

**RMR SCIENCE TECHNOLOGIES INC.**

**Financial Statements**

**For the period from October 17, 2017 (date of incorporation) to September 30, 2018**

**(Expressed in Canadian Dollars)**

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
RMR Science Technologies Inc.

We have audited the accompanying financial statements of RMR Science Technologies Inc., which comprise the statement of financial position as at September 30, 2018, and the statements of loss and comprehensive loss, shareholders' equity, and cash flow for the period from incorporation as at October 17, 2017 to September 30, 2018, 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, these financial statements present fairly, in all material respects, the financial position of RMR Science Technologies Inc. as at September 30, 2018, and its financial performance and its cash flow for the period from incorporation on October 17, 2017 to September 30, 2018 in accordance with International Financial Reporting Standards.



***Emphasis of Matter***

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about RMR Science Technologies Inc.'s ability to continue as a going concern.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

January 28, 2019

**RMR Science Technologies Inc.**  
**Statement of Financial Position**  
**(Expressed in Canadian Dollars)**

	<i>Notes</i>	September 30, 2018
		\$
<b>ASSETS</b>		
Current		
Cash	4	408,647
Deferred financing costs	13	25,000
<b>Total assets</b>		<b>433,647</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts payable and accrued liabilities	5	125,794
<b>SHAREHOLDERS' EQUITY</b>		
Equity		
Share capital	6	519,848
Reserves		69,833
Deficit		(281,828)
<b>Total shareholders' equity</b>		<b>307,853</b>
<b>Total liabilities and shareholders' equity</b>		<b>433,647</b>

Nature of operations – Note 1  
Proposed transaction – Note 13

Approved on behalf of the Board:

/s/ Robin Hutchison

Director

/s/ Ron Erickson

Director

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

**RMR Science Technologies Inc.**  
**Statement of Loss and Comprehensive Loss**  
**(Expressed in Canadian Dollars)**

<b>For the period:</b>		<b>October 17, 2017 to September 30, 2018</b>
	<b>Notes</b>	<b>\$</b>
<b>General and administrative expenses</b>		
Bank service charges		745
General office and administration		1,153
Marketing and promotion		5,394
Professional fees		153,208
Share-based payments	7	52,445
Transaction costs	1	25,000
Transfer agent, listing and filing fees		41,434
Travel and entertainment		2,449
<b>Net loss and comprehensive loss for the period</b>		<b>(281,828)</b>
<b>Basic and diluted loss per common share</b>		<b>(0.10)</b>
<b>Weighted average number of common shares outstanding</b>		<b>2,928,253</b>

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

**RMR Science Technologies Inc.**  
**Statement of Shareholders' Equity**  
**(Expressed in Canadian Dollars)**

	Common Shares		Option Reserve	Deficit	Total Shareholders' Equity
	Number of Shares	Amount			
		\$		\$	\$
Balance, October 17, 2017	-	-	-	-	-
Shares issued	7,600,000	630,000	-	-	630,000
Share issuance costs	-	(106,341)	-	-	(106,341)
Share-based payments	-	-	52,445	-	52,445
Agent's options granted	-	(23,805)	23,805	-	-
Agent's options exercised	135,775	13,577	-	-	13,577
Transfer reserve on agent's options exercised	-	6,417	(6,417)	-	-
Net loss for the period	-	-	-	(281,828)	(281,828)
Balance, September 30, 2018	7,735,775	519,848	69,833	(281,828)	307,853

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

**RMR Science Technologies Inc.**  
**Statement of Cash Flow**  
**(Expressed in Canadian Dollars)**

**For the period from October 17, 2017 to September 30, 2018**

	\$
Cash provided by (used in):	
<b>Operating activities:</b>	
Net loss for the period	(281,828)
Items not involving cash:	
Share-based payments	52,445
Changes in non-cash working capital:	
Accounts payable and accrued liabilities	92,893
	(136,490)
<b>Financing activities:</b>	
Shares issued for cash	643,577
Share issuance costs	(73,440)
Deferred financing costs	(25,000)
	545,137
Net change in cash and cash equivalents	408,647
Cash and cash equivalents, beginning of period	-
<b>Cash and cash equivalents, end of period</b>	<b>408,647</b>

Non-cash transactions

Reclassification of agent's options exercise from reserve to Share capital:	\$ 6,417
Fair value of agent's options	\$23,805
Share issuance costs included in accounts payable	\$32,901

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

**RMR Science Technologies Inc.**  
**Notes to the Financial Statements**  
**For the period from October 17, 2017 (date of incorporation) to September 30, 2018**  
**(Expressed in Canadian Dollars)**

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**1. Nature of operations**

RMR Science Technologies Inc. (the “Company”) was incorporated on October 17, 2017, by Certificate of Incorporation issued pursuant to the provisions of the *Business Corporations Act* (British Columbia). The Company is classified as a Capital Pool Company as defined in the TSX Venture Exchange (“TSXV”) Policy 2.4.

