A copy of this third amended and restated preliminary prospectus has been filed with the securities regulatory authorities in each of the provinces of Canada, except Québec but has not yet become final for the purpose of the sale of securities. Information contained in this third amended and restated preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This third amended and restated preliminary prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only to persons permitted to sell such securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"), or any state securities laws and may not be offered or sold in the United States (within the meaning of Regulation S under the U.S. Securities Act) or to, or for the account or benefit of, U.S. persons (within the meaning of Regulation S under the U.S. Securities Act) except pursuant to an exemption from the registration requirements of the U.S. Securities Act and applicable state securities laws. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States. See "Plan of Distribution".

**THIRD AMENDED AND RESTATED PRELIMINARY PROSPECTUS AMENDING AND RESTATING THE SECOND AMENDED AND RESTATED PRELIMINARY PROSPECTUS DATED NOVEMBER 9, 2018, AMENDING AND RESTATING THE AMENDED AND RESTATED PRELIMINARY PROSPECTUS DATED OCTOBER 1, 2018, AMENDING AND RESTATING THE PRELIMINARY PROSPECTUS DATED SEPTEMBER 17, 2018**

Initial Public Offering

December 10, 2018

**CARDIOL THERAPEUTICS INC.**

**3,000,000 UNITS (CDN $15,000,000)**

**CDN $5.00 Per Unit**

This prospectus qualifies the initial public offering (the "**Offering**") of 3,000,000 units (the "**Units**") of Cardiol Therapeutics Inc. ("**we**", "**us**", "**Cardiol**", or the "**Corporation**") at a price of $5.00 per Unit (the "**Offering Price**"). Each Unit consists of one Class A common share of the Corporation (a "**Unit Share**") and one Class A common share purchase warrant of the Corporation (a "**Warrant**"). Each Warrant is exercisable into one Class A common share of the Corporation (a "**Warrant Share**") at the price of $6.50 per Warrant Share, subject to adjustment, on or prior to 4:00 p.m. (Eastern Time) on the date that is the earlier of (i) 24 months after the Closing Date (as hereinafter defined), and (ii) the date specified in any Warrant Acceleration Notice (as hereinafter defined). The Warrants will be issued under a warrant indenture (the "**Warrant Indenture**") to be entered into with Computershare Trust Company of Canada ("**Computershare Trust**").

The Offering is being underwritten by AltaCorp Capital Inc. (the "**Lead Underwriter**"), Raymond James Ltd., Mackie Research Capital Corporation, Echelon Wealth Partners Inc. and Paradigm Capital Inc. (collectively, the "**Underwriters**"). An Underwriting Agreement (defined below) is not expected to be executed by the Corporation and the Underwriters until a final prospectus is finalized. If the Over-Allotment Option (defined below) is exercised in full, an additional 450,000 Units will be offered by the Corporation. The Toronto Stock Exchange (the "**TSX**") has conditionally approved the listing of the Class A common shares of the Corporation (the "**Common Shares**"), the Unit Shares, the Warrants and the Warrant Shares. The Common Shares and the Unit Shares will trade under the symbol "CRDL" and the Warrants will trade under the symbol "CRDL.WT", subject to us fulfilling all the listing requirements of the TSX on or before December 17, 2018, including the distribution of the Units to a minimum number of public holders. See "Plan of Distribution".

**There is currently no market through which the Unit Shares and Warrants may be sold, and purchasers may not be able to resell the securities purchased under this prospectus. This may affect the pricing of the Unit Shares and Warrants in the secondary market, the transparency and availability of trading prices,**

**the liquidity of the Unit Shares and Warrants, and the extent of issuer regulations. See "Risk Factors". An investment in the Unit Shares and Warrants is subject to a number of risks that should be considered by a prospective purchaser. Investors should carefully consider the risk factors described under "Risk Factors" before purchasing the Unit Shares and Warrants.**

In connection with the Offering, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the Unit Shares and Warrants at levels other than those which otherwise might prevail on the open market. See "Plan of Distribution".

| | **$5.00 PER UNIT** | | |
|---|---|---|---|
| | **Price to the Public** | **Underwriters' Fee[(1)]** | **Net Proceeds to the Corporation[(2)]** |
| Per Unit | $5.00 | $0.30 | $4.70 |
| Total Offering[(2)] | $15,000,000 | $900,000 | $14,100,000 |

Notes:

(1) The Corporation has agreed to pay the Underwriters a commission (the "**Underwriters' Fee**") equal to 6% of the gross proceeds from the Offering (including any gross proceeds raised on exercise of the Over-Allotment Option). The Underwriters will also receive, as additional compensation, non-transferable warrants (the "**Compensation Warrants**") to purchase that number of Common Shares that is equal to 6% of the number of Units sold pursuant to the Offering (including any Units sold pursuant to the exercise of the Over-Allotment Option). Each Compensation Warrant is exercisable to purchase one Common Share at the Offering Price for a period of 12 months from the closing date of the Offering (the "**Closing Date**"). This prospectus also qualifies the distribution of the Compensation Warrants. See "Plan of Distribution".

(2) After deducting the Underwriters' Fee but before deducting the expenses of the Offering, the expenses of the Offering are estimated to be approximately $1,000,000 and will be paid by the Corporation out of the proceeds of the Offering.

(3) The Corporation has granted to the Underwriters an option (the "**Over-Allotment Option**"), exercisable in whole or in part, at the sole discretion of the Underwriters, for a period of 30 days from the Closing Date, to purchase up to an additional 450,000 Units (the "**Over-Allotment Units**"), representing 15% of the Units offered under this prospectus. The Over-Allotment Units will be sold on the same terms as set out above solely to cover over-allotments, if any. The Over-Allotment Option may be exercised by the Underwriters: (i) to acquire Over-Allotment Units at the Offering Price; (ii) to acquire additional Unit Shares (the "**Over-Allotment Shares**") at a price of $4.62 per Over-Allotment Share; or (iii) to acquire additional Warrants (the "**Over-Allotment Warrants**") at a price of $0.38 per Over-Allotment Warrant; or (iv) to acquire any combination of Over-Allotment Units, Over-Allotment Shares or Over- Allotment Warrants, so long as the aggregate number of Over-Allotment Shares and Over-Allotment Warrants that may be issued under the Over-Allotment Option does not exceed 450,000 Over-Allotment Shares and 450,000 Over-Allotment Warrants. The Over-Allotment Units, Over-Allotment Shares and Over-Allotment Warrants are collectively referred to herein as the "**Over-Allotment Securities**". If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Underwriters' Fee", and "Net Proceeds to the Corporation" will be $17,250,000, $1,035,000, and $16,215,000, respectively. This prospectus qualifies the distribution of the Over-Allotment Option and the issuance of Over-Allotment Securities issuable upon exercise of the Over-Allotment Option. A purchaser who acquires securities forming part of the Underwriters' over-allocation position acquires those securities under this prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "Plan of Distribution".

The following table sets out particulars in respect of the Over-Allotment Option and the Compensation Warrants to be issued to the Underwriters in connection with the Offering.

| | **Number of Securities Available** | **Exercise Period** | **Exercise Price** |
|---|---|---|---|
| Over-Allotment Option | 450,000 Over-Allotment Units | Up to 30 days from the Closing Date | $5.00 per Over-Allotment Unit |
| Compensation Warrants | 180,000[(1)] Compensation Warrants | Up to 12 months from the Closing Date | $5.00 per Compensation Warrant |

Note:

(1) This amount assumes no exercise of the Over-Allotment Option. If the Over-Allotment Option were exercised in full, 207,000 Compensation Warrants would be issued.

Unless otherwise indicated, all information in this prospectus assumes that the Over-Allotment Option will not be exercised.

The Underwriters (including any registered sub-agents who assist the Underwriters in distribution of the Units), as principal, conditionally offers the Units, subject to prior sale, if, as, and when issued by the Corporation and

accepted by the Underwriters in accordance with the conditions contained in the underwriting agreement dated December ●, 2018 (the "**Underwriting Agreement**") referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Corporation by Gowling WLG (Canada) LLP and on behalf of the Underwriters by Borden Ladner Gervais LLP.

Subscriptions received will be subject to rejection or allotment in whole or in part, and the Underwriter reserves the right to close the subscription books at any time without notice. It is expected that the Closing will occur on or about ●, 2018, or such later date as the Corporation and the Underwriters may agree, but in any event not later than ●, 2019. One or more certificates representing the Unit Shares and Warrants distributed by this Prospectus will be issued in registered and definitive form to CDS Clearing and Depository Services Inc., or to its nominee ("**CDS**"), and will be deposited with CDS on the Closing Date. A purchaser of Units will receive only a customer confirmation from the registered dealer from or through which the Units are purchased. Notwithstanding the foregoing, Unit Shares and Warrants sold to certain persons in the United States will be represented by physical certificates registered in the names of the purchasers thereof or their nominees. See "*Plan of Distribution*".

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## GENERAL MATTERS

Unless otherwise noted or the context indicates otherwise the terms "**we**", "**us**", "**our**", "**Cardiol**" or the "**Corporation**" refer to Cardiol Therapeutics Inc.

Certain capitalized and other terms and phrases used in this prospectus are defined in the "Glossary of Terms" beginning on page 116.

Prospective purchasers should rely only on the information contained in this prospectus. We have not, and the Underwriters have not, authorized any other person to provide prospective purchasers with additional or different information. If anyone provides prospective purchasers with additional or different or inconsistent information, including information or statements in media articles about the Corporation, prospective purchasers should not rely on it. The Corporation is not, and the Underwriters are not, making an offer to sell or seeking offers to buy Units in any jurisdiction where the offer or sale is not permitted. Prospective purchasers should assume that the information appearing in this prospectus is accurate only as at its date, regardless of its time of delivery or of any sale of Units. The Corporation's business, financial conditions, results of operations, and prospects may have changed since that date.

The Corporation presents its consolidated financial statements in Canadian dollars. Amounts in this prospectus are stated in Canadian dollars unless otherwise indicated and all share figures set out herein give effect to the two for one stock split which was effected on August 29, 2018.

## FINANCIAL STATEMENT PRESENTATION IN THIS PROSPECTUS

The following financial statements of the Corporation (the "**Financial Statements**"), prepared in accordance with International Financial Reporting Standards ("**IFRS**"), have been included in this prospectus:

(a) Audited financial statements of the Corporation for the period from January 19, 2017 (incorporation) to December 31, 2017 (the "**Audited Financial Statements**"); and

(b) Condensed unaudited interim financial statements of the Corporation for the three- and nine-month periods ended September 30, 2018 (the "**Interim Financial Statements**")

## FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that relate to the Corporation's current expectations and views of future events. The forward-looking statements are contained principally in the sections entitled "Prospectus Summary", "Our Business", "Use of Proceeds", "Management's Discussion and Analysis", and "Risk Factors".

