CARDIOL THERAPEUTICS INC.
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018
AND PERIOD FROM
JANUARY 19, 2017 (INCORPORATION)
TO DECEMBER 31, 2017
(EXPRESSED IN CANADIAN DOLLARS)

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Independent Auditor's Report

To the Shareholders of
Cardiol Therapeutics Inc.

Opinion

We have audited the financial statements of Cardiol Therapeutics Inc. (the Entity), which comprise the statements of financial position as at December 31, 2018 and 2017 and the statements of loss and comprehensive loss, changes in equity and cash flows for the year ended December 31, 2018 and the period from January 19, 2017 to December 31, 2017, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018 and 2017, and its financial performance and its cash flows for the year ended December 31, 2018 and the period from January 19, 2017 to December 31, 2017 in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises:

- The information, other than the financial statements and our auditor's report thereon, included in the Management's Discussion and Analysis.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Richard Yeghiayan.

BDO Canada s.r.l./S.E.N.C.R.L./LLP[1]

Chartered Professional Accountants, Licensed Public Accountants

Markham, Ontario
March 27, 2019

Cardiol Therapeutics Inc.

Statements of Financial Position
(Expressed in Canadian Dollars)

	As at December 31, 2018	As at December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents (note 5)	**$ 16,731,500**	$ 2,356,524
Interest receivable	**34,091**	6,118
Commodity tax receivable	**426,689**	95,628
Prepaid expenses	**488,839**	26,583
Prepaid inventory (note 13(iii))	**6,345,525**	-
Total current assets	**24,026,644**	2,484,853
Non-current assets		
Equipment (note 6)	**25,551**	18,808
Intangible assets (note 7)	**632,578**	717,022
Total assets	**$ 24,684,773**	$ 3,220,683
EQUITY AND LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 14)	**$ 2,141,398**	$ 176,714
Total current liabilities	**2,141,398**	176,714
Non-current liabilities		
Convertible debentures (note 8)	**269,216**	190,043
Total liabilities	**2,410,614**	366,757
Equity (deficiency)		
Share capital (note 9)	**36,722,454**	4,255,389
Warrants (note 11)	**1,593,608**	-
Equity portion of convertible debentures (note 8(i))	**259,463**	259,463
Contributed surplus (note 10)	**1,253,295**	-
Deficit	**(17,554,661)**	(1,660,926)
Total equity (deficiency)	**22,274,159**	2,853,926
Total equity (deficiency) and liabilities	**$ 24,684,773**	$ 3,220,683

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

Commitments (notes 7 and 13)
Subsequent events (notes 8 and 16)

Approved on behalf of the Board:

"*David Elsley*", Director

"*Eldon Smith*", Director

Cardiol Therapeutics Inc.

Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Year Ended December 31, 2018	Period from January 19, 2017 (incorporation) to December 31, 2017
Operating expenses (note 14)		
Administration	**$ 1,935,503**	$ 680,498
Depreciation of equipment (note 6)	**7,048**	3,135
Amortization of intangible assets (note 7)	**84,444**	50,206
Accretion and interest on convertible debentures (note 8)	**663,373**	60,562
Investor relations and promotions	**507,841**	163,823
Research and development	**1,532,606**	441,257
Salaries and benefits	**1,364,707**	256,511
Transfer agent and regulatory	**10,817**	-
Share-based compensation (note 10)	**1,653,245**	-
Loss before other income (expenses)	**(7,759,584)**	(1,655,992)
Interest income	**103,306**	6,118
Gain (loss) on foreign exchange	**42,332**	(11,052)
Change in derivative liability (note 8(iv))	**(7,882,261)**	-
Listing expense	**(397,528)**	-
Net loss and comprehensive loss for the period	**$ (15,893,735)**	$ (1,660,926)
Basic and diluted net loss per share (note 12)	**$ (1.03)**	$ (0.13)
Weighted average number of common shares outstanding	**15,373,236**	12,798,362

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

Cardiol Therapeutics Inc.

Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended December 31, 2018	Period from January 19, 2017 (incorporation) to December 31, 2017
Operating activities		
Net loss and other comprehensive loss for the period	**$ (15,893,735)**	$ (1,660,926)
Adjustments for:		
Depreciation of equipment	**7,048**	3,135
Amortization of intangible assets	**84,444**	50,206
Share-based compensation	**1,653,245**	-
Accretion on convertible debentures	**79,173**	49,506
Change in derivative liability	**7,882,261**	-
Financing costs	**450,055**	-
Services through issuance of share capital	**-**	217,500
Interest settled through issuance of share capital	**45,635**	-
Changes in non-cash working capital items:		
Interest receivable	**(27,973)**	(6,118)
Commodity tax receivable	**(331,061)**	(95,628)
Prepaid expenses	**(462,256)**	(26,583)
Prepaid inventory	**(6,345,525)**	-
Accounts payable and accrued liabilities	**1,964,684**	176,714
Net cash used in operating activities	**(10,894,005)**	(1,292,194)
Investing activities		
Purchase of equipment	**(13,791)**	(21,943)
Purchase of intangible assets	**-**	(7,228)
Net cash used in investing activities	**(13,791)**	(29,171)
Financing activities		
Issuance of convertible debentures, net of issuance costs	**12,068,808**	400,000
Issuance of common shares	**-**	3,398,440
Share issuance costs	**(1,019,873)**	(120,551)
Proceeds from stock options exercised	**50**	-
Proceeds from initial public offering, net of commission	**14,233,787**	-
Net cash provided by financing activities	**25,282,772**	3,677,889
Net change in cash and cash equivalents	**14,374,976**	2,356,524
Cash and cash equivalents, beginning of period	**2,356,524**	-
Cash and cash equivalents, end of period	**$ 16,731,500**	$ 2,356,524
Supplemental information		
Purchase of intangible assets	**$ -**	$ 760,000
Finders' fees paid in shares	**$ -**	$ 69,250

