Xanthic Biopharma Limited
Financial statements

For the period from the date of
incorporation (March 15, 2017)
to June 30, 2017
(In Canadian Dollars)

Independent Auditors' Report

To the Shareholders of Xanthic Biopharma Limited:
We have audited the accompanying financial statements of Xanthic Biopharma Limited, which comprise the statement of financial position as at June 30, 2017, and the statement of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the period from the date of incorporation (March 15, 2017) to June 30, 2017, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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 audit. We conducted our audit 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 auditors' 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 includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Xanthic Biopharma Limited as at June 30, 2017 and its financial performance and its cash flows for the period from the date of incorporation (March 15, 2017) to June 30, 2017 in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 2 in the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern.

MNP LLP

Toronto, Ontario — Chartered Professional Accountants

July 28, 2017 — Licensed Public Accountants

XANTHIC BIOPHARMA LIMITED

Statement of Financial Position

(Expressed in Canadian dollars)

	Note		June 30, 2017
Assets			
Current Assets			
Cash		$	24,096
Accounts Receivable			12,428
			36,524
		$	**36,524**
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	9		111,643
Shareholders' Deficiency			
Share Capital	4		26,422
Deficit			(101,541)
			(75,119)
		$	**36,524**

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

Nature of operations *(note 1)*
Going Concern assumption (*note 2*)

On behalf of the Board

“Gary Gatlisky”
Director

XANTHIC BIOPHARMA LIMITED

Statements of Net Loss and Comprehensive Loss

(Expressed in Canadian dollars)

	Note		From the date of incorporation (March 15, 2017) to June 30, 2017
Expenses			
Consulting fees	5	$	60,000
Advertising and Promotion			13,496
Legal and Professional fees			27,968
General and Administration			61
Interest and Bank charges			16
Net Loss and Comprehensive Loss		**$**	**(101,541)**
Net Loss per Common Share			
Basic and Diluted		$	(0.04)
Weighted average common shares outstanding			2,373,953

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

Statement of Changes in Shareholders' Deficiency
From the Date of Incorporation to June 30, 2017

(Expressed in Canadian dollars)

	Note	Share Capital	Deficit	Total
Balance at Incorporation at March 15, 2017		$ -	$ -	$ -
Shares issued for cash, net of issuance costs	4	26,422	-	26,422
Deficit		-	(101,541)	(101,541)
Balance at June 30, 2017		**$ 26,422**	**$ (101,541)**	**$ (75,119)**

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

Statement of Cashflow

(Expressed in Canadian dollars)

	Note		From the date of incorporation (March 15, 2017) to June 30, 2017
Cashflow from Operating Activities			
Net Income (loss) for the period		$	(101,541)
Changes in non-cash working capital balances			
Accounts receivable			(12,428)
Accounts payable and accrued liabilities			111,643
			(2,326)
Cashflow from Financing Activities			
Private placement of shares, net of issuance costs	4		26,422
			26,422
Increase/(decrease) in cash and cash equivalents			24,096
Cash and cash equivalents, beginning of period			-
Cash and cash equivalents, end of the period		**$**	**24,096**

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

1. Nature of operations

Xanthic Biopharma Limited ("Company") was incorporated under the Ontario Business Corporations Act. The Company's principal business activity is the licensing of non-combustible medical cannabis products. The Company is in the development stage and has not yet earned any revenues.

2. Basis of presentation and going concern

(a) Statement of compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved by the Company's board of directors on July 28, 2017.

(b) Basis of presentation

These financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value, as detailed in the Company's accounting policies.

(c) Functional and presentation currency

The Company's functional currency, as determined by management is the Canadian dollar. These financial statements are presented in Canadian dollars.

(d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

(e) Going Concern

These financial statements have been prepared using accounting principles applicable to a going concern. The going concern basis assumes that the Company will continue its operations for the foreseeable future, and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at June 30, 2017, the Company had negative working capital of $75,119 and during the period then ended, it incurred a net loss and comprehensive loss of $101,541. The uncertainty on the Company's ability to raise additional finances to fund its operations casts significant doubt upon the Company's ability to continue as a going concern and the ultimate appropriateness of using accounting principles applicable to a going concern. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. If the Company is not able to continue as a going concern, the Company may be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these consolidated financial statements. These differences could be material.

3. Significant accounting policies

A summary of the significant accounting policies, which have been applied consistently to all periods presented in the accompanying financial statements are set out below:

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

A derivative is a financial instrument whose value changes in response to a specified variable, requires little or no net investment and is settled at a future date.

At initial recognition, the Company classifies its financial instruments in the following categories:

(i) Financial assets and liabilities at fair value through profit or loss: a financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Gains and losses arising from changes in fair value are presented in the statements of net loss and comprehensive loss within other expense (income) in the period in which they arise. Cash is included in this category.

(ii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment. Accounts receivable is included in this category.