In some cases, these forward-looking statements can be identified by words or phrases such as "may", "might", "will", "expect", "anticipate", "estimate", "intend", "plan", "indicate", "seek", "believe", "predict", or "likely", or the negative of these terms, or other similar expressions intended to identify forward-looking statements. Statements containing forward-looking information are not historical facts. The Corporation has based these forward-looking statements on its current expectations and projections about future events and financial trends that it believes might affect its financial condition, results of operations, business strategy, and financial needs. These forward-looking statements include, among other things, statements relating to:

- the successful completion of this Offering;
- our anticipated cash needs, the need for additional financing, and the use of the net proceeds from this Offering;
- our launch, marketing, and sale of a pharmaceutically-manufactured pure cannabidiol oil as a Cannabis Act product line;
- the ability for our nanotherapeutics to deliver cannabinoids and other anti-inflammatory drugs to inflamed tissue in the heart;
- our intention to initiate clinical trials during the first six months of 2019 ("**H1, 2019**");
- our development of proprietary cannabidiol formulations for near-term commercialization;

- our expectation that we will be in a position to offer an advanced precise dosing sublingual spray form of cannabidiol upon the addition of concentrates to the Cannabis Act by October 17, 2019;
- the successful development and commercialization of our current product candidates and the addition of future products;
- our expectation of a significant increase in the market and interest for pure pharmaceutical cannabinoid products following de-scheduling of cannabinoids from the Canada's Controlled Drugs and Substances Act ("**CDSA**");
- the expected growth in the size of the market for cannabidiol in Canada, the United States, and internationally;
- our intention to build a pharmaceutical brand and cannabidiol products focused on addressing heart failure;
- the expected medical benefits, viability, safety, efficacy, and dosing of cannabidiol;
- patents, including, but not limited to, our ability to have patents issued covering our drugs, drug candidates and processes, as well as oppositions and legal challenges;
- our expectation of a near-term revenue opportunity from the sale of pure cannabidiol products;
- our competitive position and the regulatory environment in which we operate;
- our financial position; our business strategy; our growth strategies; our operations; our financial results; our dividends policy; our plans and objectives; and
- expectations of future results, performance, achievements, prospects, opportunities or the market in which we operate.

In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Forward-looking statements are based on certain assumptions and analyses made by the Corporation in light of the experience and perception of historical trends, current conditions, and expected future developments and other factors it believes are appropriate, and are subject to risks and uncertainties. Although we believe that the assumptions underlying these statements are reasonable, they may prove to be incorrect, and we cannot assure that actual results will be consistent with these forward-looking statements. Given these risks, uncertainties, and assumptions, prospective purchasers of Units should not place undue reliance on these forward-looking statements. Whether actual results, performance, or achievements will conform to the Corporation's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions, and other factors, including those listed under "Risk Factors", which include:

- the inherent uncertainty of product development;
- our requirement for additional financing;
- our negative cash flow from operations;
- our history of losses;
- dependence on success of the sale of our pharmaceutically-manufactured pure cannabidiol oil as a Cannabis Act product line and our early-stage product candidates which may not generate revenue;
- reliance on Management, loss of members of Management or other key personnel, or an inability to attract new Management team members;
- our ability to develop a sublingual cannabidiol spray form;
- a delay in the Government of Canada's authorization of cannabis concentrates by October 17, 2019;
- our ability to successfully design, commence, and complete clinical trials, including the high cost, uncertainty, and delay of clinical trials and additional costs associated with any failed clinical trials;
- potential negative results from clinical trials and their adverse impacts on our future commercialization efforts;
- our ability to establish and maintain commercialization organizations in the U.S., Mexico, and elsewhere;
- our ability to receive and maintain regulatory exclusivities, including Orphan Drug Designations, for our drugs and drug candidates;
- delays in achievement of projected development goals;
- no prior public market for the Unit Shares or the Warrants;
- management of additional regulatory burdens;
- volatility in the market price for the Unit Shares and the Warrants;
- failure to protect and maintain and the consequential loss of intellectual property rights;
- third-party claims relating to misappropriation by our employees of their intellectual property;

- reliance on third parties to conduct and monitor our pre-clinical studies and clinical trials;
- our product candidates being subject to controlled substance laws which may vary from jurisdiction to jurisdiction;
- changes in laws, regulations, and guidelines relating to our business, including tax and accounting requirements;
- lack of successful implementation of adequate internal controls over financial reporting;
- limited experience of our Management team with publicly-traded companies;
- our reliance on current early-stage research regarding the medical benefits, viability, safety, efficacy, and dosing of cannabinoids;
- claims for personal injury or death arising from the use of products and product candidates produced by us;
- uncertainty relating to market acceptance of our product candidates;
- U.S. border officials denying entry into the U.S. to employees of, or investors in, companies with cannabis operations in the United States and Canada;
- our lack of experience in commercializing any products;
- the level of pricing and reimbursement for our products and product candidates, if approved;
- our dependence on Dalton Chemical Laboratories, Inc. operating as Dalton Pharma Services ("**Dalton**") and other contract manufacturers;
- unsuccessful collaborations with third parties;
- business disruptions affecting third-party suppliers and manufacturers;
- lack of control in future prices of our product candidates;
- our lack of experience in selling, marketing, or distributing our products;
- competition in our industry;
- our inability to develop new technologies and products and the obsolescence of existing technologies and products;
- unfavorable publicity or consumer perception towards cannabidiol;
- product liability claims and product recalls;
- expansion of our business to other jurisdictions;
- fraudulent activities of employees, contractors, and consultants;
- our reliance on key inputs and their related costs;
- difficulty associated with forecasting demand for products;
- operating risk and insurance coverage;
- our inability to manage growth;
- conflicts of interest among our officers and Directors;
- managing damage to our reputation and third-party reputational risks;
- relationships with customers and third-party payors and consequential exposure to applicable anti-kickback, fraud, and abuse and other healthcare laws;
- exposure to information systems security threats;
- no dividends for the foreseeable future;
- future sales of Common Shares by existing shareholders causing the market price for the Common Shares to fall;
- use of proceeds; and
- the issuance of Common Shares in the future causing dilution.

If any of these risks or uncertainties materialize, or if assumptions underlying the forward-looking statements prove incorrect, actual results might vary materially from those anticipated in the forward-looking statements.

Information contained in forward-looking statements in this prospectus is provided as of the date of this prospectus, and we disclaim any obligation to update any forward-looking statements, whether as a result of new information or future events or results, except to the extent required by applicable securities laws. Accordingly, potential investors should not place undue reliance on forward-looking statements or the information contained in those statements.

## MARKET AND INDUSTRY DATA

Unless otherwise indicated, information contained in this prospectus concerning our industry and the markets in which we operate, including our general expectations and market position, market opportunities and market share, is based on information from independent industry organizations, other third-party sources (including industry publications, surveys, and forecasts) and management studies and estimates.

Unless otherwise indicated, our estimates are derived from publicly available information released by independent industry analysts and third-party sources, as well as data from our internal research, and include assumptions made by us which we believe to be reasonable based on our knowledge of our industry and markets. Although Cardiol and the Underwriters believe these sources to be generally reliable, market and industry data is subject to interpretation and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process, and other limitations and uncertainties inherent in any statistical survey. Our internal research and assumptions have not been verified by any independent source, and we have not independently verified any third-party information. While we believe the market position, market opportunity, and market share information included in this prospectus is generally reliable, such information is inherently imprecise. In addition, projections, assumptions, and estimates of our future performance and the future performance of the industry and markets in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described under the heading “Forward-Looking Statements” and “Risk Factors”.

## TRADEMARKS AND TRADE NAMES

This prospectus includes trademarks and trade names, such as “Cardiol” and “CardiolRX”, which are protected under applicable intellectual property laws and are the property of the Corporation. See “Our Business - Intellectual Property Rights – Trademarks and Domain Names”. All other trademarks used in this prospectus are the property of their respective owners.

## ENFORCEMENT OF JUDGMENTS AGAINST FOREIGN PERSONS

One of our Directors and one of our promoters reside outside of Canada and they will each appoint the following agent for service of process:

| Name of Person | Name and Address of Agent |
|---|---|
| Dr. Guillermo Torre-Amione | Gowling WLG (Canada) LLP, 50 Queen Street North, #1020, Kitchener, Ontario N2H 6M2 |
| Dr. Anthony Bolton | Gowling WLG (Canada) LLP, 50 Queen Street North, #1020, Kitchener, Ontario N2H 6M2 |

Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued, or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada, even if the party has appointed an agent for service of process.

## MARKETING MATERIALS

Any “template version” of any “marketing materials” (as each term is defined in National Instrument 41-101 – *General Prospectus Requirements*) that are utilized by the Underwriters in connection with the Offering are hereby incorporated by reference into this prospectus. However, any such template version of marketing materials will not form part of this prospectus to the extent that the contents of the template version of the marketing materials have been modified or superseded by a statement contained in this prospectus. In addition, any template version of any marketing materials filed under our profile on the SEDAR website at www.sedar.com after the date of this prospectus but before the termination of the distribution under the Offering (including any amendments to, or an amended version of, any template version of any marketing materials) is deemed to be incorporated into this prospectus. The marketing materials may be viewed under our profile on SEDAR at www.sedar.com.

## PROSPECTUS SUMMARY

The following is a summary of the principal features of the Offering and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Certain capitalized terms and phrases used in this prospectus are defined in the "Glossary of Terms" beginning on page 116.

### Our Business

### Overview

Cardiol is a biotechnology company specializing in the research and commercial development of novel drug therapies utilizing proprietary drug-delivery systems. The Corporation is leveraging its expertise in pharmaceutical cannabinoids to develop proprietary formulations for commercial development in three important medical markets, namely: (1) developing nanotechnologies designed to deliver cannabinoids and other anti-inflammatory drugs for the treatment of heart failure ("**HF**"); (2) pursuing an immunotherapeutics program commencing with an innovative, cancer immunotherapeutic in combination with cannabinoids for Glioblastoma Multiforme ("**GBM**"), a Fast Track eligible Orphan Indication; and (3) commercializing a line of pharmaceutically-manufactured pure cannabidiol products in 2019 in the growing market for medical cannabinoids.

The Corporation has research programs focused on developing nanotherapeutics to treat heart failure underway at international centers of excellence, including the University of Alberta, the Houston Methodist DeBakey Heart & Vascular Center, and TecSalud del Tecnológico de Monterrey ("**TecSalud**"), Mexico. Cardiol has also established an exclusive supply agreement with Dalton Pharma Services, a Health Canada approved, U.S. Food and Drug Administration ("**FDA**") registered, Continuing Good Manufacturing Practice ("**cGMP**") manufacturer of pharmaceuticals, including cannabinoids, for supplying finished pharmaceutically-manufactured cannabidiol products to support the Corporation's research and commercial development programs. Cardiol recently entered into an exclusive supply agreement with Noramco, Inc. ("**Noramco**"), a global leader in the manufacture and supply of controlled drug substance Active Pharmaceutical Ingredients ("**APIs**"), to support Dalton's manufacturing with cannabidiol at >99.5% purity and less than 10 ppm THC.

Cardiol brings together a wealth of research and development experience, advanced manufacturing capabilities, and a Management team, Board of Directors, and Scientific Advisory Board comprising business and thought leaders with extensive industry experience and expertise in commercializing proprietary drugs.