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

Cardiol Therapeutics Inc.

Statements of Changes in Equity (Deficiency)
(Expressed in Canadian Dollars)

	Share capital				Equity portion of convertible		
	Number	Amount	Warrants	Contributed surplus	debenture	Deficit	Total
Balance, January 19, 2017	**-**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Purchase intangible asset	1,220,000	760,000	-	-	-	-	760,000
Shares for services	435,000	217,500	-	-	-	-	217,500
Common shares issued	13,337,600	3,398,440	-	-	-	-	3,398,440
Share issuance cost	120,500	(120,551)	-	-	-	-	(120,551)
Convertible debentures	-	-	-	-	259,463	-	259,463
Net loss and comprehensive loss for the period	-	-	-	-	-	(1,660,926)	(1,660,926)
Balance, December 31, 2017	**15,113,100**	**$ 4,255,389**	**$ -**	**$ -**	**$ 259,463**	**$ (1,660,926)**	**$ 2,853,926**
Initial public offering - Units	3,000,000	13,860,000	1,140,000	-	-	-	15,000,000
Initial public offering - Warrants	-	-	142,327	-	-	-	142,327
Share issuance costs	-	(2,239,694)	311,281	-	-	-	(1,928,413)
Convertible debentures conversion	4,513,612	20,446,759	-	-	-	-	20,446,759
Share-based compensation	-	-	-	1,653,245	-	-	1,653,245
Stock options exercised	100,000	400,000	-	(399,950)	-	-	50
Net loss and comprehensive loss for the year	-	-	-	-	-	(15,893,735)	(15,893,735)
Balance, December 31, 2018	**22,726,712**	**$ 36,722,454**	**$ 1,593,608**	**$ 1,253,295**	**$ 259,463**	**$ (17,554,661)**	**$ 22,274,159**

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

1. Nature of operations

Cardiol Therapeutics Inc. (the "Company") was incorporated under the laws of the Province of Ontario on January 19, 2017. The Company is a nanotherapeutics company focusing on research and commercial development of proprietary drug formulations for the treatment of heart failure and cancer. The Company's registered and legal office is located at 2275 Upper Middle Rd. E., Suite 101 Oakville, Ontario, L6H 0C3, Canada

On August 28, 2018, the Company approved a stock split of its issued share capital on a 1 (one) old for 2 (two) new basis. All current and comparative references to the number of shares have been restated to give effect to the stock split, unless otherwise noted.

On December 20, 2018, the Company completed its initial public offering (the "IPO") on the Toronto Stock Exchange (the "TSX"). As a result, the Company's common shares commenced trading at that date on the TSX under the symbol "CRDL" and the warrants commenced trading under the symbol "CRDL.WT".

2. Significant accounting policies

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The policies applied in these financial statements are based on IFRSs issued and outstanding as of March 27, 2019, the date the Board of Directors approved the statements.

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These financial statements have been prepared on a historical cost basis. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

(b) New standards not yet adopted and interpretations issued but not yet effective

IFRS 16 - Leases ("IFRS 16") was issued on January 13, 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company does not expect adoption to have any material impact.

2. Significant accounting policies (continued)

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, being the functional currency of the Company. The functional currency for the Company is determined by the currency of the primary economic environment in which it operates ("the functional currency").

At the end of each reporting year, monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at that date; non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates of exchange prevailing at the date when fair value was determined; and, non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated. Such exchange differences arising from retranslation at year-end are recognized in the statement of loss and comprehensive loss.

(d) Financial instruments

Recognition

The Company recognizes a financial asset or financial liability on the statement of financial position when it becomes party to the contractual provisions of the financial instrument. Financial assets are initially measured at fair value, and are derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset, or when cash flows expire. Financial liabilities are initially measured at fair value and are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

A write-off of a financial asset (or a portion thereof) constitutes a derecognition event. Write-off occurs when the Company has no reasonable expectations of recovering the contractual cash flows on a financial asset.

Classification and Measurement

The Company determines the classification of its financial instruments at initial recognition. Financial assets and financial liabilities are classified according to the following measurement categories:

- those to be measured subsequently at fair value, either through profit or loss ("FVTPL") or through other comprehensive income ("FVTOCI"); and,
- those to be measured subsequently at amortized cost.

