Consolidated Unaudited Financial Statements

CTT Pharmaceutical Holdings, Inc.

The years ended December 31, 2018 and 2017

(Expressed in U.S. dollars)

CTT Pharmaceutical Holdings Inc.

Consolidated Balance Sheets
(Expressed in U.S. dollars)
(Unaudited)

December 31		**2018**		2017
Assets				
Cash and cash equivalents	**$**	**780,092**	$	136,539
Other receivables		**1,356**		50,000
	$	**781,448**	$	186,539
Liabilities				
Accounts payable	**$**	**281,351**	$	192,689
Customer advances		**-**		25,000
Due to shareholders (note 4)		**-**		58,430
Total current liabilities		**281,351**		276,119
Stockholders' equity (note 5)				
Common Stock		**329,291**		182,297
Additional paid in capital		**5,506,033**		3,337,022
Contributed surplus		**498,186**		498,186
Accumulated other comprehensive income		**3,087**		1,460
Deficit		**(5,836,501)**		(4,108,545)
		500,097		(89,580)
	$	**781,448**	$	186,539

Commitments and contingencies (note 11)

The accompanying notes are an integral part of these consolidated financial statements.

CTT Pharmaceutical Holdings Inc.
Consolidated Statement of Comprehensive Loss
(Expressed in U.S. dollars)
(Unaudited)

Three- and twelve-month periods ended December 31, 2018 and 2017

	Three month period ended December 31 2018	Three month period ended December 31 2017	**Twelve month period ended December 31 2018**	Twelve month period ended December 31 2017
License issue fee	**$ -**	$ -	**$ 25,000**	$ 40,000
Interest revenue	**1,427**	-	**2,187**	-
Operating expenses:				
Consulting fees	**-**	417,910	**149,105**	425,410
Salaries and wages	**30,000**	98,387	**190,000**	98,387
Investor relations	**3,833**	2,477	**9,169**	11,864
Marketing and promotion	**1,184**	751	**1,488**	5,495
Professional fees	**78,265**	60,407	**199,714**	129,127
Stock based compensation (note 6)	**66,000**	725,516	**1,166,300**	726,857
Interest expense	**-**	-	**18,356**	-
General and administration	**2,224**	2,246	**17,248**	14,876
	181,505	44,601	**1,751,380**	1,412,016
Loss before the undernoted	**(180,078)**	(1,307,694)	**(1,724,193)**	(1,372,016)
Other expenses:				
Foreign currency exchange losses (gains)	**(4,101)**	(2,946)	**(3,762)**	(8,639)
	(4,101)	(2,946)	**(3,762)**	(8,639)
Net loss	**(184,180)**	(1,310,640)	**(1,727,955)**	(1,380,655)
Other comprehensive (loss) gain:				
Foreign currency translation adjustments	**1,199**	107	**1,627**	(1,328)
Comprehensive loss	**(182,981)**	(1,310,533)	**(1,726,328)**	(1,381,983)

The accompanying notes are an integral part of these consolidated financial statements.

CTT Pharmaceutical Holdings, Inc.

Consolidated Statement of Changes in Stockholders' Equity

(Expressed in U.S. dollars)
(Unaudited)
Period ended December 31, 2018 and December 31, 2017