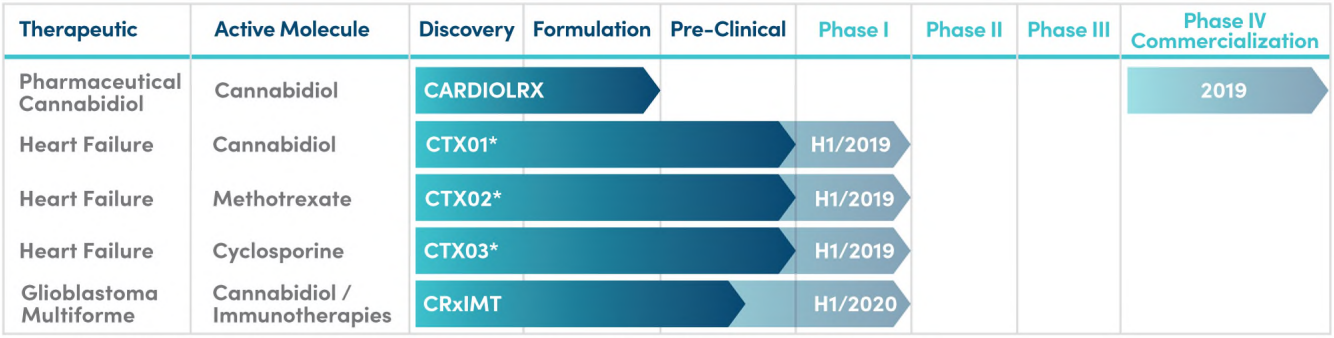
### Corporate History

Cardiol Therapeutics' concept was initiated when Cardiol's founders (the "**Founders**") – namely David Elsley, Dr. Eldon Smith, and Dr. Anthony Bolton - identified cannabidiol as a molecule of interest to investigate in the heart failure pathology due to its anti-inflammatory, anti-fibrotic, and cardioprotective properties.

Given the low oral bioavailability of cannabidiol, in order to improve its pharmacokinetic ("**PK**") profile, in 2015, the Founders identified the potential for a proprietary nanotechnology developed at the University of Alberta by Dr. Afsaneh Lavasanifar, Professor in the Faculty of Pharmacy and Pharmaceutical Sciences, University of Alberta, to target a wide variety of APIs to inflamed tissue in the heart. This innovative proprietary nanotechnology has been supported by over $3.7 million in research grants from numerous recognized organizations.

Following a two-year review of the technology and negotiation with the University of Alberta and Dr. Lavasanifar, Cardiol was incorporated on January 19, 2017, to exclusively license the nanotechnology for the delivery of any drug currently used or subsequently developed for diagnosing and/or treating any cardiopulmonary and/or cardiovascular disease, including heart failure, and any cannabinoid for any clinical application.

**Our Product Pipeline****




* Cardiol will advance the most promising nanoformulations for HF into clinical development.

**Exact timing of Phases may vary from projected timing based on receipt of required approvals and successful manufacturing of required formulations.

**Development of nanotherapeutics for the treatment of diastolic heart failure (HF Program)**

The Corporation is developing innovative nanotherapeutics that deliver cannabinoids and other anti-inflammatory drugs to inflamed tissue in the heart to improve the symptoms of heart failure, including shortness of breath, fatigue and swelling of the legs, for people living with heart failure. Cardiol owns the sole, exclusive, world-wide, irrevocable, royalty-bearing license to certain technology owned by Meros Polymers Inc. ("**Meros**") relating to nanotechnologies designed to enhance solubilization, improve PK, and facilitate drug targeting to sites of disease, as further set out in "Intellectual Property Rights" section in this prospectus. Patent protection has been granted for these nanotechnologies in major markets including the United States, Canada, certain countries in Europe, and Japan. The Corporation plans to enter Phase I clinical development during H1, 2019, with one or more candidates selected from the following three proprietary nanoformulations:

- CTX01, a nanoformulation of pharmaceutical cannabidiol with anti-inflammatory and anti-fibrotic properties, developed for the treatment of diastolic heart failure;
- CTX02, a nanoformulation of methotrexate, an inhibitor of cell division with anti-inflammatory and anti-fibrotic properties, for the treatment of heart failure;
- CTX03, a nanoformulation of encapsulated Cyclosporine A ("**CsA**"), with immunosuppressant and anti-fibrotic properties, for the treatment of heart failure.

**Orphan Drug Designation Application to Treat GBM (GBM Program)**

Cardiol plans to pursue an Orphan Drug Designation application with the FDA for the treatment of GBM. Cardiol plans to leverage its expertise in pharmaceutical cannabinoids and immunology to investigate the combination of the anti-inflammatory, anti-cancer, and other properties of cannabinoids with immunotherapy as a treatment for GBM.

**Pharmaceutically-manufactured cannabidiol product line (Cannabidiol Oil)**

The Corporation's near-term opportunity is the commercial introduction of a pharmaceutically-manufactured pure cannabidiol oil product under the name CardiolRx. With de-scheduling of cannabinoids from the CDSA having taken place on October 17, 2018, the Corporation believes there is a significant opportunity to manufacture and commercialize pure pharmaceutical cannabidiol regulated by the federal Cannabis Act.

Cardiol anticipates commercializing a pharmaceutically-manufactured pure cannabidiol product during 2019, subject to licensing under the Cannabis Act. Upon the addition of concentrates to the Cannabis Act by October 17, 2019, Cardiol expects to be in a position to offer an advanced precise-dosing sublingual spray form, providing a number of competitive advantages, including: purity greater than 99.5%, a target level of 10 parts-per-million ("**ppm**") Tetrahydrocannabinol ("**THC**") or less, and a water-like consistency.

**Our Business Strategy**

Our goal is to become a leader in the market for pharmaceutical cannabinoids by pursuing the following strategies:

- Advancing a lead product candidate from the CTX series of nanoformulations into clinical development;
- Developing treatments for GBM by combining pharmaceutical cannabinoids with immunotherapeutics;
- Commercializing pharmaceutically-manufactured cannabidiol products that set new standards for product purity; and
- Exploring additional indications and product candidates for commercial development.

**Our Research Programs**

Cardiol has assembled an international network of experts in the synthesis, formulation, pharmacology and testing of drugs. Currently, Cardiol has three research programs underway with the following organizations:

- **University of Alberta** – advancing the development of proprietary nanoformulations of anti-inflammatory drugs designed to enhance the solubility of lipophilic drugs, improve PK, and increase drug concentration at the site of disease.
- **TecSalud del Tecnológico de Monterrey & Nano4Heart** – collaborating on the research and clinical development of proprietary nanotherapeutics for the treatment of heart failure through the establishment of a USD$3 million development plan with TecSalud and Nano4Heart through the Instituto Tecnológico y de Estudios Superiores de Monterrey's Clinical Academic Research Organization, S.A. de C.V. ("**CARO**"), Mexico.
- **Houston Methodist DeBakey Heart & Vascular Center** – conducting experimental research at the DeBakey Heart & Vascular Center designed to investigate the activity of its proprietary nanotechnology in a model of non-ischemic cardiomyopathy-induced heart failure.

**Our Commercialization Relationships**

Cardiol has developed research and commercialization collaborations with leading international university research centers and pharmaceutical manufacturing experts, namely:

- **Meros Polymers Inc.** – Cardiol entered into a license agreement with Meros, granting Cardiol the sole, exclusive, irrevocable, royalty-bearing license for, including the right to sublicense, certain patented nanotechnologies for use with any drugs or classes of drugs currently used or developed in the future to diagnose or treat heart failure and/or any cardiovascular disease and/or cardiopulmonary disease and/or cardiac arrhythmias.
- **Dalton Pharma Services** – Cardiol entered into an exclusive master services agreement with Dalton for the exclusive supply of pharmaceutical cannabidiol, and Cardiol has subcontracted the manufacturing of its drug product candidates to Dalton. Dalton has the manufacturing capability for Cardiol's clinical trial materials, scalable to support all stages of the drug development process (Phase I, II, III, and commercial).
- **Noramco** – Cardiol entered into an exclusive supply agreement with Noramco, a global leader in the manufacture and supply of controlled drug substance APIs, for the exclusive rights to use Noramco's pharmaceutical cannabidiol in Canada and Mexico, with the sole exception being that Noramco shall have the right to sell the 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. This exclusive supply agreement provides Cardiol with the necessary capacity to scale its pharmaceutically-manufactured pure cannabidiol oil product business to metric tonnes per year of cannabidiol at >99.5% purity and less than 10 ppm THC.
- **TecSalud (CARO Development Agreement)** – Cardiol entered into a USD$3 million research and development agreement with CARO for the development of proprietary drug formulations for the treatment of heart failure. TecSalud and Nano4Heart are third parties through which CARO will provide research and development activities for Cardiol.

**Regulatory Overview**

The development of new drugs is heavily regulated, and drugs are evaluated for safety, efficacy, and manufacturing quality as a condition of market access. Please refer to "Regulatory Overview" section in this prospectus for further details.

Canadian Government Regulation

To obtain approval to market a drug in Canada, a sponsor usually requests a pre-submission meeting with the review division of Health Canada responsible for the therapeutic field. If the meeting is granted, the sponsor must submit a Pre-Submission Information package to the Therapeutic Products Directorate ("**TPD**") to meet with the review division. This process occurs prior to submitting the New Drug Submission ("**NDS**") application. The purpose of the Pre-Submission meeting is to review the evidence (nonclinical and clinical research, quality information, indication) that will be submitted in the NDS application.

During the drug development process, the sponsor prepares study reports. Once the sponsor releases the last study report required for the submission, the sponsor completes the NDS application and submits it to TPD. Prior to submitting the NDS and if applicable, based on the intended use of the product in the identified patient population, the sponsor may submit in advance a request for priority review status.

After submitting the NDS application, the file undergoes a screening process prior to being accepted for review. TPD has 45 calendar days from receipt to complete the screening review process. If granted a priority review, the screening period is reduced to 25 calendar days. After a comprehensive review of an NDS application, Health Canada will issue a Notice of Compliance ("**NOC**") if the product is approved or a Notice of Noncompliance ("**NON**") if further questions remain. If a NOC is issued, a Drug Identification Number (DIN) is also issued that is required to be printed on each label of the product, as well as the final version of the Product Monograph that has been agreed to between Health Canada and the sponsor.

The average target time for reaching a first decision on an NDS is 300 calendar days, unless the submission has received a priority review in which case the time is 180 calendar days. Fees are levied for a review of an NDS application.

U.S. Government Regulation

The FDA is the main regulatory body that controls pharmaceuticals in the United States. There are three phases of clinical investigation as outlined below:

- **Phase 1/Phase I** – Phase 1 includes the initial introduction of an investigational product candidate into humans. Phase I studies are designed to evaluate the safety, metabolism, PK, and pharmacologic actions of the investigational product candidate in humans.
- **Phase 2/Phase II** – Phase 2 includes the controlled clinical trials conducted to evaluate the safety and indications of effectiveness of the investigational product candidate for a particular indication(s) in patients with the disease or condition under study, to determine dosage tolerance and optimal dosage, and to identify possible adverse side effects and safety risks associated with the product candidate.
- **Phase 3/Phase III** – Phase 3 clinical trials are controlled clinical trials conducted in an expanded subject population at geographically-dispersed clinical trial sites. They are performed after preliminary evidence suggesting effectiveness of the investigational product candidate has been obtained, are intended to further evaluate dosage, clinical effectiveness and safety, and to establish the overall benefit-risk relationship of the product candidate, and to provide an adequate basis for drug approval.

Cardiol is planning to enter into Phase I clinical development during H1, 2019 with a lead product candidate selected from its CTX series of proprietary nanoformulations for heart failure, and subsequently to proceed with Phase II and Phase III clinical trials.

Orphan Drug Designation

For rare diseases or conditions that affect fewer than 200,000 individuals in the United States, the FDA may grant Orphan Drug Designation to drugs intended to treat such diseases. The orphan drug is entitled to a Fast Track

designation which may lead to an expedited FDA approval. If a product receives the first FDA approval for the indication for which it has Orphan Drug Designation, the product is entitled to seven years of market exclusivity.