The principal business of the Company will be the identification and evaluation of assets or businesses with an intent to completing a qualifying transaction. On April 14, 2018, the Company signed a letter of intent (“LOI”) with cannÖgen Biosciences Inc. (“cannÖgen”), a privately held corporation existing under the laws of the state of Nevada, with respect to a proposed business combination between the Company and cannÖgen (the “Qualifying Transaction”) by way of an amalgamation, arrangement, share purchase or other similar form of transaction which will result in cannÖgen becoming a wholly-owned subsidiary of the Company, or otherwise combining its corporate existence with that of the Company. As consideration, the Company will issue and deliver up to 7,500,000 class “A” common shares (“Common Shares”) of the Company. The final structure of the Transaction is subject to receipt of tax, corporate and securities laws advice for both the Company and cannÖgen. Upon completion of the Transaction, the combined entity will continue to carry on the business of cannÖgen. During the period from October 17, 2017 (date of incorporation) to September 30, 2018, the Company advanced \$25,000 to cannÖgen as a non-refundable deposit to assist Qualifying Transaction costs.

The registered and records office of the Corporation is located at 1200 Waterfront Centre, 200 Burrard Street, Vancouver, British Columbia V7X 1T2. The head office is located at 4 – 3300 157A St., Surrey, British Columbia, V3Z 2P2.

The Company’s continuing operations as intended are dependent upon its ability to identify, evaluate and negotiate an acquisition of, a participation in or an interest in properties, assets or businesses. Such an acquisition will be subject to regulatory approval and may be subject to shareholder approval. In order to continue as a going concern and meet its corporate objectives, the Company will require additional financing through debt or equity issuances or other available means. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. These material uncertainties may cast significant doubt on the Company’s ability to continue as a going concern.

**2. Basis of presentation**

(a) Statement of compliance

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

These financial statements were authorized for issue by the Board of Directors on January 28, 2019.

**2. Basis of presentation (cont'd)**

(b) Basis of measurement

These financial statements have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit or loss ("FVTPL"), which are stated at their fair values. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency of the Company.

**3. Significant accounting policies**

**Financial instruments – recognition and measurement**

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value net of transaction costs, if applicable. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss", "loans and receivables", "available-for-sale", "held-to-maturity", or "other financial liabilities" as follows:

i) Financial assets

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss. The Company's cash is classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in profit or loss. At September 30, 2018, the Company has not classified any financial assets as loans and receivables or available for sale.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

**3. Significant accounting policies (cont'd)**

ii) Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the fair value or estimated future cash flows of an asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

iii) Financial liabilities

Financial liabilities comprise accounts payable and accrued liabilities. This instrument is classified as other financial liabilities measured at amortized cost using the effective interest rate method. Under this classification, all cash flows from this instrument are discounted, where material, to their present value. Over time, this present value is accreted.

**Significant accounting judgments, estimates and assumptions**

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the period. Estimates and assumptions are continuously evaluated and are based on managements' experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Significant assumptions about the future and other sources of estimated uncertainty that management has made as at the statement of financial position date that could result in a material adjustment to the carrying amount of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

*Critical Accounting Estimates*

Critical accounting estimates and assumptions made by management that may result in a material adjustment to the carrying amounts of assets and liabilities include, but are not limited to, the following:

- Recovery of deferred tax assets

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make estimates in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of

**3. Significant accounting policies (cont'd)**

**Significant accounting judgments, estimates and assumptions (cont'd)**

the tax return by the relevant tax authorities, which occurs subsequent to the issuance of the financial statements.