The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at each subsequent reporting period. All other financial assets are measured at their fair values at each subsequent reporting period, with any changes recorded through profit or loss or through other comprehensive income (which designation is made as an irrevocable election at the time of recognition).

After initial recognition at fair value, financial liabilities are classified and measured at either:

- amortized cost;
- FVTPL, if the Company has made an irrevocable election at the time of recognition, or when required (for items such as instruments held for trading or derivatives); or,
- FVTOCI, when the change in fair value is attributable to changes in the Company's credit risk.

2. Significant accounting policies (continued)

(d) Financial instruments (continued)

Classification and Measurement (continued)

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability classified as subsequently measured at amortized cost are included in the fair value of the instrument on initial recognition. Transaction costs for financial assets and financial liabilities classified at fair value through profit or loss are expensed in profit or loss.

The Company's financial asset consists of cash and cash equivalents and interest receivable, which are classified and measured at amortized cost. The Company's financial liabilities consist of accounts payable and accrued liabilities and convertible debt, which are classified and measured at amortized cost.

Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit losses associated with any financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information.

(e) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of loss and comprehensive loss.

(f) Equipment

Equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and fair value of any other consideration given to acquire the asset. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Computer equipment and office equipment are amortized at a rate of 30% and 20%, respectively, per annum.

2. Significant accounting policies (continued)

(f) Equipment (continued)

An item of equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of loss and comprehensive loss when the asset is derecognized. The assets' residual values, useful lives and methods of depreciation are reviewed each reporting period, and adjusted prospectively if appropriate.

(g) Cash and cash equivalents

Cash and cash equivalents in the statements of financial position comprise cash at banks and short-term bank deposits with original maturity of three months or less. The Company's cash is invested with major financial institutions in business accounts that are available on demand by the Company for its programs.

(h) Income taxes

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against that excess.

(i) Convertible debt

When convertible debt is issued, the Company analyzes their terms and conditions and first assesses whether the convertible debt is equity or a liability using the criteria provided in IAS 32. The Company may also conclude that the convertible debt has both debt and equity components. Where there is a debt component that meets the definition of a financial liability and also an equity component where the note payable holder has a non-derivative conversion option, the following paragraph describes that accounting treatment.

The component parts of note payables issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

2. Significant accounting policies (continued)

(i) Convertible debt (continued)

Where the note payable holder has a derivative conversion option, at the date of issue, the fair value of the derivative conversion option is recorded as a derivative liability. The fair value is estimated using an observable market price or the Black-Scholes option pricing model which incorporates assumptions regarding the expected life of the option, volatility, dividend yield and risk-free rates. The value of the liability component is recorded at the residual value and subsequently on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The derivative conversion option is revalued at each period.

(j) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all instruments outstanding that may add to the total number of common shares.

(k) Intangible assets

Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. Intangible assets with finite useful lives are amortized over their estimated useful lives. Research costs are expensed when incurred.

The exclusive global license's useful life is 9 years.

(l) Share-based transactions

Share-based payments to non-employees are measured at the fair value of the goods or services received. If it is determined that the fair value of the goods or services cannot be reliably measured, the fair value of the equity instruments issued are recorded at the date the goods or services are received.

(m) Stock options

The fair value of stock options granted is recognized as an expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value of stock options issued to employees is measured at the grant date and recognized on a graded-vesting basis over the period during which the options vest. Stock options issued to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of the options granted to employees is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Consideration paid for the shares on the exercise of stock options is credited to share capital. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

2. Significant accounting policies (continued)

(n) Significant accounting judgments and estimates

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the inputs used in the Black-Scholes valuation model that were based on unobservable assumptions when the Company was private at the time of issuance of the equity instruments (share price and volatility) in accounting for share-based payment transactions;
- the valuation of the liability components of convertible debt and derivative liability;
- the valuation of income tax accounts; and
- the initial valuation and estimated useful lives of intangible assets.

Critical accounting judgments

- management applied judgment in determining the functional currency of the Company as Canadian dollars;
- management's assessment of no indicators of impairment exist for intangible assets, based on the facts and circumstances that existed during the period; and
- allocation of IPO costs between share issuance costs and listing expenses.

3. Capital risk management

The Company manages its capital to ensure sufficient financial flexibility to achieve the ongoing business objectives including research activities, funding of future growth opportunities and pursuit of acquisitions.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Board of Directors on an ongoing basis.

The Company considers its capital to be equity, which comprises share capital, warrants, equity portion of convertible debenture, contributed surplus and deficit, which at December 31, 2018 totaled $22,274,159 (December 31, 2017 - $2,853,926).

The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. The forecast is updated based on activities related to its research programs. Selected information is provided to the Board of Directors of the Company.

3. Capital risk management (continued)

As the Company does not have a credit facility, the Company is not currently subject to any capital requirements imposed by a lending institution or regulatory body. The Company expects that its capital resources will be sufficient to discharge its liabilities as of the current statement of financial position date.

4. Financial instruments and risk management

Fair value

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

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

The Company's financial instruments measured at fair value, which consisted of the derivative liability allocated to share capital on the IPO, was considered level one in the fair value hierarchy and was measured at the IPO price.