Cardiol is pursuing an Orphan Drug Designation application to treat GBM, using a combination of cannabinoids and immunotherapies.

**The Offering**

| | |
|---|---|
| **Issuer:** | Cardiol Therapeutics Inc. |
| **Offering:** | 3,000,000 Units ($15,000,000). |
| **Offering Price per Share:** | $5.00. |
| **Form of Offering:** | Underwritten offering in each of the Provinces of Canada, except Québec, by way of a long-form prospectus. Offering to other jurisdictions as permitted by applicable securities laws and as mutually agreed upon by the Underwriters and the Corporation. See "Plan of Distribution". |
| **Common Shares Outstanding:** | 15,213,100 Common Shares are issued and outstanding as of the date of this prospectus, and 22,710,837 Common Shares will be issued and outstanding immediately after the Offering (in each case, excluding the Over-Allotment Shares and any Common Shares that may be issued upon exercise of Options, Compensation Warrants, Meros Special Warrants, the 3% Convertible Debenture, Warrants, Over-Allotment Warrants or in respect of accrued but unpaid interest owing under the 8% Convertible Debentures). See "Description of Share Capital". |
| **Over-Allotment Option:** | The Corporation has granted to the Underwriters an Over-Allotment Option exercisable for a period of 30 days from the Closing Date to purchase up to an additional 450,000 Over-Allotment Units (representing 15% of the Units offered under this prospectus) at the Offering Price to cover over allocations, if any. The Over-Allotment Option may be exercised by the Underwriters: (i) to acquire Over-Allotment Units at the Offering Price; (ii) to acquire Over-Allotment Shares at a price of $4.62 per Over-Allotment Share; or (iii) to acquire Over-Allotment Warrants at a price of $0.38 per Over-Allotment Warrant; or (iv) to acquire any combination of Over-Allotment Units, Over-Allotment Shares or Over-Allotment Warrants, so long as the aggregate number of Over-Allotment Shares and Over-Allotment Warrants that may be issued under the Over-Allotment Option does not exceed 450,000 Over-Allotment Shares and 450,000 Over-Allotment Warrants. See "Plan of Distribution". |
| **Use of Proceeds:** | The Corporation expects to receive $13,100,000 in net proceeds from the Offering ($15,215,000 if the Over-Allotment Option is exercised in full), after deducting fees payable by us to the Underwriters in connection with the Offering and the estimated expenses of the Offering.<br><br>The principal purposes of this Offering are to obtain additional capital to support our operations, to establish a public market for our Common Shares, and to facilitate our future access to the public equity markets. We intend to use the net proceeds from this Offering for the following purposes:<br><br>• Approximately $4.2 million in the aggregate to fund the development of Cardiol's CTX product series. Cardiol intends to select the most promising of the CTX series nanotherapeutics to advance into clinical development, of which we expect:<br><br>o Approximately $1.7 million will be used to fund basic science, preclinical studies, and Phase 1 clinical trials. This amount is expected to be divided equally between CTX01, CTX02 and CTX03; and<br><br>o Approximately $2.5 million in the aggregate will be used to fund Phase 2 clinical trials designed to investigate the safety and initial efficacy of the CTX series nanotherapeutics. Cardiol expects to direct approximately |

$1.25 million towards the initiation of Phase 2 clinical studies in two of the three CTX series product candidates for a total of $2.5 million. The determination of which two product candidates will be advanced to Phase 2 studies can only be made after the completion of the research activities described above;

- Approximately $1.1 million in the aggregate to fund the development efforts of Cardiol's immunotherapy in combination with cannabinoids for its target indication of GBM into Phase I, of which we expect:
  - Approximately $0.4 million will fund the general development efforts, including preclinical studies; and
  - Approximately $0.7 million in the aggregate will initiate Phase 1/2 clinical trials;
- Approximately $3.5 million to fund the market introduction, distribution, and marketing of a pharmaceutically-manufactured commercial cannabidiol oil product, of which we expect:
  - Direct-to-consumer sales expenditure, including website development and marketing to third-party partners and logistics - $1.5 million; and
  - Prescription sales expenditure, including physician advocacy, creative developments and producing material samples - $2.0 million; and
- US$3.0 million (approximately CDN$3.9 million) to make an exclusivity payment to Noramco due by December 21, 2018 which will be credited towards the Corporation's purchases of pharmaceutical cannabidiol from Noramco.

The Corporation's Use of Proceeds includes the payment of $100,000 expected to be made on the initiation of a Phase IIB program to Meros. No other Meros milestone payments are expected to occur within the time period covered by the Use of Proceeds.

The Corporation expects to use the remaining net proceeds, along with cash currently available to the Corporation, to support manufacturing scale up and optimization of the CTX product series and the Corporation's pharmaceutically manufactured cannabidiol and to fund clinical trials for its pharmaceutically manufactured cannabidiol and to fund working capital and for general corporate purposes, including the recruitment of several key executive personnel and increase the Corporation's staff complement. See "Use of Proceeds".

**Lock-Up Arrangements**

We expect (i) each member of Management; (ii) each Director of the Corporation; (iii) those persons identified as significant shareholders; and (iv) certain shareholders that are not significant shareholders as mutually agreed upon between the Underwriters and the Corporation, to agree, subject to certain customary exceptions, to not, directly or indirectly, offer, sell, contract to sell, secure, pledge, grant, or sell any option, right, or warrant to purchase, or otherwise lend, transfer, or dispose of any equity securities of the Corporation or make any short sale, engage in any hedging transaction, or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of equity securities of the Corporation during a period commencing on the Closing Date and ending on the date which is 180 days after the Closing Date for persons described in (i),(ii) and (iii) and 90 days for persons described in (iv). See "Plan of Distribution – Lock Up Arrangements".

**Dividend Policy:**

The Corporation has not paid dividends to its Shareholders to date and does not anticipate paying cash dividends on the Common Shares in the foreseeable future. The

Corporation's current policy is to retain cash flows to finance the development and enhancement of its products and to otherwise reinvest in the Corporation's business.

**Risk Factors**

An investment in the Common Shares is speculative and involves a high degree of risk, including the risks summarized below. Prospective purchasers should carefully consider the information set out under "Risk Factors" beginning on page 91 and the other information in this prospectus before purchasing Common Shares. The risks described herein are not the only risks that affect the Corporation. Other risks and uncertainties that the Corporation does not presently consider to be material, or of which the Corporation is not presently aware, may become important factors that affect the Corporation's future business prospects, financial condition, and results of operations.

- The Corporation's prospects depend on the success of its nanotherapeutic and GBM product candidates which are at early stages of development, and from the sales of our pharmaceutical cannabidiol products;
- We do not expect to generate revenue from the sales of our nanotherapeutic and GBM product candidates for several years, if at all, and from the sales of our pharmaceutical cannabidiol products until 2019;
- There is no guarantee that the Corporation will be able to execute on its strategy. The continued development of the Corporation will require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of the current business strategy or the Corporation ceasing to carry on business;
- Our ability to generate revenues from the sale of our pharmaceutical cannabidiol products is dependent on our ability to be licensed under the Cannabis Act;
- We intend to expend our limited resources to pursue our current product candidates, and may fail to capitalize on other product candidates that may be more profitable or for which there is a greater likelihood of success;
- We have no commercial revenue, may never become profitable, and will incur substantial and increasing net losses for the foreseeable future as we continue development of, and seek regulatory approval for, CTX001, CTX002, CTX003, and GBM product candidates;
- We rely on Management and need additional key personnel to grow our business, and the loss of key employees or the inability to hire key personnel could harm our business;
- Clinical trials for our product candidates are expensive, time consuming, uncertain, and susceptible to change, delay, or termination;
- If clinical trials of our product candidates fail to demonstrate safety and efficacy to the satisfaction of regulatory authorities or do not otherwise produce positive results, we would incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our product candidates;
- Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment, and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements;
- Our ability to research, develop, and commercialize products is dependent on our ability to obtain and maintain licenses relating to possession and supply of controlled substances;
- Negative results from clinical trials or studies of others and adverse safety events involving the targets of our products may have an adverse impact on our future commercialization efforts;
- Prior to the Offering, no public market existed for the Common Shares or the Warrants. The TSX has not conditionally approved listing of the Warrants or the Warrant Shares and there is no assurance that it will do so;
- Medical research regarding the medical benefits, viability, safety, efficacy, and dosing of cannabinoids remains in early stages;

- We rely on contract manufacturers over whom we have limited control. If we are subject to quality, cost, or delivery issues with the preclinical and clinical grade materials supplied by contract manufacturers, our business operations could suffer significant harm;
- Business disruptions affecting our third-party suppliers, manufacturers, and Contract Research Organizations ("**CROs**") could harm our future revenues and financial condition and increase our costs and expenses; and
- Sales of a substantial number of Common Shares in the public market could occur at any time before or after the expiration of the lock-up agreements described under "Plan of Distribution".

**Summary of Financial Information**

The following sets out summary financial information of the Corporation for the periods or as at the dates indicated. The financial information of the Corporation as at December 31, 2017 has been derived from the Audited Financial Statements and the financial information of the Corporation as at September 30, 2018 has been derived from the Interim Financial Statements. The Audited Financial Statements have been audited by BDO. BDO's report on the Audited Financial Statements is also included elsewhere in this prospectus. The Interim Financial Statements presented as at September 30, 2018 and for the three and nine month periods ended September 30, 2018 and 2017 has been prepared on a basis consistent with the Audited Financial Statements. In the opinion of management, the unaudited financial information in the Interim Financial Statements reflects all adjustments considered necessary for a fair presentation of the results for those periods. The summary financial information should be read in conjunction with our Management's Discussion & Analysis, Audited Financial Statements and the Interim Financial Statements and the related notes.

| | **As at September 30, 2018** (unaudited) | **As at December 31, 2017** (audited) |
|---|---|---|
| **Balance Sheet Highlights** | | |
| Current Assets | $12,191,797 | $2,484,853 |
| Total Assets | 12,868,330 | 3,220,683 |
| Current Liabilities | 1,252,725 | 176,714 |
| Total Liabilities[(1)] | 13,830,526 | 366,757 |
| Shareholders' equity (deficiency) | (962,196) | 2,853,926 |

| **Income Statement Highlights** | **Nine Months Ended September 30, 2018** (unaudited) | **Initial Period Ended December 31, 2017** (audited) |
|---|---|---|
| Net Loss | $4,573,457 | $1,660,926 |
| Net Loss Per Share | $0.30 | $0.13 |
| Research & Development | $1,251,508 | $441,257 |

Notes:

(1) In May 2018 and August 2018, $10,531,000 and $2,400,000, respectively, principal amount of 8% Convertible Debentures maturing on May 31, 2019 were issued. The carrying amount of the 8% Convertible Debentures outstanding as at September 30, 2018 was included in total liabilities. If the 8% Convertible Debentures were converted in full, the Corporation's shareholders' equity would increase by $12,331,601 and the total liabilities would decrease by $12,331,601 as at September 30, 2018. See "Options to Purchase Common Shares – Convertible Debentures".

## CORPORATE STRUCTURE

### Name and Incorporation

The Corporation was incorporated under the Business Corporations Act (Ontario) (the "**OBCA**") on January 19, 2017. The Corporation has no subsidiaries.

The head and registered office of the Corporation is located at Suite 101 – 2275 Upper Middle Road East, Oakville, Ontario L6H 0C3.