*Critical Accounting Judgments*

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements include, but are not limited to, the following:

- **Going concern**

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures, meet its liabilities for the ensuing year, and to fund acquisition of assets or businesses and contractual exploration programs, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

- **Treatment of research and development expenses**

The application of the Company's accounting policy for research and development expenditures requires judgment in determining whether it is likely that the future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Significant judgment is required to distinguish between the research and development phases. Estimates and assumptions may change if new information becomes available. If new information suggests future economic benefits are unlikely, the amount capitalized is written off to profit or loss.

**Share capital**

Common shares issued by the Company are classified as shareholders' equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from shareholders' equity.

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated using the residual method whereby proceeds are allocated first to common shares based on the market trading price of the common shares, and any remaining balance is allocated to warrants.

**Share-based payments**

The Company accounts for share-based payments using a fair value based method with respect to all share-based payments measured and recognized, to directors, employees and non-employees. For

**3. Significant accounting policies (cont'd)**

**Share-based payments (cont'd)**

directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the options are recorded at the fair value of the goods or services received. When the value of the goods or services received in exchange for the share-based payments cannot be reliably estimated, the fair value is measured using the Black-Scholes option pricing model. When options and warrants are exercised, the related amount in the options and warrants reserve is transferred to share capital. When options and warrants expire unexercised, such amounts are transferred to deficit.

**Income taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, deferred income tax assets and liabilities are determined based on differences between financial statement carrying amounts of existing assets and liabilities, and their respective tax basis (temporary differences). Deferred income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in operations in the period in which the change is enacted or substantively enacted. The amount of deferred income tax assets recognized is limited to the amount of the benefit that is probable of being realized.

**Earnings (loss) per share**

The Company presents basic and diluted earnings (loss) per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of shares outstanding during the period. The computation of diluted earnings (loss) per share assumes the exercise or contingent issuance of securities only when such exercise would have a dilutive effect on the earnings (loss) per share.

2,600,000 common shares outstanding as of September 30, 2018 are contingently cancellable and excluded from the calculation of the weighted average number of common shares outstanding.

**New accounting standards and interpretations**

Certain new accounting standards, amendments to standards and interpretations have been issued. These standards have been assessed to not have a significant impact on the Company's financial statements:

(a) IFRS 15 Revenue from Contracts with Customers

IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New

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**Notes to the Financial Statements**  
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**3. Significant accounting policies (cont'd)**

**New accounting standards and interpretations (cont'd)**

estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The standard is effective for years beginning on or after January 1, 2018.

(b) IFRS 9, Financial Instruments

The final version of IFRS 9 was issued in July 2014 and includes (i) a third measurement category for financial assets – fair value through other comprehensive income; (ii) a single, forward-looking “expected loss” impairment model. The standard is effective for years beginning on or after January 1, 2018.

(c) IFRS 16, Leases

IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as required by IAS 17 and instead introduces a single lessee accounting model. The standard is effective for years beginning on or after January 1, 2019.

The Company has initially assessed that there will be no material reporting changes as a result of adopting the above new standards; however, enhanced disclosure requirements are expected.

**4. Cash and cash equivalents**

The Company’s cash and cash equivalents is comprised of cash of \$408,647.

**5. Accounts payable and accrued liabilities**

Accounts payable and accrued liabilities are comprised of:

	<b>2018</b>
	<b>\$</b>
Accounts payable	123,294
Accrued liabilities	2,500
	<u>125,794</u>

**6. Share capital**

(a) The authorized share capital of the Company consists of an unlimited number of common shares without par value.

(b) Issued and outstanding:

As at September 30, 2018, the Company has 7,735,775 common shares outstanding, 2,600,000 of which

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**6. Share capital (cont'd)**

will be held in escrow and contingently cancellable.

During the period from October 17, 2017 (date of incorporation) to September 30, 2018:

The Company issued 2,600,000 common shares at a price of \$0.05 per common share for total proceeds of \$130,000. These common shares will be held in escrow and will be released pro-rata to the shareholders as to 10% of the escrowed shares upon issuance of notice of final acceptance of a Qualifying Transaction by the TSX-V, and as to the remainder in six equal tranches of 15% every six months thereafter for a period of 36 months. These escrowed shares may not be transferred, assigned or otherwise dealt with without the consent of the regulatory authorities. If the Company does not receive final acceptance of a Qualifying Transaction and is delisted, the shares may be cancelled and the proceeds returned to the shareholders.