		Common stock		Additional paid in capital		Contributed surplus		Accumulated deficit		Accumulated other comprehensive income (loss)		Total
Balances, January 1, 2017	$	27,203	$	2,093,849	$	498,186	$	(2,727,890)	$	2,788	$	(105,864)
Share subscription (note 5)		30,600		122,400		-		-		-		153,000
Stock options exercised (note 6)		80,500		-		-		-		-		80,500
Shares for issued for services (note 7)		-		437,910		-		-		-		437,910
Warrants exercised (note 5)		43,994		(43,994)		-		-		-		-
Stock based compensation (note 6)		-		726,857		-		-		-		726,857
Net income (loss)		-		-		-		(1,380,655)		-		(1,380,655)
Other comprehensive income (loss)		-		-		-		-		(1,328)		(1,328)
Balances, December 31, 2017		182,297		3,337,022		498,186		(4,108,545)		1,460		(89,580)
Stock options exercised (note 6)		34,756		(34,156)		-		-		-		600
Shares for issued for services (note 7)		44		149,061		-		-		-		149,105
Warrants exercised (note 5)		112,194		(112,194)		-		-		-		-
Stock based compensation (note 6)		-		1,166,300		-		-		-		1,166,300
Conversion option and warrant on debenture (note 8)		-		960,000		-		-		-		960,000
Debenture conversion (note 8)		-		40,000		-		-		-		40,000
Net income (loss)		-		-		-		(1,727,955)		-		(1,727,955)
Other comprehensive income (loss)		-		-		-		-		1,627		1,627
Balances, December 31, 2018	**$**	**329,291**	**$**	**5,506,033**	**$**	**498,186**	**$**	**(5,836,500)**	**$**	**3,087**	**$**	**500,097**

The accompanying notes are an integral part of these consolidated financial statements.

CTT Pharmaceutical Holdings Inc.
Consolidated Statements of Cash Flows
(Expressed in U.S. dollars)
(Unaudited)

	Three month period ended December 31 2018	Three month period ended December 31 2017	**Twelve month period ended December 31 2018**	Twelve month period ended December 31 2017
Cash provided by (used in):				
Operating:				
Net loss	**$ (184,388)**	$ (1,310,640)	**$ (1,727,955)**	$ (1,380,655)
Adjustments to reconcile net income to cash provided by operating activities:				
Shares issued for services (note 7)	**-**	437,910	**149,105**	437,910
Foreign exchange gain/loss	**-**	3,662	**-**	3.662
Stock based compensation (note 6)	**66,000**	725,516	**1,166,300**	726,857
Changes in operating assets and liabilities:				
Other receivables	**40,717**	67,067	**48,631**	67,067
Accounts payable	**(66,166)**	37,332	**89,263**	-
Customer advances	**-**	-	**(25,000)**	-
Cash used in operating activities	**(143,837)**	(39,153)	**(299,656)**	(145,159)
Financing:				
Due to shareholders	**-**	(3,956)	**(58,430)**	-
Shareholder payment	**-**	-	**-**	-
Proceeds from debentures (note 8)	**-**	-	**1,000,000**	-
Share subscription (note 5)	**-**	30,500	**-**	183,500
Cash provided by financing activities	**-**	26,544	**941,570**	183,500
Foreign exchange loss on cash held	**1,212**	115	**1,640**	(1,426)
Net (decrease) increase in cash and cash equivalents	**(142,625)**	(12,494)	**643,354**	36,915
Cash and cash equivalents, beginning of period	**922,718**	149,033	**136,539**	99,624
Cash and cash equivalents, end of period	**$ 780,093**	$ 136,539	**$ 780,093**	$ 136,539

The accompanying notes are an integral part of these consolidated financial statements.

Nature of the operations:

CTT Pharmaceutical Holdings, Inc. (the “Company”, or “CTT”) is a development stage company specializing in drug delivery systems technology within the pharmaceutical industry. The Company’s focus is on fast dissolving drug delivery systems through the development of advanced oral delivery thin wafers. CTT Pharmaceutical Holdings, Inc. is a Delaware Corporation and was incorporated on November 6, 1996 under a different name.

1. Basis of presentation:

The consolidated financial statements of CTT Pharmaceutical Holdings, Inc., formerly Mindesta Inc. (“Mindesta”), for the year ended December 31, 2018 and the notes thereto (the "Financial Statements") have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) and have been presented in US dollars. The consolidated financial statements include the Company's Canadian wholly owned subsidiary CTT Pharmaceuticals Inc. (“CTT Pharma”). All significant intercompany accounts and transactions are eliminated in consolidation.