On February 13, 2017, the Articles of the Corporation were amended to (i) change the authorized capital of the Corporation from 9,000,000 Common Shares to an unlimited number of Common Shares; (ii) remove the Corporation's right to repurchase for cancellation the Common Shares; (iii) remove the requirement of approval by two-thirds of the Shareholders for varying rights and restrictions attached to the Common Shares; and (iv) provide for transferability of any non-convertible debt securities issued by the Corporation without the approval of the Board of Directors or a majority of Shareholders.

On August 14, 2018, the Board of Directors of the Corporation approved an amendment and restatement of By-law No. 1 of the Corporation to: (i) amend the by-law to change the number of shares required to be represented at a meeting from a majority of such shares to twenty-five percent (25%) of such shares (the "**By-Law Quorum Amendment**"); and (ii) adopt by-laws requiring advance notice of director nominees from Shareholders (the "**Advance Notice By-Law Amendment**" and, together with the By-Law Quorum Amendment, the "**By-Law Amendment**"). The purpose of the By-law Quorum Amendment is to ensure that if the Corporation's shares become widely held, a quorum for meetings of Shareholders will be more easily obtained. The purpose of the Advance Notice By-Law Amendment is to ensure that an orderly nomination process is observed, that Shareholders are well-informed about the identity, intentions, and credentials of director nominees, and that Shareholders vote in an informed manner after having been afforded reasonable time for appropriate deliberation. The By-Law Amendment was confirmed by an ordinary resolution of Shareholders of the Corporation on August 28, 2018.

The Board approved a subsequent amendment to By-law No. 1 of the Corporation, which removed the requirement that the Chairman of the Board be named the Chief Executive Officer of the Corporation. This amendment was confirmed by an ordinary resolution of Shareholders of the Corporation on August 28, 2018.

On August 29, 2018, the Articles of the Corporation were amended to remove certain share transfer restrictions and to split each issued and outstanding common share into two Common Shares. All current and comparative references to the number of shares have been restated to give effect to the stock split, unless otherwise noted.

See "Description of Share Capital – Common Shares".

## OUR BUSINESS

### Corporation's Overview

The Corporation is a biotechnology company specializing in the research and commercial development of novel drug therapies utilizing proprietary drug-delivery systems. The Corporation is leveraging its expertise in pharmaceutical cannabinoids to develop proprietary formulations for commercial development in three important medical markets; namely, (1) developing nanotherapeutics designed to deliver cannabinoids and other anti-inflammatory drugs for the treatment of heart failure; (2) pursuing an immunotherapeutics program commencing with an innovative cancer immunotherapeutic in combination with cannabinoids for GBM, a Fast Track eligible Orphan Indication, (See "Other Special Regulatory Procedures – Fast Track Designation"); and (3) commercializing a line of pharmaceutically-manufactured pure cannabidiol products in 2019 in the growing market for medicinal cannabinoids (See **Figure 1** below).

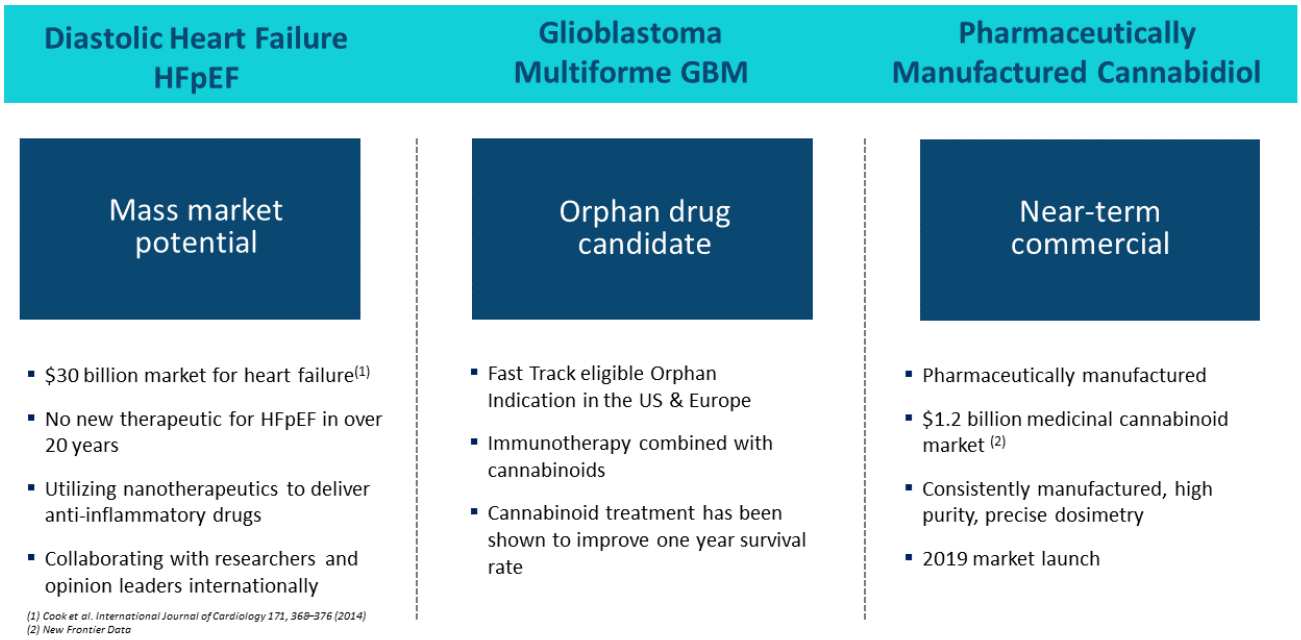



**Figure 1** – Cardiol's three research programs

The Corporation has research programs focused on developing nanotherapeutics to treat heart failure underway at international centers of excellence, including the University of Alberta, Houston Methodist DeBakey Heart & Vascular Center, and TecSalud. Cardiol has also established an exclusive manufacturing arrangement with Dalton, a Health Canada-approved, FDA-registered, cGMP manufacturer of pharmaceuticals, including cannabinoids, for supplying finished pharmaceutically-manufactured cannabidiol products to support the Corporation's research and commercial development programs. Cardiol recently entered into an exclusive supply agreement with Noramco to support Dalton's manufacturing with cannabidiol at >99.5% purity and less than 10 ppm THC.

Cardiol brings together a wealth of research and development experience, advance manufacturing capabilities, and a Management team, Board of Directors, and Scientific Advisory Board comprising business and thought leaders with extensive industry experience and expertise in commercializing proprietary drugs.

**Corporate History**

For over 25 years, the Founders - David Elsley, Dr. Eldon Smith, and Dr. Anthony Bolton – have had an active interest in the role that inflammation plays in a number of serious medical conditions, including heart failure. Prior to the formation of Cardiol, the Founders pursued scientific and clinical research in this area and were successful in securing funding to support the development of novel therapeutics from concept through to completion of Phase III multi-center and multi-national clinical trials (See "Management – Biographies"). Based on an extensive review of the scientific literature conducted in late 2014, the Founders identified cannabidiol as a molecule of interest to investigate in heart failure pathology due to its anti-inflammatory, anti-fibrotic, and cardioprotective properties.

Since cannabidiol has low oral bioavailability, a relatively high-dose therapy is required to reach pharmacologically-relevant concentration levels in the blood using traditional delivery mechanisms. To improve the PK profile of cannabidiol in the treatment of heart failure, in 2015 the Founders identified the potential for a proprietary nanotechnology developed at the University of Alberta to target a wide variety of APIs to inflamed tissue in the heart. This innovative proprietary nanotechnology was developed by Dr. Afsaneh Lavasanifar, a Professor in the Faculty of Pharmacy and Pharmaceutical Sciences, at the University of Alberta, for a period of over ten years, and was supported by over $3.7 million in research grants from numerous recognized organizations, including the National Sciences and Engineering Research Council and the Canadian Institutes of Health Research. Following a two-year review of the technology and negotiation with the University of Alberta and

Dr. Lavasanifar, Cardiol Therapeutics Inc. was incorporated on January 19, 2017 to exclusively license the nanotechnology for the delivery of any drug currently used or subsequently developed for diagnosing and/or treating any cardiopulmonary and/or cardiovascular disease, including heart failure, and any cannabinoid for any clinical application.

In January 2017, Cardiol completed a $400,000 convertible debenture financing (See “Description of Material Indebtedness”) and in March 2017, the Corporation raised $1.5 million in a non-brokered private placement of common shares (See “Prior Sales”).

In June 2017, Cardiol negotiated an exclusive manufacturing supplier agreement with Dalton to support the Corporation’s research programs. Dalton is a Health Canada-approved and FDA-registered cGMP manufacturer of over 200 APIs, including pharmaceutical cannabinoids, with manufacturing capability scalable to support all stages of the regulatory process (Phase I, II, III, or commercial). Over the past ten years, Dalton has developed unique manufacturing and drug formulation expertise in the production of pure pharmaceutical cannabinoids after having invested in excess of $3.5 million on research and development. In collaboration with Dalton, Cardiol is developing proprietary pharmaceutical cannabidiol formulations in support of its plans to commercialize pharmaceutical cannabidiol products in 2019.

In July 2017, Cardiol initiated a research program at the University of Alberta focused on the development of proprietary nanoformulations of anti-inflammatory drugs designed to enhance the compatibility of lipophilic drugs with the aqueous blood circulation, improve PK, and increase drug concentration at the site of disease. Under the direction of Dr. Lavasanifar, a recognized expert in pharmaceutics, nanomedicines, and drug formulation, Cardiol’s research program has developed proprietary nanoformulations of several anti-inflammatory drugs, including cannabidiol, methotrexate, and cyclosporine A. The University of Alberta research team is also developing proprietary cannabidiol formulations to support Cardiol’s plans to commercialize a pharmaceutical cannabidiol product for introduction into the growing market for cannabinoid medicines in Canada.

In August 2017, Cardiol commenced preliminary research at the Houston Methodist DeBakey Heart & Vascular Center in Texas to initiate a research program investigating the ability of the Corporation’s nanotechnology to accumulate in inflamed heart tissue in an experimental model of heart failure. The results of this research not only clearly demonstrated that Cardiol’s nanoparticles accumulated in diseased, but not healthy, heart tissue, but also that they were associated with cardiac fibroblasts, the cells responsible for fibrosis. These research results provided new insight into how nanotherapeutics can be developed to target fibrotic tissue in the heart and are the subject of Cardiol’s provisional patent application filed in the United States in December 2017 (See “Intellectual Property Rights – Patent Portfolio”).

From September to December 2017, the Corporation raised $1.62 million through non-brokered private placements of Common Shares. (See “Prior Sales”).

In May 2018, Cardiol completed the first tranche of a $10.5 million private placement of 8% Convertible Debentures (See “Description of Material Indebtedness”). The second tranche ($2.4 million) was completed in August 2018.

In August 2018, Cardiol entered into a research contract with the Houston Methodist DeBakey Heart & Vascular Center to build upon the initial research in an experimental model of heart failure.

During August and September 2018, the Corporation initiated a comprehensive USD$3 million research and development program with CARO in collaboration with TecSalud to advance the development of the Corporation’s CTX series of nanotherapeutics for the treatment of heart failure. The TecSalud research collaboration is expected to include a clinical trial to investigate the PK profiles of Cardiol’s lead nanoformulations expected to commence in H1, 2019.

