

CANNABIX TECHNOLOGIES INC.

Financial Statements

Years Ended April 30, 2018 and 2017

(Expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cannabix Technologies Inc.

We have audited the accompanying financial statements of Cannabix Technologies Inc., which comprise the statements of financial position as at April 30, 2018 and 2017, and the statements of operations and comprehensive loss, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also involves evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Cannabix Technologies Inc. as at April 30, 2018 and 2017 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.



Saturna Group Chartered Professional Accountants LLP

Vancouver, Canada

August 27, 2018

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

	April 30, 2018 \$	April 30, 2017 \$
Assets		
Current assets		
Cash and cash equivalents	10,998,501	3,552,838
Amounts receivable	46,078	29,646
Prepaid expenses and deposits	14,519	71,493
Total current assets	11,059,098	3,653,977
Non-current assets		
Equipment (Note 3)	151,408	49,483
Deferred costs (Note 4)	3,893,163	3,893,163
Total non-current assets	4,044,571	3,942,646
Total assets	15,103,669	7,596,623
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	186,719	158,456
Total liabilities	186,719	158,456
Shareholders' equity		
Share capital	20,518,144	11,439,250
Contributed surplus	3,119,416	3,251,490
Deficit	(8,720,610)	(7,252,573)
Total shareholders' equity	14,916,950	7,438,167
Total liabilities and shareholders' equity	15,103,669	7,596,623

Nature of operations and continuance of business (Note 1)
Subsequent events (Note 12)

Approved and authorized for issuance on behalf of the Board of Directors on August 27, 2018:

/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, 2018 \$	Year ended April 30, 2017 \$
Expenses		
Consulting fees (Note 5)	370,000	330,000
Depreciation	17,106	2,556
Investor relations	48,923	179,707
Office and miscellaneous	20,325	20,380
Professional fees	30,268	13,475
Research and development (Note 5)	913,187	652,924
Share-based payments (Notes 5 and 8)	–	2,491,938
Transfer agent and filing fees	63,077	27,801
Travel	8,439	23,957
Total expenses	1,471,325	3,742,738
Loss before other income	(1,471,325)	(3,742,738)
Other income		
Interest income	3,288	10,543
Net loss and comprehensive loss for the year	(1,468,037)	(3,732,195)
Net loss per share, basic and diluted	(0.02)	(0.05)
Weighted average number of shares outstanding	90,787,442	81,676,890

(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 subscriptions receivable \$	Contributed surplus \$	Deficit \$	Total shareholders' equity \$
	Number of Shares	Amount \$				
Balance, April 30, 2016	77,207,072	9,113,949	(10,000)	832,399	(3,520,378)	6,415,970
Shares subscriptions received	–	–	10,000	–	–	10,000
Shares issued pursuant to licensing agreement	603,870	132,851	–	–	–	132,851
Shares issued pursuant to warrants exercised	8,235,711	2,050,089	–	(12,236)	–	2,037,853
Shares issued pursuant to stock options exercised	380,000	142,361	–	(60,611)	–	81,750
Fair value of stock options granted	–	–	–	2,491,938	–	2,491,938
Net loss for the year	–	–	–	–	(3,732,195)	(3,732,195)
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

(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, 2018 \$	Year ended April 30, 2017 \$
Operating activities		
Net loss	(1,468,037)	(3,732,195)
Items not involving cash:		
Depreciation	17,106	2,556
Share-based payments	–	2,491,938
Changes in non-cash operating working capital:		
Amounts receivable	(16,432)	(11,024)
Prepaid expenses and deposits	56,974	(52,878)
Accounts payable and accrued liabilities	28,263	153,166
Net cash used in operating activities	(1,382,126)	(1,148,437)
Investing activities		
Purchase of equipment	(119,031)	(52,039)
Net cash used in investing activities	(119,031)	(52,039)
Financing activities		
Proceeds from issuance of shares and share subscriptions received	9,335,950	2,129,603
Share issuance costs	(389,130)	–
Net cash provided by financing activities	8,946,820	2,129,603
Increase in cash and cash equivalents	7,445,663	929,127
Cash and cash equivalents, beginning of year	3,552,838	2,623,711
Cash and cash equivalents, end of year	10,998,501	3,552,838
Cash and cash equivalents is comprised of:		
Cash held in bank	8,481,251	3,035,588
Cashable Guaranteed Investment Certificates	2,517,250	517,250
Total cash and cash equivalents	10,998,501	3,552,838
Non-cash investing and financing activities:		
Fair value of warrants transferred to share capital upon exercise	244,224	12,236
Fair value of stock options transferred to share capital upon exercise	92,036	60,611
Fair value of warrants issued as share issuance costs	204,186	–
Fair value of shares issued for deferred costs	–	132,851

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

CANNABIX TECHNOLOGIES INC.

Notes to the financial statements

Years ended April 30, 2018 and 2017

(Expressed in Canadian dollars)

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. There can be no assurance that the Company will be able to produce a product that is technically and commercially feasible.

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(h). The financial statements are presented in Canadian dollars, which is the Company's functional currency.

(b) 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.

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

(c) 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.

(d) 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.