The Company plans to specialize in the development of oral drug delivery systems for pain management and treatment. These consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of operations. The Company has not generated cash flow from operations and is unlikely to generate significant cash flows from operations in the immediate or foreseeable future. For the year ended December 31, 2018, the Company has incurred a net loss of $1,727,955 and had negative cash flows from operations of $299,656. These factors raise substantial doubt regarding the ability of the Company to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to raise additional capital to pay expenses and carry out any further product development, market program, market acceptance of its products and achieving profitability. The Company will require significant financing to continue its operations and fund any further activities. The Company has been able to raise capital in the amount of $1,000,000 through a convertible debenture, which was converted to equity, during the year. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and the classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. Reverse acquisition and recapitalization:

On September 9, 2014, Mindesta entered into a Share Exchange Agreement (the "Exchange Agreement") with CTT Pharmaceuticals, Inc., f/k/a Fenwafe Inc., an entity organized under the Canadian Corporations Business Act in March 2007 and the shareholders of CTT Pharma whereby Mindesta acquired all of the issued and outstanding shares of common stock of CTT Pharma in consideration for the issuance of 14,918,329 shares of Mindesta common stock.

The 14,073,895 restricted shares of Mindesta common stock issued to former CTT Pharma stockholders and the 844,434 shares of Mindesta restricted shares issued at closing represent approximately 80% of the then issued and outstanding common stock of Mindesta.

As a result of the transactions effected by the Exchange Agreement, at closing CTT Pharma became a wholly owned subsidiary of Mindesta and Mindesta abandoned all of its previous business operations with the business of CTT Pharma becoming Mindesta's sole business. During 2015 Mindseta Inc. changed its name to CTT Pharmaceutical Holdings, Inc.

The Exchange Agreement was accounted for as a reverse acquisition and recapitalization of the Company and as a result, the consolidated financial statements of the Company (the legal acquirer) are, in substance, those of CTT Pharma (the accounting acquirer), with the assets and liabilities, and expenses of the Company being included effective from the date of the Exchange Agreement. As the Exchange Agreement was accounted for as a reverse acquisition and recapitalization, there was no gain or loss recognized on the transaction. The transaction is in substance a capital transaction, rather than a business combination, thus no goodwill or other intangible assets have been recorded. The significant components of the transaction are as follows:

Assets acquired	$	1,867
Liabilities assumed		(31,767)
Net	$	(29,900)

As a result of the Exchange Agreement, the Company ceased mineral exploration and focuses solely on oral drug delivery systems (note 1).

3. Significant accounting policies:

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The Company's significant accounting policies are as follows:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of CTT and its wholly owned subsidiary, CTT Pharma. All significant intercompany balances and transactions have been eliminated for consolidation purposes.

(b) Foreign currency translation:

The functional currency of CTT is the United States dollar. The assets and liabilities of the Company's subsidiary, CTT Pharma, whose functional currency is the Canadian dollar, are translated into U.S. dollars at exchange rates in effect on the balance sheet date, and revenues and expenses are translated using an average exchange rate during the period. Gains or losses resulting from translating foreign currency financial statements are recorded as a separate component of stockholders' equity. Gains and losses from foreign currency translations, such as those resulting from the settlement of foreign receivables or payables, are included in the consolidated statements of loss.

(c) Cash and cash equivalents:

The Company considers all highly liquid investments purchased with an original or remaining maturity of less than three months at the date of purchase to be cash equivalents. Cash and cash equivalents include balances with banks, short-term investments and operating line of credit.

(d) Revenue recognition:

The Company recognizes revenue when persuasive evidence of an arrangement exists, title passes to the customer, typically upon delivery, and when collection of the fixed or determinable selling price is reasonably assured. The Company has implemented the provisions of ASU 2014-09. The Standard did not have an impact on the financial statements.

3. Significant accounting policies (continued):

(e) Research costs:

Research costs are expensed in the year incurred. The Company expenses development costs in the year incurred, except when it is determined that the costs meet the criteria for deferral and amortization in accordance with US GAAP. Deferred development costs, if any, will be amortized on straight-line basis over the expected useful life of the underlying product.

(f) Income taxes:

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance so that the assets are recognized only to the extent that when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will be realized.

