercise price $
Outstanding, April 30, 2017	8,455,000	0.39
Exercised	(1,380,000)	0.13
Outstanding, April 30, 2018	7,075,000	0.44
Granted	1,575,000	2.20
Exercised	(1,375,000)	0.16
Outstanding, April 30, 2019	7,275,000	2.83

(Expressed in Canadian dollars)

8. Stock Options (continued)

Additional information regarding stock options outstanding as at April 30, 2019, is as follows:

	Outstanding and exercisable		
Exercise price $	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price $
0.125	1,100,000	0.5	0.12
0.35	2,300,000	2.0	0.35
0.85	2,300,000	2.7	0.85
2.20	1,575,000	2.8	1.51
	7,275,000	2.5	2.83

The fair value for stock options granted have been estimated using the Black-Scholes option pricing model assuming no expected dividends or forfeitures and the following weighted average assumptions:

	2019	2018
Risk-free interest rate	2.43%	–
Expected life (in years)	4.6	–
Expected volatility	130%	–

The total fair value of stock options vested during the year ended April 30, 2019 was $2,149,905 (2018 - $nil) which was recorded as share-based payment reserve and charged to operations. The weighted average fair value of the stock options granted during the year ended April 30, 2019 was $1.37 (2018 - $nil) per option. The weighted average share price for stock options exercised during the year ended April 30, 2019 was $0.16 (2018 - $0.13).

9. Capital Management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and cash equivalents, and equity comprised of issued share capital and share-based payment reserve.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended April 30, 2018.

(Expressed in Canadian dollars)

10. Financial Instruments and Risk Management

(a) Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position as at April 30, 2019, as follows:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of other financial instruments, which include cash and cash equivalents, amounts receivable, and accounts payable and accrued liabilities, approximate their carrying values due to the relatively short-term maturity of these instruments.

(b) Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents and amounts receivable. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions. Amounts receivable consists of GST receivable due from the Government of Canada and accrued interest receivable due on guaranteed investment certificates held at a financial institution. The carrying amount of financial assets represents the maximum credit exposure.

(c) Foreign Exchange Rate Risk

The Company is not exposed to any significant foreign exchange risk.

(d) Interest Rate Risk

The Company is not exposed to any significant interest rate risk.

(e) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash and cash equivalents. The ability to do this relies on the Company raising debt or equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

11. Income Taxes

The tax effect (computed by applying the Canadian federal and provincial statutory rate) of the significant temporary differences, which comprise deferred income tax assets and liabilities, are as follows:

	2019 $	2018 $
Canadian statutory income tax rate	27%	26.33%
Income tax recovery at statutory rate	(1,047,734)	(386,583)
Tax effect of:		
Permanent differences and other	580,474	(103,324)
Change in enacted tax rates	–	(51,592)
True up of prior year difference	257,966	35,466
Change in unrecognized deferred income tax assets	209,294	506,033
Income tax provision	–	–

(Expressed in Canadian dollars)

11. **Income Taxes** (continued)

The significant components of deferred income tax assets and liabilities are as follows:

	2019 $	2018 $
Deferred income tax assets		
Non-capital losses carried forward	1,702,517	1,458,456
Property and equipment	3,650	3,904
Resource pools	20,235	20,235
Share issuance costs	66,040	100,553
Unrecognized deferred income tax assets	(1,792,442)	(1,583,148)
Net deferred income tax asset	–	–

As at April 30, 2019, the Company has non-capital losses carried forward of $6,305,618, which are available to offset future years' taxable income. These losses expire as follows:

	$
2032	26,765
2033	74,139
2034	267,112
2035	1,117,739
2036	969,292
2037	1,323,354
2038	717,288
2039	1,809,929
	6,305,618

12. **Subsequent Event**

On May 13, 2019, the Company granted 150,000 stock options exercisable at $1.50 per share for a period of two years to a consultant.