Financial risks

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate and foreign currency risk).

Risk management is carried out by the Company's management team under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

There were no changes to credit risk, liquidity risk or market risk for the year ended December 31, 2018.

(i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company’s financial instruments that are exposed to concentrations of credit risk relate primarily to cash and cash equivalents and interest receivable.

The Company mitigates its risk by maintaining its funds with large reputable financial institutions, from which management believes the risk of loss to be minimal. Interest receivable relates to guaranteed investment certificates held with large reputable financial institutions. The Company’s management considers that all the above financial assets are of good credit quality.

(ii) Liquidity risk

Liquidity risk is the risk that the Company encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Company will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value, which is less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from accounts payable and accrued liabilities, convertible debenture and commitments. The Company limits its exposure to this risk by closely monitoring their cash flow.

4. Financial instruments and risk management (continued)

(ii) Liquidity risk (continued)

The following table presents the contractual maturities of the financial liabilities as of December 31, 2018:

		Contractual cash flows		
As at December 31, 2018	**Carrying amount**	**Payable within 1 year**	**2-3 years**	**Total**
Accounts payable and accrued liabilities	$ 2,141,398	$ 2,141,398	$ -	$ 2,141,398
Convertible debenture [(1)]	269,216	-	400,000	400,000
	$ 2,410,614	$ 2,141,398	$ 400,000	$ 2,541,398

(i) Converted to common shares subsequent to December 31, 2018, see note 8(i).

(iii) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

(a) Interest rate risk

The Company currently does not have any short-term or long-term debt that is variable interest bearing and, as such, the Company's current exposure to interest rate risk is minimal.

(b) Foreign currency risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. The Company enters into foreign currency purchase transactions and has assets that are denominated in foreign currencies and thus is exposed to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The Company does not currently use derivative instruments to reduce its exposure to foreign currency risk.

The Company holds balances in US dollars which could give rise to exposure to foreign exchange risk. Sensitivity to a plus or minus 10% change in the foreign exchange rate of the US dollar against the Canadian dollar would affect the reported loss and comprehensive loss by approximately $285,000 (December 31, 2017 - $4,500).

5. Cash and cash equivalents

Cash and cash equivalents include two cashable Guaranteed Investment Certificates totaling $1,007,310 earning interest of 1.326% per annum and maturing on March 2, 2019 and one cashable Guaranteed Investment Certificate totaling $60,000 earning interest of 2% per annum and maturing on December 4, 2019. (December 31, 2017 - $1,000,000 earning interest of 0.73% per annum and maturing on March 2, 2018). The Guaranteed Investment Certificates may be redeemed prior to maturity without penalty.

(Expressed in Canadian Dollars)

6. Property and equipment

Cost	Office equipment	Computer equipment	Total
Balance, January 19, 2017	$ -	$ -	$ -
Additions	3,129	18,814	21,943
Balance, December 31, 2017	$ 3,129	$ 18,814	$ 21,943
Additions	-	13,791	13,791
Balance, December 31, 2018	$ 3,129	$ 32,605	$ 35,734

Accumulated Depreciation	Office equipment	Computer equipment	Total
Balance, January 19, 2017	$ -	$ -	$ -
Depreciation for the period	313	2,822	3,135
Balance, December 31, 2017	$ 313	$ 2,822	$ 3,135
Depreciation for the period	563	6,485	7,048
Balance, December 31, 2018	$ 876	$ 9,307	$ 10,183

Carrying value	Office equipment	Computer equipment	Total
Balance, December 31, 2017	$ 2,816	$ 15,992	$ 18,808
Balance, December 31, 2018	$ 2,253	$ 23,298	$ 25,551

7. Intangible assets

Cost	Exclusive global license agreement
Balance, January 19, 2017	$ -
Additions (note 9(i))	767,228
Balance, December 31, 2017 and December 31, 2018	$ 767,228

Accumulated Amortization	Exclusive global license agreement
Balance, January 19, 2017	$ -
Amortization for the period	50,206
Balance, December 31, 2017	$ 50,206
Amortization for the period	84,444
Balance, December 31, 2018	$ 134,650

Carrying Value	Exclusive global license agreement
Balance, December 31, 2017	$ 717,022
Balance, December 31, 2018	$ 632,578

7. Intangible assets (continued)

Exclusive global agreement ("Meros License Agreement")

In 2017, the Company was granted by Meros Polymers Inc. ("Meros") the sole, exclusive, irrevocable license to patented nanotechnologies for use with any drugs to diagnose, or treat, cardiovascular disease, cardiopulmonary disease, and cardiac arrhythmias. Meros is focused on the advancement of nanotechnologies developed at the University of Alberta.