Per FASB ASC 740 "Income taxes" under the liability method, it is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. At December 31, 2018 and December 31, 2017, the Company believes it has appropriately accounted for any unrecognized tax benefits. A full valuation allowance has been taken against all potential deferred tax assets (note 9). To the extent the Company prevails in matters for which a liability for an unrecognized benefit is established or is required to pay amounts in excess of the liability, the Company's effective tax rate in a given financial statement period may be affected. Interest and penalties associated with the Company's tax positions are recorded as interest expense.

3. Significant accounting policies (continued):

(g) Share capital:

Proceeds from share issuance net of share issuance costs are recorded at the amount paid. Share capital issued for non-monetary consideration is recorded at the fair market value of the shares on the date the shares are issued.

(h) Comprehensive income:

Other comprehensive income refers to revenues, expenses, gains and losses that, in accordance with US GAAP, are included in comprehensive income, but are excluded from net income as these amounts are recorded directly as an adjustment to stockholders' equity. Comprehensive income relates to the effects of translation from CTT Pharma's functional currency of the Canadian Dollar to the presentation currency of the United States dollar.

(i) Commitments and contingencies:

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

(j) Financial instruments:

The active market approach is utilized to measure fair value of financial assets and liabilities. Each class of assets and liabilities is reported separately, measured at fair value on a recurring basis and include assets and liabilities that are disclosed but not recorded at fair value in the fair value hierarchy.

The fair values of cash and cash equivalents, receivables, accounts payable and due to shareholder for all periods presented approximate their respective carrying amounts due to the short term nature of these financial instruments.

3. Significant accounting policies (continued):

(k) Use of estimates:

The preparation of consolidated financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates made by management in the accompanying financial statements include the valuation of deferred tax assets, valuation of stock-based compensation including the assumptions and estimates incorporated in to the Black Scholes Option Pricing Model, and estimation of market rates of interest imputed on non-interest-bearing shareholder loan.

(l) Recently issued accounting standards:

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which makes targeted improvements to the accounting for, and presentation and disclosure of, financial instruments. ASU 2016-01 requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. ASU 2016-01 does not affect the accounting for investments that would otherwise be consolidated or accounted for under the equity method. The new standard also impacts financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. The provisions of ASU 2016-01 are effective for the Company for annual periods in fiscal years beginning after December 15, 2018. The Company will adopt the new standard on January 1, 2019, and does not anticipate that the adoption will have a significant impact on its consolidated financial statements.

3. Significant accounting policies (continued):

(l) Recently issued accounting standards (continued):

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes FASB ASC Topic 840, Leases, and makes other conforming amendments to U.S. GAAP. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on-balance sheet via a right of use asset and lease liability, and additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the Company for annual periods in fiscal years beginning after December 15, 2019, permits early adoption, and mandates a modified retrospective transition method. The Company is required to adopt ASU 2016-02 on January 1, 2020, and is currently evaluating the effect that ASU 2016-02 will have on its consolidated financial statements. Based on its preliminary assessment, the Company does not anticipate the adoption will have a significant impact on its consolidated financial statements.

4. Related party transactions:

The Company has recorded obligations to its shareholders that are non-interest bearing or bear interest rates below third-party market rates. Interest has not been recorded in the financial statements due to inability to determine appropriate market rates for shareholder loans. The transactions have been recorded at the exchange amount.

	December 31 2018	December 31 2017
Due to shareholders	**$ -**	$ 58,430

Included in accounts payable are amounts owing to CTT Pharma and shareholders and officers and directors of the Company for the reimbursement of expenses and salaries of $231,287 (December 31, 2017 - $188,387). On March 6, 2017 an employment agreement was reached with a director for salary, benefits and various bonuses. Health Canada approval of a license is required for a bonus of $50,000 to be paid. Health Canada approval has not been received. Additionally, a bonus is payable based on the performance of the Company. No amounts have been accrued for the performance bonus. On May 30, 2018 an employment agreement was reached with an executive which included payment of a $70,000 signing bonus and additional amounts to be paid subject to achieving agreed upon performance criteria. No amounts have been accrued for the performance bonus.

4. Related party transactions (continued):

During the year ended December 31, 2018, the Company paid a former executive $70,000 as a settlement for any and all claims. In addition, the Company leases the premises for its principal place of business at no cost from a corporate officer.