In September 2018, Cardiol filed a U.S. provisional patent application for, amongst other things, a combination therapy using cannabinoids and immunotherapy to treat cancers, such as GBM. Cardiol’s patent-pending technology involves combining proprietary cannabinoid formulations intended to slow the invasiveness of tumors with immunotherapies designed to target and kill tumor cells.

In September 2018, Cardiol entered into an exclusive supply agreement with Noramco, a global leader in the manufacture and supply of controlled drug substance APIs, for exclusive rights to use Noramco’s pharmaceutical cannabidiol for non-therapeutic directory products in Canada and Mexico. This exclusive supply agreement

provides Cardiol with the necessary capacity to scale its commercial product business to metric tonnes per year of cannabidiol at >99.5% purity and less than 10 ppm THC.

Cardiol brings together a wealth of research and development experience, advanced manufacturing capabilities, and a Management team, Board of Directors, and Scientific Advisory Board comprising business and thought leaders with extensive industry experience and expertise in commercializing proprietary drugs.

**Overview of the Business**

**Novel therapeutics for the treatment of diastolic heart failure**

The Corporation is developing innovative nanotherapeutics that deliver cannabinoids and other anti-inflammatory drugs to inflamed tissue in the heart to improve the symptoms of heart failure, including shortness of breath, fatigue and swelling of the legs, for people living with heart failure. It owns the sole, exclusive, world-wide, irrevocable, royalty-bearing license to certain technology owned by Meros relating to nanotechnologies designed to enhance solubilization, improve PK, and facilitate the targeting of drugs to specific sites of disease, as further set out in "Intellectual Property Rights" section in this Prospectus. Patent protection has been granted for these nanotechnologies in major developed markets around the world including the United States, Canada, certain countries in Europe, and Japan.

The Corporation plans to advance one or more nanotherapeutics into clinical development during H1, 2019. Candidates for clinical development include the following proprietary nanoformulations: CTX01 (cannabidiol), CTX02 (methotrexate), and CTX03 (CsA). Cannabidiol and CsA, water-insoluble lipophilic drugs, are encapsulated in Cardiol's proprietary block copolymer PEG-b-PBCL to facilitate their solubility in aqueous media (CTX01; CTX03). Methotrexate is more hydrophilic and is encapsulated using covalent bonding (CTX02). In appropriately encapsulated form, all these drugs are expected to target sites of inflammation (such as the heart in heart failure) and accumulate as a result of the enhanced permeability and retention ("**EPR**") effect.

**Orphan Drug Designation Application to Treat GBM**

Cardiol also plans to pursue an Orphan Drug Designation application with the FDA for the treatment of GBM. In September 2018, Cardiol filed a U.S. provisional patent application for, amongst other things, a combination therapy using cannabinoids and immunotherapy to treat cancers, such as GBM. Cardiol plans to use this technology platform initially for the treatment of GBM, the most malignant and deadliest form of brain cancer, and a Fast Track eligible Orphan Indication in the United States and Europe.

Cardiol plans to leverage its expertise in pharmaceutical cannabinoids and immunology to investigate the combination of cannabinoids, for which there is pre-clinical evidence of activity against some tumors, with immunotherapy as a treatment for GBM.

**Pharmaceutically-manufactured Cannabidiol**

The Corporation's near-term opportunity is the commercial introduction of a pharmaceutically-manufactured pure cannabidiol oil product. With de-scheduling of cannabinoids from the CDSA having taken place on October 17, 2018, the Corporation believes there is a significant opportunity to manufacture and commercialize pure pharmaceutical cannabidiol regulated by the federal Cannabis Act.

The Corporation is leveraging its expertise in pharmaceutical cannabinoids to develop and commercialize formulations containing cannabidiol with purity levels of greater than 99.5% and a target level of 10 ppm THC or less – Health Canada's specified threshold for products which contain no THC.

In collaboration with its exclusive partner Dalton, a Health Canada approved, FDA registered, cGMP manufacturer of pharmaceuticals, including cannabinoids, and with Cardiol's exclusive supply agreement with Noramco, Cardiol plans to introduce a line of cannabidiol products developed to pharmaceutical standards that exceed the standards mandated under the *Cannabis Act*.

Cardiol expects this product line to include cannabidiol oil formulations and a unique water-like cannabidiol nanoformulation designed for sublingual administration using a precise dosing spray technology.

The Corporation anticipates commercializing its first-generation product(s) during 2019, providing an opportunity to generate initial revenues. Cardiol believes the following factors provide the Corporation with a platform to compete in the commercial cannabidiol market place and generate an initial revenue opportunity for the Corporation: a pure cannabidiol product that is THC free, as defined as having less than 10ppm THC; a consistent product manufactured by an FDA and Health Canada certified cGMP manufacturer; the capabilities to scale production of cannabidiol; and the market for cannabinoids in Canada is growing and is expected to continue grow in the near-term.

Cardiol's U.S. provisional application filed in September 2018 also includes a description and claims for its proprietary cannabinoid compositions that can be used not only in the context of combination therapies for the treatment of GBM but also to address certain other conditions, disorders or diseases. Cardiol intends to pursue future patent filings for the cannabinoid compositions on their own, separate and apart from their use in treating GBM.

**Heart Failure**

Market Overview

Heart failure is a chronic condition that affects more than 26 million people globally[1]. Over six million adults in Canada and the United States suffer from heart failure[2] and it remains a leading cause of death and hospitalization, with associated healthcare costs exceeding $30 billion annually[3] in the U.S. alone. According to the American Heart Association, one in five Americans over the age of 40 will develop heart failure in their lifetime. Heart failure contributes to one in nine deaths in America, and every minute at least one person is diagnosed with heart failure. People with heart failure suffer from shortness of breath, rapid heart rate, edema, reduced exercise capacity, often struggle with simple daily activities, and are frequently hospitalized. For many, these symptoms significantly reduce their quality of life. Concerning life expectancy after being diagnosed with heart failure, 30% of patients with heart failure die within one year[4], 50% within five years[5], and up to 90% within ten years of diagnosis[6].

Normal Heart Function

In a healthy heart, the left ventricle (lower left chamber) relaxes to fill with blood from the atrium (upper left chamber). Once filled, the left ventricle pumps the blood to the body (See **Figure 2** below).

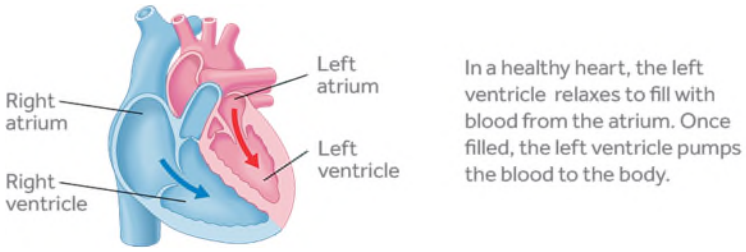



**Figure 2** – Normal heart function, Source: Cardiol.

Types of Heart Failure

Heart failure is a condition in which the heart fails to pump enough blood to supply sufficient oxygen to the tissues of the body.

There are two major types of heart failure:

1 Savarese, G. et al. Global Public Health Burden of Heart Failure. Cardiac Failure Review 03, 7 (2017).

2 Blair, J. E. A., Huffman, M. & Shah, S. J. Heart Failure in North America. Current Cardiology Reviews 9, 128–146 (2013).

3 Cook, C., Cole, G., Asaria, P., Jabbour, R. & Francis, D. P. The annual global economic burden of heart failure. International Journal of Cardiology 171, 368–376 (2014).

4 Cowie, M. et al. Survival of patients with a new diagnosis of heart failure: a population based study. Heart 83, 505–510 (2000).

5 Levy, D. et al. Long-Term Trends in the Incidence of and Survival with Heart Failure. New England Journal of Medicine 347, 1397–1402 (2002).

6 Taylor, C. J., Roalfe, A. K., Iles, R. & Hobbs, F. D. R. Ten-year prognosis of heart failure in the community: follow-up data from the Echocardiographic Heart of England Screening (ECHOES) study. European Journal of Heart Failure 14, 176–184 (2012).

- Systolic heart failure
- Diastolic heart failure (Cardiol's primary focus)

Systolic heart failure, also known as heart failure with reduced ejection fraction ("**HFrEF**"), results from reduced contraction of the left ventricle such that not enough blood is pumped into the circulation. An estimated 50% of heart failure patients have poor systolic heart function.

In diastolic heart failure, also known as heart failure with preserved ejection fraction ("**HFpEF**"), the left ventricle becomes stiff and does not relax normally. As a result, it cannot fill properly, and pressure begins to increase in the left heart chambers and in the lungs. The increased pressure in the lungs is the cause for shortness of breath. Approximately 50% of heart failure patients have diastolic dysfunction[7] (See **Figure 3** below).

Diastolic heart failure is commonly associated with several co-existing conditions including obesity, hypertension, diabetes, and older age. Diastolic heart failure is almost always associated with thickened LV muscle and increased fibrosis – both of which contribute to the increased stiffness of the ventricle and impairment to diastolic filling. There is also activation of the lining of the small blood vessels in the heart driven by inflammation resulting particularly from associated diabetes and obesity. This inflammation leads to leakage of inflammatory cells from the circulation into the cardiac tissue, and subsequently increased stiffening of the heart (fibrosis) impairing the ability of the heart to properly function.

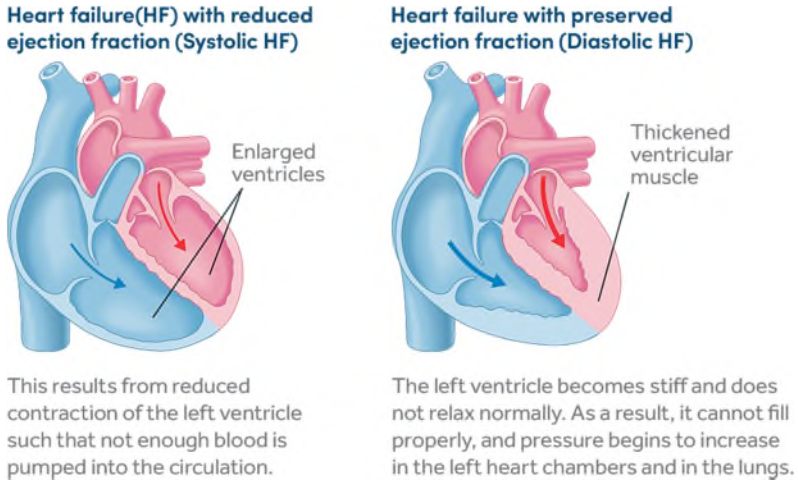



**Figure 3** – Heart function during Systolic and Diastolic Heart Failure, Source: Cardiol.

Treatment of Heart Failure

Heart failure is a chronic disease needing lifelong management. In some patients, doctors can correct heart failure by treating the underlying cause. For example, repairing a heart valve or controlling a fast heart rhythm may reverse heart failure. But for most patients, the current treatment of heart failure involves a balance of the right medications and, in some cases, use of medical devices that help the heart beat and contract normally.

The goal of treatment for patients with heart failure is to improve their clinical status, functional capacity, and quality of life, prevent hospital admissions, and ultimately reduce mortality.

Existing Treatments of diastolic heart failure (as described by 2016 European Society of Cardiology Guidelines)

No treatment has yet been convincingly shown to reduce morbidity or mortality in patients with diastolic heart failure. However, since patients with diastolic heart failure are often elderly, highly symptomatic, and have a poor

7 Hogg, K., Swedberg, K. & McMurray, J. Heart failure with preserved left ventricular systolic function: epidemiology, clinical characteristics, and prognosis. Journal of the American College of Cardiology 43, 317–327 (2004).

quality of life, an important aim of therapy may be to help alleviate symptoms as best as possible to improve general well-being.