Under the Meros License Agreement, Cardiol agreed to certain milestones and milestone payments, including the following: (i) payment of $100,000 upon enrolling the first patient in a Phase IIB clinical trial designed to investigate the safety and indications of efficacy of one of the licensed technologies; (ii) payment of $500,000 upon enrolling the first patient in a Pivotal Phase III clinical trial designed to investigate the safety and efficacy of one of the licensed technologies; (iii) $1,000,000 upon receiving regulatory approval from the FDA on any therapeutic and/or prophylactic treatment incorporating the licensed technologies. Cardiol also agreed to pay Meros the following royalties: (i) 5% of worldwide proceeds of net sales of the licensed technologies containing cannabinoids that Cardiol receives from human and animal disease indications and derivatives as outlined in the Meros License Agreement; (ii) 7% of any non-royalty sub license income that Cardiol receives from human and animal disease indications and derivatives for licensed technologies containing cannabinoids as outlined in the Meros License Agreement; (iii) 3.7% of worldwide proceeds of net sales that Cardiol receives from the licensed technology in relation to human and animal cardiovascular and/or cardiopulmonary disease, heart failure, and/or cardiac arrhythmia diagnosis and/or treatments using the drugs outlined in the Meros License Agreement; and (iv) 5% of any non-royalty sub license income that Cardiol receives in relation to any human and animal heart disease, heart failure and/or arrhythmias indications as outlined in the Meros License Agreement. In addition, as part of the consideration under the Meros License Agreement, Cardiol (i) issued to Meros 1,020,000 common shares; (ii) issued to Meros an additional 1,020,000 common shares to be held in escrow and to be released upon the first patient being enrolled in a Phase 1 clinical trial as described in the Meros License Agreement.

In October 2018, the Company and Meros cancelled and returned to treasury 1,020,000 common shares held in escrow pursuant to the Meros Licence Agreement. In exchange, the Company issued 1,020,000 special warrants convertible automatically into common shares for no additional consideration in accordance with the original escrow release terms as described in the Meros License Agreement.

8. Convertible debt

(i) On January 31, 2017, the Company issued a convertible debenture with a face value of $400,000. The debenture bears interest at 3% per annum, calculated and payable monthly, and matures on January 31, 2020. The debenture is convertible into 2,700,000 Class A common shares at the holder's option at any time prior to the close of business on the maturity day.

The Company used the residual value method to allocate the principal amount of the convertible debentures between the liability and equity components. The Company valued the debt component of the debentures by calculating the present value of the principal and interest payments, discounted at a rate of 40%, being management's best estimate of the rate that a non-convertible debenture with similar terms would bear. The equity conversion feature of the debentures comprises the value of the conversion option, being the difference between the face value of the debentures and the liability element calculated above. Based on this calculation, the liability component was $140,537 and the residual equity component was $259,463. Accretion charges attributable to the debentures for the year ended December 31, 2018 was $79,173 (year ended December 31, 2017 - $49,506). These amounts were added to the liability component on the statements of financial position and is included in accretion and interest on convertible debentures expense on the statements of loss and comprehensive loss.

Subsequent to December 31, 2018, the convertible debenture was converted into 2,700,000 common shares.

(Expressed in Canadian Dollars)

8. Convertible debt (continued)

(ii) On May 24, 2018 and August 1, 2018, the Company closed on a brokered private placement unsecured convertible debentures with a total face value of $12,931,000. The debentures bore interest at 8% per annum, calculated and payable semi-annually, and were to mature on May 31, 2019. The debentures were convertible, plus accrued and unpaid interest, on the earlier of the maturity date or Triggering Event (as defined below) at the lesser of 90% of the price of the common shares in a Triggering Event or $2.875 per share. The debentures were automatically converted upon the IPO, being a Triggering Event.

As a result of the conversion price of the debentures not being fixed, the conversion feature was considered a derivative liability and was revalued at each period end and immediately prior to conversion. The fair value of the derivative liability of the debenture at issuance was initially estimated to be $nil.

The Company incurred $862,194 of transaction costs in connection with the issuance of the debentures. The transaction costs were allocated to the convertible note payable as deferred financing costs and were amortized over the remaining term of the debentures using the effective interest method. During the year ended December 31, 2018, the $450,057 of deferred financing fees were expensed and the remainder were allocated to share capital on the conversion of the debentures (see note 9(v)).

(iii) The fair value of the derivative liability of the debentures, noted in (ii) above, immediately prior to conversion (see note 9(v)) was estimated to be $7,882,261, calculated as being the excess to pay in shares compared to the nominal value of the debentures.

9. Share capital

a) Authorized share capital

The authorized share capital consisted of unlimited number of Class A common shares. The Class A common shares do not have a par value. All issued shares are fully paid.

On August 28, 2018, the Company approved a stock split of its issued share capital on a 1 old for 2 new basis. All current and comparative references to the number of shares have been restated to give effect to the stock split, unless otherwise noted.

b) Class A common shares issued

	Number of common shares	Amount
Balance, January 19, 2017	-	$ -
Purchase of intangible asset (i)	1,220,000	760,000
Shares for services (ii)	435,000	217,500
Common shares issued (iii)	13,337,600	3,398,440
Share issuance cost (ii), (iii)	120,500	(120,551)
Balance, December 31, 2017	15,113,100	$ 4,255,389
Initial public offering - Units (iv)	3,000,000	13,860,000
Share issuance costs (iv)	-	(2,239,694)
Convertible debentures conversion (v)	4,513,612	20,446,759
Options exercised (note 10)	100,000	400,000
Balance, December 31, 2018	22,726,712	$ 36,722,454

9. Share capital (continued)

b) Class A common shares issued (continued)

(i) During the year ended December 31, 2017, the Company issued 1,220,000 Class A common shares in the amount of $760,000 in connection with the Meros License Agreement (see note 7).