5. Stockholders' equity:

The following table summarizes common stock issued and outstanding as at December 31, 2018:

	Number of shares issued	Par Value
Common stock	47,073,724	$ 328,647

During 2018, additional 3,731,343 common stock were issued for the conversion of the debenture under the financing arrangement (note 8). An amount of $40,000 was recorded as share capital from additional paid in capital.

During 2018, additional 636,275 common stock were issued for the exercising of warrants under the share subscription. An amount of $112,194 was recorded as share capital from additional paid in capital.

During 2018, additional 2,838,802 common stock were issued for the exercising of warrants under service agreements. An amount of $34,156 was recorded as share capital from additional paid in capital.

During 2018, additional 1,100,000 common stock were issued for stock-based compensation (note 6).

The following table summarizes common stock issued and outstanding as at December 31, 2017:

	Number of shares issued	Par Value
Common stock	38,722,947	$ 182,297

5. Stockholders' equity (continued):

During 2016, the Company initiated a share subscription for a total offering of $250,000. At December 31, 2016 $125,334 was raised as capital with 2,506,680 common stock being issued with a par value of $25,067. During 2017, the Company finalized the share subscription, with an additional $153,000 raised as capital with 3,060,000 common stock being issued with a par value of $30,600. An additional 1,068,573 common stock were issued for the exercising of options from the exercising of warrants under the share subscription. An amount of $43,994 was recorded as share capital from additional paid in capital. An additional 800,000 common stock were issued for stock options exercised during 2017 for $80,500 (note 6) and 6,000,000 common stock issued for stock based compensation (note 6).

During 2016 the Company offered a share subscription providing investors the opportunity to acquire units of the offering which contained one share of common stock and one common stock purchase warrants. During 2017, 2,901,654 units were sold (2016- 2,506,680). The warrant allows the unit holders to purchase 2,901,654 shares of the Company's common stock (2016- 2,506,680) at an exercise price of $0.15 per share or through a cashless option share through December 31, 2019. The proceeds received from the sale of these options in 2017, amounting to $122,400 (2016 - $100,267), have been recorded as additional paid-in capital. The option is accounted for as an equity instrument rather than a derivative instrument, as the option meets the criteria in ASC subparagraph 815-10-15-74(a). There are 1,614,684 outstanding warrants that have not been exercised as at December 31, 2018.

6. Stock compensation plan:

In 2014 the Company granted stock options to purchase 1,350,000 common shares at a price of $0.15 per share until December 31, 2017. Half of the options vested immediately with the remaining options vesting over a one or two-year term. The grant-date fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The weighted average assumptions for the grants are as follows at the grant date: expected volatility is estimated based on the average historical volatility of the shares of 390- 396%; the risk-free rate for the expected term is based on the U.S. Treasury yield curve at the date of grant of 1.10-1.44%; the expected term is 2.92 years. The unvested options were forfeited.

6. Stock compensation plan (continued):

In December 2015 the Company granted stock options to purchase 250,000 common shares at a price of $0.015 per share until March 31, 2020. The options vest two years from the grant date with continued employment. The grant-date fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The weighted average assumptions for the grants are as follows at the grant date: expected volatility is estimated based on the average historical volatility of the shares of 390-396%; the risk-free rate for the expected term is based on the U.S. Treasury yield curve at the date of grant of 1.10-1.44%; the expected term is 4.3 years. The Company recognized stock-based compensation expense of $894 for the year ended December 31, 2017.

In July 2017 the Company granted stock options to a director to purchase 600,000 common shares at a price of $0.01 per share until December 31, 2020. The options vest immediately. The grant-date fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The weighted average assumptions for the grants are as follows at the grant date: expected volatility is estimated based on volatility 181%; the risk-free rate for the expected term is based on the U.S. Treasury yield curve at the date of grant of 1.6%; the expected term is 2.5 years. As of December 31, 2018, $88,569 of stock-based compensation has been recognized (December 31, 2017 – nil)

In July 2017 the Company granted 3,000,000 shares to an executive of the Company, which vest immediately. The fair value of the shares granted was $467,000 and has been recorded as stock-based compensation in 2017. No stock-based compensation has been recognized in the year ended December 31, 2018 or December 31, 2017. Additionally, in March 2017 the Company granted 3,000,000 shares to an executive of the Company, which are fully vested as at December 31. 2018. The fair value of the share compensation is $452,000 of which $283,000 has been recorded as stock-based compensation in the year ended December 31, 2018 (December 31, 2017- $169,000).