- 1) On March 15, 2018, the Company successfully completed its initial public offering of 5,000,000 common shares of the Company at a price of \$0.10 per common share for gross proceeds of \$500,000. Subject to the terms of an agency agreement entered into in connection with the Offering, the agents for the Offering received a cash commission equal to 10% of the gross proceeds raised by such agents, and agent's options ("Agent's Options") to purchase 500,000 common shares at an exercise price of \$0.10 per common share. The Agent's Options will expire 24 months from the date the common shares were listed on the TSXV, which was March 15, 2018.
- 2) On April 6, 2018, PI Financial Corp. (the "Agent") exercised 135,775 Agent's options for gross proceeds of \$13,577. \$6,417 was transferred to Share Capital from Agent's Option Reserve to recognize the fair value of the options exercised.

**7. Stock options**

On January 4, 2018, the Company adopted an incentive stock option plan (the "Option Plan") which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with TSX-V requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to 10 years from the date of grant. Vesting terms will be determined at the time of grant by the Board of Directors.

Any common shares acquired pursuant to the exercise of options prior to the completion of the Qualifying Transaction must be deposited in escrow and will be subject to escrow until the final exchange bulletin is issued.

On March 15, 2018, the Company granted 760,000 stock options to officers and directors exercisable at a price of \$0.10 per share expiring five years from the date of grant. The fair value of the stock options granted was estimated using the Black-Scholes option-pricing model with the following weighted

average assumptions: risk free interest rate of 2.06%; expected dividend rate of 0%; expected volatility of 88%; expected life of five years; and forfeiture rate of 0%. The fair value of the options was calculated

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**7. Stock options (Cont'd)**

at \$52,445, which was recognized during the period from October 17, 2017 (date of incorporation) to September 30, 2018 as share-based payment expense.

The options outstanding and exercisable at September 30, 2018 are as follows:

Number Outstanding and Exercisable	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual (Years)
760,000	0.10	4.46

**8. Agent's Options**

On March 15, 2018, the Company granted 500,000 non-transferable Agent's Options. Fair value of the Agent's options granted was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions: risk free interest rate of 2.06%; expected dividend rate of 0%; expected volatility of 88%; expected life of two years; and forfeiture rate of 0%. The fair value of the options was calculated at \$23,805, which was recognized as Agent's Option Reserve.

The Agent's Options outstanding and exercisable at September 30, 2018 are as follows:

	Quantity	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual (Years) (\$)
Balance, October 17, 2017	-	-	-
Issued, March 15, 2018	500,000	0.10	1.46
Exercised, April 6, 2018	(135,775)	0.10	-
Balance, September 30, 2018	364,225	0.10	1.46

**9. Related party transactions**

**Key management compensation**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers and directors. During the period from October 17, 2017 (date of incorporation) and September 30, 2018, there was no compensation paid to key management. Share-based payments for directors and officers for the period from October 17, 2017 (date of incorporation) to September 30, 2018 total \$52,445.

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**9. Related party transactions (Cont'd)**

During the period from October 17, 2017 and September 30, 2018, the Company paid legal fees of \$4,354 to a law firm in which one of the directors is a partner.

Included in accounts payable is \$2,704 due to officers and directors of the Company. These accounts are unsecured, non-interest bearing and due on demand.

**10. Income taxes**

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	<b>2018</b>
Loss for the period	\$ (281,828)
Expected income tax (recovery)	\$ (76,000)
Permanent differences	\$ 14,000
Share issue cost	(35,000)
Change in unrecognized deductible temporary differences	97,000
<b>Total income tax expense (recovery)</b>	<b>\$ -</b>

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	<b>2018</b>
Deferred tax assets	
Share issue costs	\$ 28,000
Non-capital losses available for future period	69,000
	97,000
Unrecognized deferred tax assets	(97,000)
<b>Net deferred tax assets</b>	<b>\$ -</b>

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	<b>2018</b>	<b>Expiry Date Range</b>
<b>Temporary differences</b>		
Share issue costs	\$ 104,000	2019-2022
Non-capital losses available for future periods	\$ 255,000	2038
Canada	\$ 255,000	2038

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**10. Income taxes(Cont'd)**

Tax attributes are subject to review and potential adjustment by tax authorities.

**11. Financial instruments and risk management**

As at September 30, 2018, the Company's financial instruments comprise cash and accounts payable and accrued liabilities. The fair value of cash, accounts payable and accrued liabilities approximate its carrying value due to its short-term to maturity. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

As at September 30, 2018, the fair value of cash held by the Company was classified as Level 1 of the fair value hierarchy.