(ii) During the year ended December 31, 2017, the Company issued 400,000 Class A common shares in the amount of $200,000 for research and development and 35,000 Class A common shares in the amount of $17,500 for marketing services. The Company issued 120,500 Class A common shares in the amount of $69,250 for finders' fees.

(iii) During the year ended December 31, 2017, the Company issued 13,337,600 Class A common shares for cash consideration of $3,398,440 less share issue costs of $120,501.

(iv) On December 20, 2018, the Company completed its IPO by issuing 3,000,000 common share units at $5.00 per unit for gross proceeds of $15,000,000. Each unit consisted of one Class A common share and one common share purchase warrant (a "Warrant"). Each Warrant is exercisable into one Common Share at the price of $6.50 per share for a period of two years, subject to accelerated expiry if, at any time, the volume weighted average trading price of the common shares is equal to or greater than $10.00 for any 10 consecutive trading day period.

The Company granted the Underwriters an over-allotment option (the "Over-Allotment Option"), which could be exercised in whole or in part, for a period of 30 days from closing, to purchase additional: (a) units at a price of $5.00 per unit; (b) common shares at a price of $4.62 per share; (c) Warrants at a price of $0.38 per Warrant; or (d) any combination, so long as the aggregate number of common shares that may be issued under the Over-Allotment Option did not exceed 450,000 common shares and the additional number Warrants that could be issued under the Over-Allotment Option did not exceed 75,456 Over-Allotment Warrants (see note 16(iii)).

An additional 374,544 Warrants were purchased at a price of $0.38 per Warrant pursuant to the partial exercise by the Underwriters of the Over-Allotment Option, as defined below.

The fair value of $1,140,000 was assigned to the 3,000,000 Warrants issued as part of the units based on the value of the Warrants purchased under the Over-Allotment Option.

The Underwriters were paid cash fees of $900,000 and 180,000 compensation warrants. Each compensation warrant entitles the holder to acquire one common share of the Company at $5.00 for a period of 12 months from closing. The grant date fair value of $394,002 was assigned to the compensation warrants issued as estimated by using a fair value market technique incorporating the Black-Scholes option pricing model, using the following assumptions: a risk-free interest rate of 1.90%; an expected volatility factor of 132%; an expected dividend yield of 0%; and an expected life of 1 year.

(v) On December 20, 2018, the Company issued 4,513,612 common shares at $2.875 per shares on conversion of convertible debentures, plus accrued and unpaid interest, totalling $12,976,635 (see notes 8(ii) and (iii)). On the conversion the fair value of the derivative liability of the debentures of $7,882,261 and the unamortized deferred financing fees of $412,137 were allocated to share capital.

(Expressed in Canadian Dollars)

10. Stock options

The Company has adopted an incentive stock option plan in accordance with the policies of the TSX, under which the Board of Directors of the Company may grant to directors, officers, employees and consultants of the Company, non-transferable options to purchase common shares provided the number of shares reserved for issuance under the stock option plan shall not exceed 10% of the issued and outstanding common shares, exercisable for a period of up to ten years from the date of grant. The Board of Directors determines the price per common share and the number of common shares, which may be allotted to directors, officers, employees and consultants, and all other terms and conditions of the option, subject to the rules of the TSX.

	Number of stock options
Balance, January 19, 2017 and December 31, 2017	-
Issued (i)(ii)(iii)	920,000
Exercised	(100,000)
Balance, December 31, 2018	820,000

(i) On August 16, 2018, the Company issued 100,000 stock options to a certain officer of the Company under an employment agreement. Each stock option allowed the holder to acquire one common share of the Company at a exercise price of $0.0005. A grant date fair value of $399,950 was estimated using the fair value of the common shares of the Company on the grant date. The options were exercised on August 21, 2018.

(ii) On August 16, 2018, the Company issued 200,000 stock options to certain officers of the Company. Each stock option allows the holder to acquire one common share of the Company at an original exercise price of $2.875 (see modification below) and expires on August 16, 2025. The options vest on the earlier of (a) the Company's completion of an initial public offering which results in the listing of the common shares on a recognized stock exchange in the Province of Ontario; and (b) December 31, 2018. A grant date fair value of $779,993 was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions: expected dividend yield of 0%; risk-free rate of 2.22%; expected life of 7 years; and an expected volatility of 162% (based on similar companies). During the year ended December 31, 2018, $779,993 was included in share-based compensation.

On the IPO, the exercise price of the 200,000 stock options was repriced to $5.00. As the repricing of the stock options reduces the total fair value of the share-based compensation, the Company will continue to account for the stock options granted as if that modification had not occurred.