In December 2017 the Company granted stock options to a director to purchase 500,000 common shares at a price of $0.01 per share until July 2020. The options vest immediately. The grant-date fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The weighted average assumptions for the grants are as follows at the grant date: expected volatility is estimated based on volatility 181%; the risk-free rate for the expected term is based on the U.S. Treasury yield curve at the date of grant of 1.6%; the expected term is 2.5 years. As of December 31, 2018, $52,500 of stock-based compensation has been recognized (December 31, 2017 – nil)

6. Stock compensation plan (continued):

In February 2018 the Company granted stock options to a director to purchase 25,000 common shares at a price of $0.25 per share until December 31, 2020. The options vest immediately. The grant-date fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The weighted average assumptions for the grants are as follows at the grant date: expected volatility is estimated based on volatility 358%; the risk-free rate for the expected term is based on the U.S. Treasury yield curve at the date of grant of 2.42%; the expected term is 3.0 years. As of December 31, 2018, $6,750 of stock-based compensation has been recognized (December 31, 2017 – nil)

In July 2018 the Company granted stock options to a director to purchase 150,000 common shares at a price of $0.75 per share until December 31, 2021. The options vest immediately. The grant-date fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The weighted average assumptions for the grants are as follows at the grant date: expected volatility is estimated based on volatility 291%; the risk-free rate for the expected term is based on the U.S. Treasury yield curve at the date of grant of 2.62%; the expected term is 2.8 years. As of December 31, 2018, $150,001 of stock-based compensation has been recognized (December 31, 2017 – nil)

In May 2018 the Company granted 1,000,000 shares to an executive of the Company, of which 500,000 were issued and vest immediately and 500,000 vests in nine months and if a performance condition is met. The fair value of the shares granted was $254,000 of which $254,000 has been recognized in the year ended December 31, 2018. No amount has been recognized for the shares with the performance condition as the condition has not been met.

Additionally, the Company granted a warrant for an additional purchase 1,000,000 common shares at a price of $0.35 per share until May 30, 2021 and allows a cashless exercise. The warrant vests immediately. The grant-date fair value of is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The weighted average assumptions for the grants are as follows at the grant date: expected volatility is estimated based on volatility 100%; the risk-free rate for the expected term is based on the U.S. Treasury yield curve at the date of grant of 2.5%; the expected term is 3 years. Stock based compensation of $463,700 has been recognized in the year ended December 31, 2018.

6. Stock compensation plan (continued):

Stock option activity during the periods indicated is as follows:

Balance at January 1, 2017	925,000	$	0.11	1.6
Granted	6,600,000		0.01	2.0
Exercised	(6,800,000)		(0.11)	0.3
Forfeited	-		-	-
Expired	(125,000)		-	-
Balance at December 31, 2017	600,000	$	0.01	2.0
Granted	175,000		0.68	2.4
Exercised	(600,000)		-	-
Forfeited	-		-	-
Expired	-		-	-
Balance at December 31, 2018	175,000	$	0.68	2.4

7. Warrants

A summary of the Company's non-vested shares as of December 31, 2018 and December 31, 2017 and changes during the year ended December 31, 2018 is presented below:

Non-vested shares	Shares		Weighted average grant-date fair value
Balance at January 1, 2017:	250,000	$	0.01
Granted	6,000,000		0.39
Vested	(4,375,000)		(0.01)
Forfeited	-		-
Balance at December 31, 2017:	1,375,000	$	0.4
Granted	500,000		0.5
Vested	(1,875,000)		(0.4)
Forfeited	-		-
Balance at December 31, 2018	-	$	-

8. Services:

During 2018, the Company issued 744,357 common stock for $149,105 of professional fees rendered.