(iii) Available for sale financial assets: Available for sale assets are non-derivative financial assets that are designated as available for sale and are not categorized into any of the other categories described above. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently recognized at fair value. Gains and losses arising from changes in fair value are included as a separate component of equity until sale, when the cumulative gain or loss is transferred to the statements of loss and comprehensive loss. Interest is determined using the effective interest method, and impairment losses and translation differences on monetary items are recognized in the statements of net loss and comprehensive loss. The Company does not have any available for sale assets.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost are composed of accounts payable. Trade payables and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce payables to fair value. Subsequently, accounts payables are measured at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets carried at amortized cost

At each statement of financial position date, the Company assesses whether there is objective evidence a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the statements of loss and comprehensive loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For practical reasons, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

Loss per common share, basic and diluted

Basic loss per share is calculated by dividing the net loss for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period. Contingently issuable shares (including shares held in escrow) are not considered outstanding common shares and consequently are not included in the loss per share calculations.

Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method.

Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statements of loss and comprehensive loss except to the extent that it relates to items recognized directly in shareholders' equity, in which case the income tax is also recognized directly in shareholders' equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted at the end of the reporting period, and any adjustments to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted at the statements of financial position dates and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable the assets can be recovered.

Deferred income tax assets and liabilities are presented as non-current.

Provisions

A provision is recognized when the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations have been issued but have not yet been applied in preparing these financial statements, as set out below:

- IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after January 1, 2018 and earlier adoption is permitted.

- IFRS 15, Revenue from Contracts with Customers, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of goods or services and thus has the ability to direct the use and obtain the benefits from the goods or services. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier adoption is permitted.

- In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low value assets; however, this exemption can only be applied by lessees. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application if IFRS 15 is also applied.

The Company has yet to assess the impact of these standards, however they are not expected to have a significant impact on the Company's financial statements at this time. 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.

4. Shareholders' equity

Authorized share capital

Common Share – voting – unlimited

Outstanding share capital

	Common Shares		Amount
Balance at Incorporation	-	$	-
Common Shares issued for cash	7,000,000		35,000
Issuance Costs	-		(8,578)
Outstanding at June 30, 2017	**7,000,000**	**$**	**26,422**

June 30, 2017

During the period, the Company issued 7,000,000 common shares for gross proceeds of $35,000.

5. Related parties

Related parties include the Board of Directors and key management, close family members and entities that are controlled by these individuals, as well as certain persons performing similar functions. There was no indebtedness to shareholders of the Company at June 30, 2017.

Included in accounts payable and accrued liabilities are fees of $10,000 accrued to an officer of the Company for consulting services under normal course.

Management compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly including the Chief Executive Officer, Chief Financial Officer and equivalent, and Directors. For the period from date of incorporation (March 15, 2017) to June 30, 2017, the Company's expenses included $10,000 for salary or consulting fees paid to key management personnel, include in consulting fees.

6. Capital management

The Company's objective in managing capital is to ensure a sufficient liquidity position to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. In order to achieve this objective, the Company prepares budgets and capital requirements to manage its capital structure. The Company defines capital as equity and borrowings, comprised of issued share capital, share-based payments, accumulated deficit, as well as due to related parties.

Since inception, the Company has primarily financed its liquidity needs through issuance of shares.

The Company is not subject to externally imposed capital requirements.

7. Financial instruments and risk management

Financial instruments

The Company has classified its cash as fair value through profit and loss ("FVTPL"), accounts receivable as current assets, accounts payable and accrued liabilities as current liabilities.

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to their short periods to maturity.

Fair value hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The hierarchy is summarized as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities
Level 2 – inputs that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices) from observable market data
Level 3 – inputs for assets and liabilities not based upon observable market data

Financial risk factors

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash. The Company's cash is held at a major Canadian bank. The Company regularly monitors the credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss.

(b) Liquidity risk

The Company is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due as discussed in Note 2 (e) above. The Company constantly monitors and manages its cash flows to assess the liquidity necessary to fund operations. All of the Company's financial liabilities are due within one year.

(c) Interest rate risk

The Company is not subject to any significant interest rate risk from its liabilities, which are all non-interest bearing instruments.

8. Income taxes

The reconciliation of the combined Canadian federal and provincial corporate income taxes at statutory rates 26.5% to the Company's effective income tax expense is as follows:

	From the date of incorporation (March 15, 2017) to June 30, 2017
Loss before income taxes	$ 101,541
Statutory rate	26.5%
Expected income tax recovery at combined basic federal and provincial tax rates	26,908
Effect on income taxes of:	
Non-deductible expenses	
Changes in tax benefits not recognized	(26,908)
Income tax recovery	**$ -**

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities.

Deferred tax assets have not been recognized in respect of the following temporary differences:

	From the date of incorporation (March 15, 2017) to June 30, 2017
Non-capital loss carryforward	$ 101,541
Deductible share issuance costs	8,578

Notes to the Financial Statements
For the period from date of incorporation (March 15, 2017) to June 30, 2017

At June 30, 2017, the Company had Canadian non-capital loss carry forwards which may be available to offset future year's taxable income. The losses expire as follows:

2037	$	110,119
	$	**110,119**

9. Accounts payable and accrued liabilities

		Total
Trade payables		97,143
Accrued liabilities		14,500
Balance at June 30, 2017	**$**	**111,643**