Effect of treatment on symptoms in heart failure with preserved ejection fraction

Fluid retention is a consistent finding in chronic heart failure patients. Fluid retention is the abnormal accumulation of fluid in the legs, feet, abdomen, and lungs – where it causes a chronic cough and shortness of breath. Diuretics, which inhibit re-uptake of salts in the kidney and decrease fluid retention[8] can improve symptoms and signs of heart failure. The evidence that diuretics improve symptoms is similar across systolic and diastolic heart failure. Evidence that beta-blockers and Mineralocorticoid Receptor Antagonists (MRAs) improve symptoms in diastolic heart failure patients is lacking. There is also inconsistent evidence for an improvement in symptoms in those treated with Angiotensin Receptor Blockers (ARBs) and Angiotensin Converting Enzyme (ACE) Inhibitors. Nonetheless, patients with HFpEF often receive one or more of these medications in an attempt to improve quality of life.

There have been no significant treatment advances in diastolic heart failure in the past 20 years; the primary therapy remains diuretics. Cardiol is dedicated to improving patients' outcomes with innovative nanotherapeutics that target anti-inflammatory drugs to areas of cardiac tissue having significant inflammation and increased fibrosis.

Cardiol's Nanotechnology for Heart Failure

Cardiol is developing innovative nanotherapeutics that utilize cannabinoids, as well as other anti-inflammatory and anti-fibrotic drugs to directly target inflamed tissue in the heart. The Corporation's proprietary nanotechnologies are designed to increase the compatibility of drugs within the blood circulation, improve PK, and facilitate drug accumulation in the failing heart. This is an approach supported by a Position Paper[9] from the European Society of Cardiology which, in 2014, stated that "Targeting therapies to the heart…will almost certainly be required for these and other therapies". Cardiol believes this approach holds the answer to improving the standard of care for millions of heart failure patients around the world. In turn, this will help to reduce the significant economic burden the disease places on the healthcare system.

The Corporation is developing proprietary drug-delivery nanotechnologies for the treatment of heart failure based on polymeric micelles – an approach utilized to effectively deliver anti-cancer drugs. Like potential pharmaceutical therapies for heart failure, chemotherapeutic agents to treat tumors often present poor water solubility, short circulation times, and systemic toxicity. In the field of cancer treatment, polymeric micelles have been used extensively to improve solubility and increase circulatory half-life. The observation of the enhanced permeability and retention ("**EPR**") effect of these nanocarriers has demonstrated the potential to target toxic pharmaceuticals to tumor sites via inflamed, leaky vasculature, thus reducing systemic toxicity. Cardiol's technology is being developed to take advantage of the EPR effect in the inflamed heart in heart failure and exploit it to target drugs directly to heart failure tissue, while at the same time benefitting from increased drug solubility and improved release characteristics.

Preliminary investigation at the Houston Methodist DeBakey Heart & Vascular Center into Cardiol's nanocarrier has yielded promising results. By introducing polymeric micelles that have been fluorescently labelled with Cy5.5 into a heart failure mouse model, it has been demonstrated that the nanoparticles accumulate in heart failure cardiac tissue but not healthy cardiac tissue (See **Figure 4** below).

8 Shah, S. U., Anjum, S. & Littler, W. A. Use of diuretics in cardiovascular diseases: (1) heart failure. Postgraduate Medical Journal 80, 201–205 (2004).

9 Senni, M. et al. New strategies for heart failure with preserved ejection fraction: the importance of targeted therapies for heart failure phenotypes. Eur Heart J 35, 2797–2815 (2014).

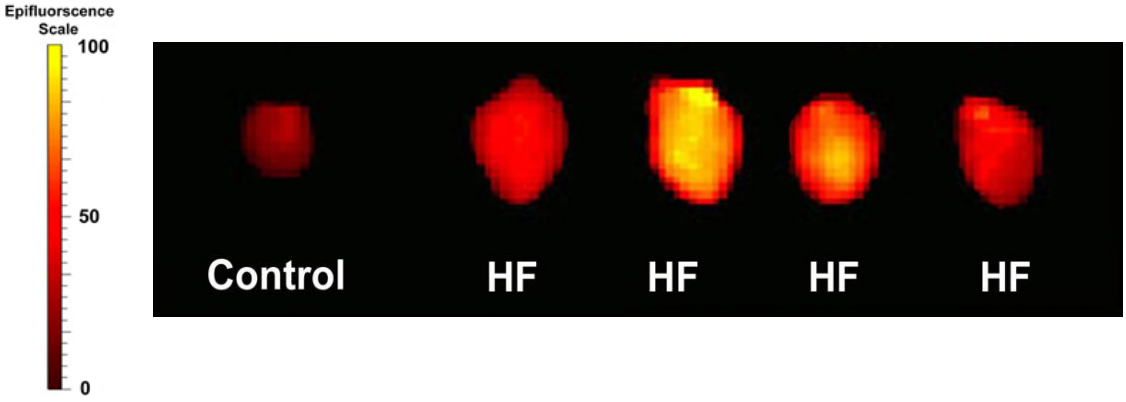



**Figure 4** – Fluorescence of whole hearts following administration of fluorescently-labeled nanoparticles (orange) in a model of heart failure – showing accumulation of nanoparticles in inflamed hearts with heart failure compared to healthy hearts (control). Note heart failure hearts are enlarged compared to the healthy hearts, Source: Houston Methodist DeBakey Heart & Vascular Center.

Further analysis at the Houston Methodist DeBakey Heart & Vascular Center has demonstrated accumulation of Cardiol's nanoparticles within areas of fibrous tissue in the cardiac tissue – indeed, the fluorescent particles accumulated in areas of what are presumed to be fibroblasts, the cells responsible for generating fibrotic tissue (See **Figure 5** below). These data have shown that Cardiol's technology can be successfully applied to targeting not only inflamed cardiac tissue associated with heart failure, but also accumulate around cells creating fibrous tissue. This shows great promise as a means to prevent progression of the fibrotic process and associated worsening of diastolic function.

**Experimental Model of heart failure – Houston Methodist DeBakey Heart & Vascular Center**

Tissue Sections of the Heart

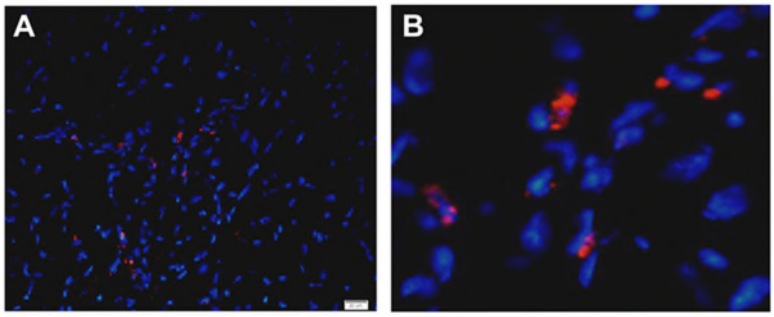



**Figure 5** – Fluorescence microscopy showing (A) accumulation of labeled nanoparticles (red) in cardiac tissue from a failing heart. Enlarged in (B), the nanoparticles are associating with fibroblasts (blue), demonstrating accumulation in fibrous tissue, Source: Houston Methodist DeBakey Heart & Vascular Center.

These research results provide new insight into how Cardiol's nanotherapeutics can be developed to target fibrotic tissue in the heart and are the subject of the Corporation's provisional patent application filed in the United States. The specific targeting of Cardiol's nanoparticles to fibrotic cardiac tissue offers the potential to utilize drugs more safely and effectively and suggests the possibility of preventing the progression of cardiac fibrosis.

Fibrosis is a key player in the progression of diastolic heart failure. These findings suggest a new way to target this under-addressed segment of the heart failure market by delivering effective therapy to inflamed tissue in the heart.

Inflammation is one of the earliest precursors of fibrosis. Associated with the infiltration of activated inflammatory immune cells into the heart, inflammation leads to the inappropriate activation of fibrocytes into myofibroblasts – the cells responsible for the deposition of fibrotic material, fibrosis. Fibrotic cardiac tissue is stiffer than normal and does not contract, leading to the loss of chamber distensibility that is a common feature of heart failure. These

research data (See **Figure 5** above) show the promise of a new way to target anti-inflammatory and anti-fibrotic drugs directly to the regions of the heart where they will be most effective.

**Proprietary Technology**

Cardiol's nanotherapeutics are based on a patented family of biocompatible and biodegradable amphiphilic block co-polymers made from polyethylene glycol ("**PEG**") and polycaprolactone ("**PCL**"). Both PEG and PCL have a long history of safe use in humans. A functionalized polyester based on PCL ("**PCBL**") forms the lipophilic core of the nanoparticles, allowing both the solubilization and encapsulation of fat-soluble drugs (See **Figure 6** below). PEG forms the water-compatible surface layer of the nanoparticles, enabling the encapsulated drug to circulate in the aqueous environment of the blood. Cardiol's proprietary nanoparticles are not only inherently stable and biocompatible, they can also be customized to optimize the encapsulation and release characteristics of a broad range of pharmaceuticals.

Cardiol's Patented Nanotechnology for Drug Formulation and Drug Delivery

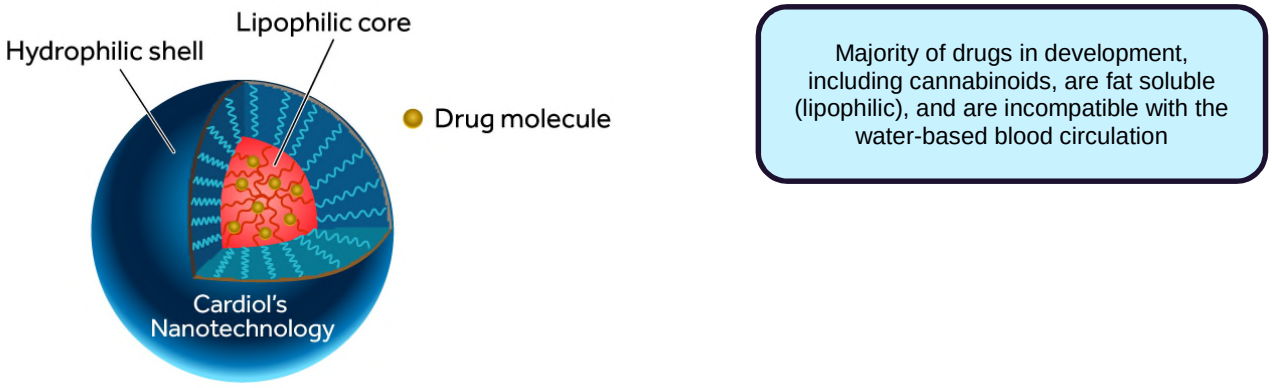



**Figure 6** – Schematic illustrating Cardiol's polymeric nanovector. Lipophilic drug molecules are retained within the lipophilic core and surrounded by a water-compatible hydrophilic shell allowing solubility of non-water-soluble drugs, Source: Cardiol.