During 2017, the Company entered into an agreement for professional services to be rendered. In consideration for the services the Company issued 537,804 common stock for services valued at $20,000 which is included in professional fees. Additionally, three consulting agreements were entered, whereby in consideration for the services the Company issued 3,000,000 common stock for services valued at $241,000, which is included in consulting fees. All common stock has vested by December 31, 2017. As part of these agreements the Company has granted 3,000,000 warrants for common stock. The warrants are exercisable at $0.15 per share and allows a cashless exercise. The fair value of the warrants is $176,910 which is included in consulting fees. In the year ended December 31, 2018 there were 1,750,000 warrants exercised leaving a remaining balance of 1,250,000 warrants. These transactions have been recorded as additional paid in capital

9. Debentures payable:

On May 20, 2018 the Company entered into convertible debentures with Aurora Cannabis Inc. ("Aurora"). Aurora's investment is approximately 9.14% of the issued and outstanding shares of the Company through convertible debentures in the amount of $1,000,000. The debentures have a maturity date of three years and bears interest at a rate of 5% per annum, payable semi-annually commencing December 2018. The debentures are convertible at the option of the holder into common shares of the Company at any time prior to the maturity date at a conversion price of $0.268 per common share. The fair value of the debentures at the date of execution was $40,000 and the fair value of the convertible feature is $464,500. Additionally, Aurora received a warrant with the right to purchase common shares at an exercise price of $0.35, exercisable upon certain conditions. The warrant will allow Aurora to increase its ownership in the Company to 42.5%. The warrant has been detached from the agreement and recorded at the fair value under ASC 815-40, Derivatives – Contracts in Entity's Own Equity. The grant-date fair value of is estimated on the date of grant using the Black-Scholes- Merton option pricing model. The weighted average assumptions for the grants are as follows at the grant date: expected volatility is estimated based on volatility 100%; the risk-free rate for the expected term is based on the U.S. Treasury yield curve at the date of grant of 2.34%; the expected term is 1 years. The fair value of the warrant is $495,500. The convertible feature and warrant was recorded as additional paid in capital.

9. Debentures payable (continued):

On August 20, 2018, the conversion feature of this debenture was exercised. 3,731,343 shares with nominal par value were issued at a conversion price of $0.268 per common share. An amount of $40,000 was recorded as share capital from additional paid in capital.

10. Income taxes:

As at December 31, 2018 the Company's net operating loss carry forward in the United States is approximately $3,566,809 (2017 - $2,256,276). This benefit has been fully offset by a valuation allowance based on management's determination that it is more likely than not that some or all of this benefit will not be realized. These losses expire as follows:

2028	$	34,341
2029		365,666
2030		197,788
2031		175,390
2032		238,057
2033		51,795
2034		1,193,239
2035		1,310,533
Total	$	3,566,809

As at December 31, 2018 the Company's net operating loss carry forward in the Canada is approximately $36,382. This benefit has been fully offset by a valuation allowance based on management's determination that it is more likely than not that some or all of this benefit will not be realized. These losses expire as follows:

2033	$	20,191
2034		16,191
Total	$	36,382

11. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, receivables, accounts payable and due to shareholder approximate their fair values due to the short-term maturity or the interest rates inherent in these instruments.

12. Commitments and contingencies:

The Company is periodically involved in litigation which arises in the normal course of operations. With respect to any outstanding claims, the Company believes it has valid defenses. The outcome of these claims is not determinable at this time, as such, no amounts have been recorded in these consolidated financial statements.

13. Licensing arrangement:

In February 2017, the Company entered into a Licensing Agreement with a third party. Under the terms of the agreement the Company received a non-refundable license issue fee of $40,000 and can receive $935,000 from the licensee upon the issuance of a license from Health Canada in exchange for the licensee receiving the know how to establish a manufacturing facility. The Company would earn royalties on the sales of the product for a period of 15 years. Should a license from Health Canada not be granted to the licensee the agreement is terminated.

14. Subsequent events:

The Company evaluated its December 31, 2018 consolidated financial statements for subsequent events through June 7, 2019, the date the consolidated financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

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