CANNABIX TECHNOLOGIES INC.

Notes to the financial statements

Years ended April 30, 2018 and 2017

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(e) 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 probable 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
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(f) 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.

(g) 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.

CANNABIX TECHNOLOGIES INC.

Notes to the financial statements

Years ended April 30, 2018 and 2017

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(h) Financial Instruments

(i) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets at fair value through profit or loss

Financial assets are classified as fair value through profit or loss when the financial asset is held for trading or it is designated as fair value through profit or loss. A financial asset is classified as held for trading if: (i) it has been acquired principally for the purpose of selling in the near future; (ii) it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as fair value through profit or loss are stated at fair value with any gain or loss recognized in the statement of operations. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset. The Company's cash and cash equivalents are classified as fair value through profit or loss.

Held-to-maturity investments

Held-to-maturity investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any assets classified as held-to-maturity investments.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to the statement of operations. The Company does not have any available-for-sale financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables are comprised of amounts receivable.

CANNABIX TECHNOLOGIES INC.

Notes to the financial statements

Years ended April 30, 2018 and 2017

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(h) Financial Instruments (continued)

(i) Non-derivative financial assets (continued)

Impairment of financial assets

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income or loss are reclassified to the statement of operations in the period. Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted. For marketable securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of operations.

With the exception of available-for-sale equity instruments, 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. In respect of available-for-sale equity securities, impairment losses previously recognized through the statement of operations are not reversed through the statement of operations. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

(ii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

CANNABIX TECHNOLOGIES INC.

Notes to the financial statements

Years ended April 30, 2018 and 2017

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(h) Financial Instruments (continued)

(iii) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

(i) 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.

(j) 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.

(k) 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.

CANNABIX TECHNOLOGIES INC.

Notes to the financial statements

Years ended April 30, 2018 and 2017

(Expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

(k) Share-based Payments (continued)

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.

(l) 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, 2018, the Company had 12,863,550 (2017 – 17,250,900) potentially dilutive shares outstanding.

(m) 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, 2018 and 2017, the Company did not have any transactions impacting comprehensive income (loss).

(n) Reclassifications

Certain reclassifications have been made to the prior year’s financial statements to conform to the current year’s presentation.

(o) 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, 2018, and have not been applied in preparing these financial statements:

New standard IFRS 9, “Financial Instruments”

The Company has not early adopted these new and revised standards and is currently assessing the impact that these standards will have on its 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.

CANNABIX TECHNOLOGIES INC.

Notes to the financial statements
Years ended April 30, 2018 and 2017
(Expressed in Canadian dollars)

3. Equipment

	Equipment \$
Cost:	
Balance, April 30, 2016	–
Additions	52,039
Balance, April 30, 2017	52,039
Additions	119,031
Balance, April 30, 2018	171,070
Accumulated depreciation:	
Balance, April 30, 2016	–
Additions	2,556
Balance, April 30, 2017	2,556
Additions	17,106
Balance, April 30, 2018	19,662
Carrying amounts:	
As at April 30, 2017	49,483
As at April 30, 2018	151,408

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 Aug 8, 2016 (Note 6(f))	132,851
Balance, April 30, 2017 and 2018	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 for 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.

CANNABIX TECHNOLOGIES INC.

Notes to the financial statements

Years ended April 30, 2018 and 2017

(Expressed in Canadian dollars)

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) As at April 30, 2018, the Company owed \$nil (2017 - \$73,500) to a company controlled by the President of the Company which was included in accounts payable and accrued liabilities.
- (b) As at April 30, 2018, the Company owed \$nil (2017 - \$24,000) to a director of the Company which was included in accounts payable and accrued liabilities.
- (c) During the year ended April 30, 2017, the Company incurred consulting fees of \$110,000 (2017 - \$90,000) to the Chief Executive Officer of the Company.
- (d) During the year ended April 30, 2017, the Company incurred consulting fees of \$92,000 (2017 - \$72,000) and travel and entertainment expenses of \$5,754 (2017 - \$nil) to the Chief Financial Officer of the Company.
- (e) During the year ended April 30, 2018, the Company incurred consulting fees of \$168,000 (2017 - \$168,000) to a company controlled by the President of the Company.
- (f) During the year ended April 30, 2018, the Company incurred research and development costs of \$92,000 (2017 - \$72,000) to a director of the Company.
- (g) During the year ended April 30, 2018, the Company issued 630,000 (2017 - 205,000) common shares to the Chief Executive Officer of the Company for proceeds of \$78,750 (2017 - \$20,500) pursuant to the exercise of stock options.
- (h) During the year ended April 30, 2018, the Company issued 90,000 (2017 - nil) common shares to a director of the Company for proceeds of \$14,500 (2017 - \$nil) pursuant to the exercise of stock options.
- (i) During the year ended April 30, 2018, the Company issued 630,000 (2017 - nil) common shares to the President of the Company for proceeds of \$78,750 (2017 - \$nil) pursuant to the exercise of stock options.
- (j) During the year ended April 30, 2018, the Company granted nil (2017 - 3,945,000) stock options with a fair value of \$nil (2017 - \$1,965,352) to directors and officers of the Company.