(iii) On September 5, 2018, the Company issued 620,000 stock options to certain directors, employees and consultants of the Company. Each stock option allows the holder to acquire one common share of the Company at an original exercise price equal to $2.875 (see modification below) and expires on August 30, 2025. The options vest 1/3 each on the first, second and third anniversaries of the grant date. A grant date fair value of $2,417,462 was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions: expected dividend yield of 0%; risk-free rate of 2.17%; expected life of 7 years; and an expected volatility of 162% (based on similar companies). During the year ended December 31, 2018, $536,016 was included in share-based compensation.

On the IPO, the exercise price of the 620,000 stock options was repriced to $5.00. As the repricing of the stock options reduces the total fair value of the share-based compensation, the Company shall continue to account for the stock options granted as if that modification had not occurred.

(Expressed in Canadian Dollars)

10. Stock options (continued)

The following table reflects the actual stock options issued and outstanding as of December 31, 2018:

Expiry date	Exercise price ($)	Weighted average remaining contractual life (years)	Number of options outstanding	Number of options vested (exercisable)
August 16, 2025	5.00	6.63	200,000	200,000
August 30, 2025 (1)	5.00	6.67	620,000	-
	5.00	6.66	820,000	200,000

(1) Subsequent to December 31, 2018, 40,000 stock options were cancelled.

11. Warrants

	Number of warrants	Amount
Balance, January 19, 2017 and December 31, 2017	-	$ -
Issued (note 13 (ii), note 9 (iv))	4,378,544	1,593,608
Balance, December 31, 2018	4,378,544	$ 1,593,608

The following table reflects the actual warrants issued and outstanding as of December 31, 2018, excluding 1,020,000 special warrants convertible automatically into common shares for no additional consideration in accordance with the original escrow release terms as described in the Meros License Agreement (see note 7):

Expiry date	Exercise price ($)	Remaining contractual life (years)	Warrants exercisable
December 20, 2019	5.00	0.97	180,000
December 20, 2020	6.50	1.97	3,374,544
August 31, 2022	4.00	3.64	824,000
	5.97	2.25	4,378,544

12. Loss per share

For the year ended December 31, 2018, basic and diluted loss per share has been calculated based on the loss attributable to common shareholders of $15,893,735 (year ended December 31, 2017 - $1,660,926) and the weighted average number of common shares outstanding of 15,373,236 (year ended December 31, 2017 - 12,798,362). Diluted loss per share did not include the effect of stock options and warrants as they are anti-dilutive.

13. Commitments

(i) The Company has leased premises with third parties. The minimum committed lease payments are approximately as follows:

2019	$ 23,110

13. Commitments (continued)

(ii) Cardiol entered into a development agreement (the "Caro Development Agreement") with the Clinical Academic Research Organization, S.A. DE C.V. ("Caro") dated August 28, 2018 to further research and development of proprietary drug formulations for the treatment of heart failure. Caro is a Mexican corporation dedicated to providing clinical and scientific experimentation and consulting as well as performing development activities by itself or through third-party providers.

Pursuant to the terms of the Caro Development Agreement, Caro will provide scientific experimentation, research activities, medical drug development activities, and medical drug formulation and discovery to Cardiol (the "Development Activities"), as set out in a development plan (the "Development Plan"). Under the Caro Development Agreement, Caro may also engage third party providers of development activities in support of the Development Plan, which is anticipated to be limited to third-party vendors of materials.

Pursuant to the terms of the Caro Development Agreement, Cardiol will immediately upon execution of the Caro Development Agreement allot and set aside 824,000 Class A Common Shares of Cardiol, and issue to Caro 824,000 warrants (the "Caro Compensation Warrants"), each warrant having the following qualifications: (i) an expiry date of August 31, 2022, or such earlier date as may be specified by a relevant stock exchange; (ii) an exercise price of $4 per share (to be settled through the issuance of invoices by Caro); and (iii) each of the Caro Compensation Warrants entitles Caro to purchase one Class A Common Share of Cardiol for the exercise price. Cardiol also further agreed to pay Caro US$400,000 in cash (paid subsequent to December 31, 2018).

Pursuant to the terms of the Caro Development Agreement, both Cardiol and Caro may terminate the Caro Development Agreement if either party believes in good faith that the continued performance of the Development Activities may be commercially unwise, jeopardize safety, or otherwise be unethical or illegal. However, if Caro terminates the Caro Development Agreement for any reason except breach of contract by Cardiol, or terminates the development activities under the contract prior to achievement of all milestones in the Development Plan, then any unexercised Caro Compensation Warrants that are not related to Development Activities and milestones in the Development Plan that have been attained up to the time of termination of the Caro Development Agreement shall be deemed terminated as of the time of termination of the Caro Development Agreement. Further, if Cardiol terminates the Caro Development Agreement for any reason (including breach of contract by Caro), or requires Caro to terminate the Development Activities prior to achievement of all milestones in the Development Plan, then the Caro Compensation Warrants issued to Caro that can be invoiced for the CARO Development Activities completed up to the time of termination shall be considered to have been earned notwithstanding such termination. The CARO Compensation Warrants that cannot be exercised (because invoices for CARO Development Activities not completed cannot be issued) will be deemed terminated, null and void as of termination.