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

*Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset-backed commercial paper.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company believes that these sources are sufficient to cover the likely short-term cash requirements, but that further funding will be required to meet long-term requirements. As at September 30, 2018, the Company had a cash balance of \$408,647 to settle current liabilities of \$125,794. All of the Company's

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**11. Financial Instruments and risk management (cont'd)**

financial liabilities have contractual maturities of 30 days or are due on demand and subject to normal trade terms.

*Market risk*

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

i. Interest rate risk

Interest rate risk arises from changes in market rates of interest that could adversely affect the Company. The Company currently has no interest-bearing financial instruments other than cash, so its exposure to interest rate risk is insignificant.

ii. Foreign currency risk

Foreign currency risk arises from fluctuations in foreign currencies versus the Canadian dollar that could adversely affect reported balances and transactions denominated in those currencies. The Company currently has no assets or liabilities and has no revenue or expenses denominated in a foreign currency, so it is not exposed to foreign currency risk.

iii. Equity price risk

Equity price risk arises from market fluctuations in equity prices that could adversely affect the Company's operations. The Company's current exposure to equity price risk is limited to declines in the values and volumes including those of its own shares, which could impede its ability to raise additional funds when required.

**12. Capital management**

Capital is comprised of items included in shareholders' equity. The Company's objectives when managing capital are to maintain financial strength and to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. Protecting the ability to pay current and future liabilities includes maintaining capital above minimum regulatory levels, current financial strength rating requirements and internally determined capital guidelines and calculated risk management levels.

The capital for expansion was mostly from proceeds from the issuance of common shares. The net proceeds raised will only be sufficient to identify and evaluate a limited number of assets and businesses for the purpose of identifying and completing a Qualifying Transaction. Additional funds may be required to finance the Company's Qualifying Transaction.

The Company is not subject to any externally-imposed capital requirements.

**13. Proposed Transaction**

On April 14, 2018, the Company signed a letter of intent ("LOI") with cannÖgen Biosciences Inc. ("cannÖgen"), a privately held corporation existing under the laws of the state of Nevada, having respect to a proposed business combination between the Company and cannÖgen by way of an amalgamation, arrangement, share purchase or other similar form of transaction which will result in cannÖgen becoming a wholly-owned subsidiary of the Company, or otherwise combining its corporate existence with that of the Company. The final structure of the Transaction is subject to receipt of tax, corporate and securities laws advice for both the Company and cannÖgen. Upon completion of the Qualifying Transaction, the combined entity will continue to carry on the business of cannÖgen.

The Qualifying Transaction is expected to proceed by way of a business combination pursuant to which cannÖgen will become a wholly-owned subsidiary of the Company, and as consideration therefore, the Company will issue and deliver up to 7,500,000 class "A" common shares ("Common Shares") of the Company.

Prior to the completion of the Transaction, the Company will complete a brokered private placement of 10,000,000 subscription receipts ("Subscription Receipts") at a price of \$0.50 per Subscription Receipt, for aggregate gross proceeds of \$5,000,000 (the "Offering"). Upon completion of the Transaction, each Subscription Receipt will automatically convert without any further action on the part of the holder into one Common Share of the Company and one half of one Common Share purchase warrant of the Company. Each whole Common Share purchase warrant ("Warrant") will entitle the holder to acquire one Common Share at an exercise price of \$0.75 per Common Share for a period of two years from the date of issuance. The Warrants will also contain an accelerated expiry provision wherein if the Common Shares of the Company trade over \$1.00 on the TSXV, or on another recognized exchange, for a period of ten consecutive trading days, the Company may provide written notice to the holder that the Warrant will expire 30 days from the date of that notice. Subject to the terms of an agency agreement to be entered into in connection with the Offering, the agents for the Offering are expected to receive a cash commission equal to 7% of the gross proceeds raised by such agents and such number of broker warrants ("Broker Warrants"), that is equal to 7% of the number of Subscription Receipts sold by such broker. Each Broker Warrant will be exercisable to acquire one Common Share at a price of \$0.50 for a period of two years from the date of issuance. In connection with the Offering, the Company paid \$25,000 in deferred financing costs.

Upon completion of the Qualifying Transaction, it is the intention of the parties that the Resulting Issuer will continue to focus on the current business and affairs of cannÖgen and will be an industrial or Technology or Life Sciences Issuer listed on the TSXV.