CANNABIX TECHNOLOGIES INC.

Notes to the financial statements

Years ended April 30, 2018 and 2017

(Expressed in Canadian dollars)

6. Share Capital

Authorized: Unlimited number of common shares without par value

Share transactions for the year ended April 30, 2018:

- (a) 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.
- (b) 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 contributed surplus to share capital.
- (c) 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 contributed surplus to share capital.

Share transactions for the year ended April 30, 2017:

- (d) During the year ended April 30, 2017, the Company issued 8,235,711 common shares for proceeds of \$2,037,853 pursuant to the exercise of share purchase warrants. The fair value of the share purchase warrants exercised of \$12,236 was reallocated from contributed surplus to share capital.
- (e) During the year ended April 30, 2017, the Company issued 380,000 common shares for proceeds of \$81,750 pursuant to the exercise of stock options. The fair value of the stock options exercised of \$60,611 was reallocated from contributed surplus to share capital.
- (f) On August 8, 2016, the Company issued 603,870 common shares with a fair value of \$132,851 pursuant to a patent licence agreement. Refer to Note 5.
- (g) During the year ended April 30, 2017, the Company received \$10,000 for the share subscriptions that were receivable as at April 30, 2016.

7. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

	Number of warrants	Weighted average exercise price \$
Balance, April 30, 2016	16,740,327	0.22
Exercised	(8,171,311)	0.25
Expired	(80,250)	0.25
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

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7. Share Purchase Warrants (continued)

As at April 30, 2018, the following share purchase warrants were outstanding:

Number of warrants outstanding	Exercise price \$	Expiry date
1,452,550	0.20	December 16, 2018
290,000	0.25	December 16, 2018
4,045,000	1.60	December 7, 2020
<u>5,787,550</u>		

Agent's Warrants

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

	Number of warrants	Weighted average exercise price \$
Balance, April 30, 2016	370,534	0.25
Exercised	(64,400)	0.25
Balance, April 30, 2017	306,134	0.25
Issued	240,000	1.15
Exercised	(546,134)	0.65
Balance, April 30, 2018	—	—

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:

	2018	2017
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, 2018 was \$0.91 (2017 - \$nil) per warrant. The weighted average share price for agents' warrants exercised during the year ended April 30, 2018 was \$0.65 (2017 - \$0.60).

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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, 2016	3,911,000	0.13
Granted	5,025,000	0.58
Exercised	(380,000)	0.22
Expired	(100,000)	0.50
Outstanding, April 30, 2017	8,456,000	0.39
Exercised	(1,380,000)	0.13
Outstanding, April 30, 2018	7,076,000	0.44

Additional information regarding stock options outstanding as at April 30, 2018, is as follows:

Exercise price \$	Outstanding and exercisable		
	Number of stock options	Weighted average remaining contractual life (years)	Weighted average exercise price \$
0.10	706,000	0.9	0.01
0.125	1,320,000	1.5	0.02
0.20	250,000	0.1	0.01
0.35	2,500,000	3.0	0.12
0.85	2,300,000	3.4	0.28
	7,076,000	2.7	0.44

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:

	2018	2017
Risk-free interest rate	–	0.96%
Expected life (in years)	–	5
Expected volatility	–	166%

The total fair value of stock options vested during the year ended April 30, 2018 was \$nil (2017 - \$2,491,938) 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, 2018 was \$nil (2017 - \$0.53) per option. The weighted average share price for stock options exercised during the year ended April 30, 2018 was \$0.13 (2017 - \$0.77).

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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 contributed surplus.

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, 2017.

10. Financial Instruments and Risks

(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, 2018, as follows:

	Fair Value Measurements Using			
	Quoted prices in active markets for identical instruments (Level 1) \$	Significant other observable inputs (Level 2) \$	Significant unobservable inputs (Level 3) \$	Balance, April 30, 2018 \$
Cash and cash equivalents	10,998,501	–	–	10,998,501

The fair values of other financial instruments, which include 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.

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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:

	2018 \$	2017 \$
Canadian statutory income tax rate	26.33%	26%
Income tax recovery at statutory rate	(386,583)	(970,371)
Tax effect of:		
Permanent differences and other	(103,324)	647,904
Change in enacted tax rates	(51,592)	–
True up of prior year difference	35,466	–
Change in unrecognized deferred income tax assets	506,033	322,467
Income tax provision	–	–

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

	2018 \$	2017 \$
Deferred income tax assets		
Non-capital losses carried forward	1,458,456	1,016,497
Property and equipment	3,904	665
Resource pools	20,235	19,485
Share issuance costs	100,553	40,468
Unrecognized deferred income tax assets	(1,583,148)	(1,077,115)
Net deferred income tax asset	–	–

As at April 30, 2018, the Company has non-capital losses carried forward of \$5,401,688, 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	1,623,287
	5,401,688

12. Subsequent Events

- Subsequent to April 30, 2018, the Company issued 404,550 common shares for proceeds of \$589,810 pursuant to the exercise of share purchase warrants.
- Subsequent to April 30, 2018, the Company issued 250,000 common shares for proceeds of \$50,000 pursuant to the exercise of stock options.