(iii) Cardiol entered into an exclusive supply agreement (the "Noramco Exclusive Supply Agreement") with Noramco, Inc. ("Noramco") dated September 28, 2018, as amended on December 7, 2018 and as further amended on December 11, 2018, pursuant to which Noramco will be the exclusive supplier of pharmaceutical cannabidiol for Cardiol. Noramco is a Georgia corporation engaged in the business of manufacturing and selling active pharmaceutical ingredients.

Pursuant to the terms of the Noramco Exclusive Supply Agreement, Cardiol paid Noramco a non-recoupable payment of US$3,000,000 (the "Exclusivity Payment"). The Exclusivity Payment will be credited towards purchases during 2019. Cardiol, in its sole discretion, may choose to make minimum annual purchases in order to maintain its exclusive rights under the terms of the Noramco Exclusive Supply Agreement.

(Expressed in Canadian Dollars)

13. Commitments (continued)

(iii) (continued) Noramco shall not sell pharmaceutical cannabidiol to any third party for use in the production of products in Canada and Mexico (the "Territory"), or to any third party for delivery of products of any kind into the Territory. Notwithstanding this restriction, Noramco shall have the right to sell pharmaceutical cannabidiol to third parties outside Canada for use in products that are approved as prescription medicines by the Therapeutic Products Directorate of Health Canada for delivery into Canada.

The Noramco Exclusive Supply Agreement expires on December 31, 2038 subject to certain renewal provisions.

14. Related party transactions

(a) The Company entered into the following transactions with related parties:

(i) Included in research and development expense is $206,255 for the year ended December 31, 2018 (year ended December 31, 2017 - $211,680) paid to a company related to a director. As at December 31, 2018, $9,852 (December 31, 2017 - $nil) was owed to this company and this amount was included in accounts payable and accrued liabilities.

(ii) Included in administration is $125,000 for the year ended December 31, 2018 (year ended December 31, 2017 - $278,600) paid to a company related to a director. As well, included in share capital is $nil (year ended December 31, 2017 $34,000) of finders' fees paid to this company.

(iii) Included in administration is $130,238 (year ended December 31, 2017 - $64,800) paid to a company controlled by the former Chief Financial Officer of the Company. As at December 31, 2018, $9,900 (December 31, 2017 - $11,300) was owed to this company and this amount was included in accounts payable and accrued liabilities.

(b) Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. Remuneration of directors and key management personnel of the Company, except as noted in (a) above, was as follows:

	Year Ended December 31, 2018	Period from January 19, 2017 (incorporation) to December 31, 2017
Salaries and benefits	**$ 1,157,702**	$ 182,924
Share-based payments	**1,363,157**	-
	$ 2,520,859	$ 182,924

As at December 31, 2018, $134,138 (December 31, 2017 - $nil) was owed to key management personnel and this amount was included in accounts payable and accrued liabilities.

(Expressed in Canadian Dollars)

15. Income taxes

The income tax allowance differs from the amount resulting from the application of the combined Canadian income tax rate as follows:

	Year Ended December 31, 2018	Period from January 19, 2017 (incorporation) to December 31, 2017
Loss before income taxes	**$ (15,893,735)**	$ (1,660,926)
Statutory income tax rate	**26.50 %**	26.50 %
Expected income tax recovery	**(4,211,840)**	(440,145)
Non-taxable income or non-deductible expenses	**2,576,737**	16,155
Tax rate differential and other	**(96,362)**	2,508
Unapplied non-capital losses	**1,731,465**	421,482
	$ -	$ -

The Company intends to claim refundable investment tax credits ("ITC's") for qualifying scientific research and experimental development ("SRED") expenses by amending its 2017 Canadian income tax return. The amount of the qualifying SRED expenses and ITC's are unknown at the date of the audit report.

The Company has Canadian non-capital losses of approximately $7,902,081 available to apply against the future taxable income, expiring has follows.

2037	**$ 1,368,251**
2038	**6,533,830**
	$ 7,902,081

16. Subsequent event

(i) Subsequent to December 31, 2018, the Company granted 150,000 stock options to a certain officer of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of $4.30 and expires on January 2, 2026. The options vested on grant.

(ii) Subsequent to December 31, 2018, the Company granted 285,000 stock options to certain employees and consultants of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of $5.34. 125,000 stock options expire July 24, 2020 and vest 25% every three months from the grant date. 100,000 stock options expire January 24, 2024 and vest 25% every three months from the grant date. 60,000 stock options expire January 24, 2026 and vest 1/3 each on the first, second and third anniversaries of the grant date.

(iii) Subsequent to December 31, 2018, as additional 374,544 common shares at $4.62 per share for gross proceeds of $1,730,393 were granted under the Over-Allotment Option. As a result, an additional 22,472 compensation warrants were issued.

16. Subsequent event (continued)

(iv) Subsequent to December 31, 2018, the Company announced the appointment of Thomas (Tom) Moffatt, BBA, as Chief Commercial Officer.