Polymeric nanostructures are designed to encapsulate APIs to:

- Enhance solubilization of fat soluble drugs
- Prolong circulating drug levels
- Target drugs to sites of disease

Cardiol's Product Candidates for heart failure

<u>CTX01 (proprietary nanoformulation of pharmaceutical cannabidiol)</u>

Cardiol's CTX01 is a proprietary nanoformulation of pharmaceutical cannabidiol being developed for the treatment of diastolic heart failure. Published third-party research has shown that cannabidiol reduces inflammatory activation of the endothelial lining of blood vessels and aids endothelial vasorelaxation, resulting in improved blood flow[10,11]. Moreover, in a model of diabetic cardiomyopathy, cannabidiol has been shown to not only reduce inflammation in the cardiac tissue, but to also decrease fibrosis, apoptotic cell death, and to improve cardiac cell function[11].

Cannabidiol is fat soluble, virtually insoluble in water, highly sensitive to deactivation in the liver via first-pass metabolism when taken orally, and is rapidly cleared from the body. If administered orally and without proper

10 Rajesh, M. et al. Cannabidiol attenuates high glucose-induced endothelial cell inflammatory response and barrier disruption. Am J Physiol Heart Circ Physiol 293, H610–H619 (2007).

11 Rajesh, M. et al. Cannabidiol Attenuates Cardiac Dysfunction, Oxidative Stress, Fibrosis, and Inflammatory and Cell Death Signaling Pathways in Diabetic Cardiomyopathy. Journal of the American College of Cardiology 56, 2115–2125 (2010).

formulation, this results in low active blood levels and an overall bioavailability of less than 10%, requiring large doses. Cardiol's CTX01 formulation for subcutaneous administration is designed to avoid first-pass metabolism, optimize and maintain blood levels of the drug, and target cannabidiol to areas of inflammation and increased fibrosis in the heart. Cardiol believes that overcoming the low bioavailability issues associated with cannabidiol and targeting the drug to sites of disease will significantly broaden the therapeutic potential of this molecule.

CTX02 (proprietary nanoformulation of Methotrexate)

CTX02 is Cardiol's proprietary nanoformulation of methotrexate for the treatment of heart failure. Methotrexate, an inhibitor of cell division, was originally developed for cancer therapy, but lower doses were found to suppress the immune system, resulting in a dose-dependent down regulation of chronic inflammation[12]. Low-dose methotrexate is currently used as a disease-modifying agent in the treatment of rheumatoid arthritis.

Recent experimental data have shown that methotrexate improves cardiac function after acute myocardial infarction and has anti-inflammatory properties[13]. Low-dose methotrexate is currently being investigated in a clinical trial of 7,000 patients with diabetes or metabolic syndrome to determine whether its anti-inflammatory effects lead to a reduction in serious cardiovascular events (the Cardiovascular Inflammation Reduction Trial ("**CIRT**") – theCIRT.org). CIRT is a, double-blind, placebo-controlled, multi-center, event-driven trial that will randomize 7,000 men and women from the United States and Canada. The ongoing CIRT trial is expected to generate significant interest within the cardiology community. In the context of this growing interest, Cardiol plans to play a leadership role in developing methotrexate for the treatment of heart failure.

Cardiol believes that targeting CTX02 to the failing heart will reduce the requirement for dosage levels that lead to systemic toxicity.

CTX03 (proprietary nanoformulation of Cyclosporine A)

CTX03 is a proprietary nanoformulation of CsA being developed by Cardiol for the treatment of heart failure.

CsA is an immunosuppressant more commonly used for the prevention of organ transplant rejection, including for heart transplantation. Current evidence suggests that the mechanism of CsA relates to its activity at the mitochondrial membrane, specifically at pores in the membrane, where the action of CsA reduces the rupture of the mitochondrial membrane. Rupture of the mitochondrial membrane leads to cell death, and, in the heart, death of heart muscle cells (cardiomyocytes). Cardiomyocyte cell death is an important component of the pathology of heart failure, causing largely irreparable damage and is therefore a key clinical target in patients with heart failure. Cardiol aims to use encapsulated CsA (CTX03) to target the drug directly to the failing heart.

The PK of CTX03 compared to the Free Drug shows that the encapsulated CsA is retained in the circulation at higher concentrations and for longer than the free drug (See **Figure 7** below).

12 Montesinos MC et al, Suppression of inflammation by low-dose methotrexate is mediated by adenosine A2A receptor but not A3 receptor activation in thioglycollate-induced peritonitis. Arthritis Research & Therapy 2006, 8:R53 (doi:10.1186/ar1914).

13 Maranhão, R. C. et al. Methotrexate carried in lipid core nanoparticles reduces myocardial infarction size and improves cardiac function in rats. Int J Nanomedicine 12, 3767–3784 (2017).

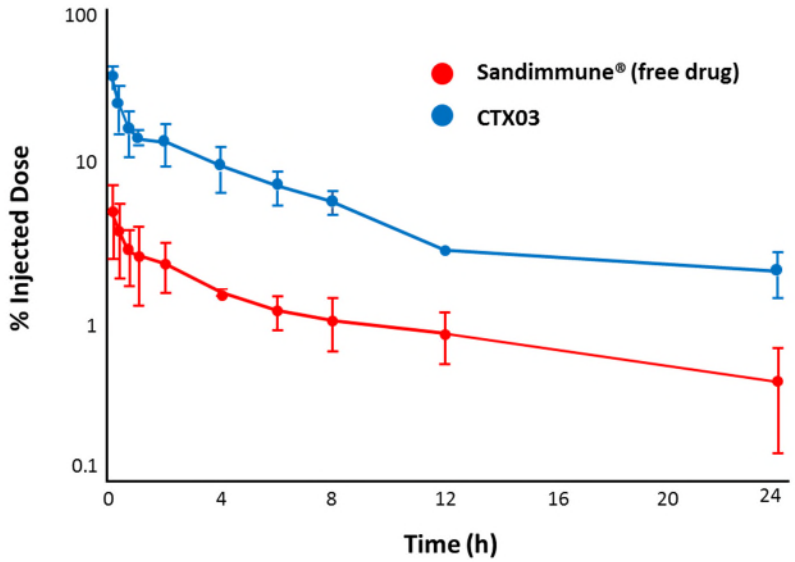



**Figure 7** – PK of CTX03 and Sandimmune. CTX03 (nanoformulation of Cyclosporine) shows higher blood concentration for longer duration compared with Sandimmune (unencapsulated Cyclosporine) following intravenous (IV) injection[14], Source: see reference 13.

Cardiol believes that targeting CTX03 to the failing heart will reduce the requirement for dosage levels that lead to systemic toxicity.

**GBM**

GBM Market Overview

According to Hexa Research, the global GBM market for drug therapies was estimated to be USD $465 million in 2016 and is estimated to reach USD $1.15 billion by 2024 (See **Figure 8** below). Growth is being fueled by an increasing occurrence of central nervous system cancer among the ageing population. Current treatment options have not increased the overall survival rate, contributing further towards growth of the market.

Currently, North American markets dominate the GBM industry occupying 39.2% of the world market in 2016. This trend is expected to continue in the future. Hexa Research estimates that approximately 80,000 new brain tumor related cases were registered in North America in 2017, of which approximately 26,000 were primary malignant brain tumor cases. According to the American Brain Tumor Association, GBM represented 14.9% of brain tumors (over 12,000 new cases) in 2016.

Europe has one of the highest rates of cancer-related deaths, with an average of 15,000 GBM cases per year, increasing at a rate of over 10% per annum (Hexa Research).

The number of cases of GBM in the Asia-Pacific region is growing faster than in any other region in the world. The number of cases of GBM is relatively high in Japan and China. The number of GBM cases in this region is expected to grow at a rate of 12.6%. (Hexa Research).

14 Montazeri Aliabadi, H., Brocks, D. R. & Lavasanifar, A. Polymeric micelles for the solubilization and delivery of cyclosporine A: pharmacokinetics and biodistribution. Biomaterials 26, 7251–7259 (2005).

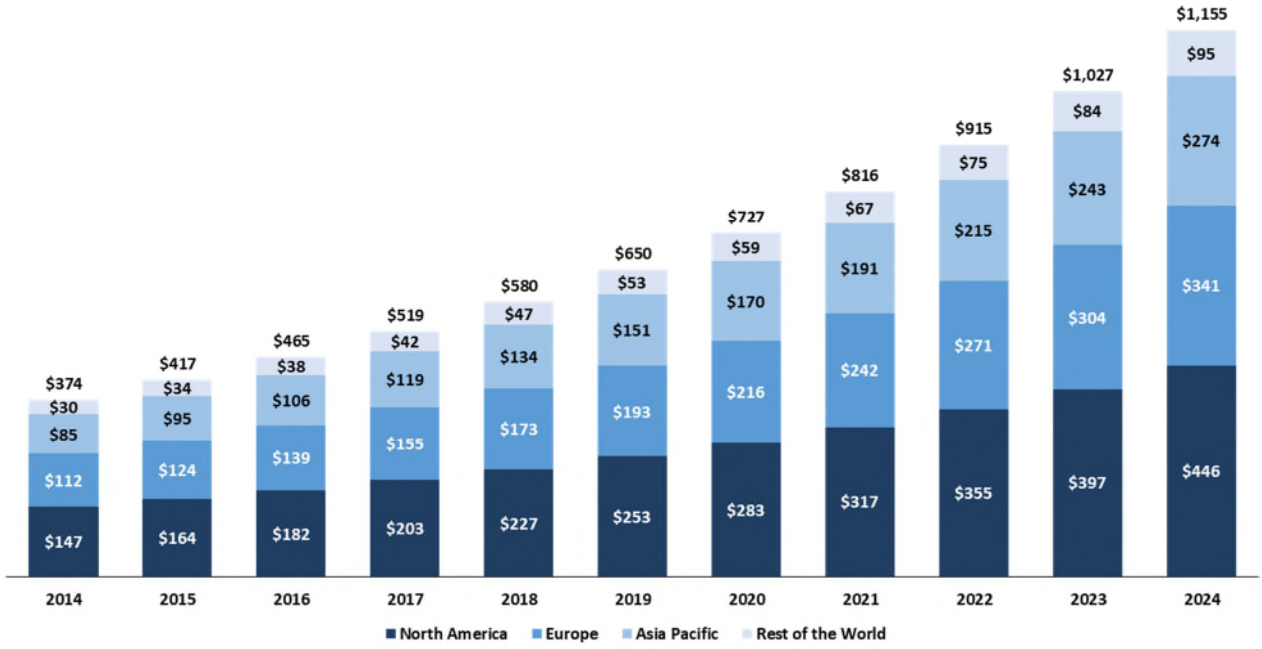



**Figure 8** – Global GBM Market Revenue, by Region, 2014- 2024 (USD million), Source: Hexa Research.

Overview of Glioma Brain Cancer

There are two main types of brain tumors: those that start in the brain (primary) and those that spread from cancer somewhere else in the body (metastasis). Primary brain tumors, such as a glioma, happen less often, and when they do, they are mostly malignant.

Gliomas make up the largest group of primary brain tumors. There are several kinds of gliomas: astrocytomas, which grow anywhere in the brain or spinal cord; brain stem gliomas, which arise in the lowest part of the brain; ependymomas, which develop inside the brain, in the lining of the ventricles, and oligodendrogliomas, which usually grow in the cerebrum (very rare, representing just 3% of all primary brain tumors). An advanced astrocytoma (Grade IV) is called glioblastoma or glioblastoma multiforme (GBM) – these represent 23% of all primary brain tumors[15]. In the United States and the European Union, GBM has been designated as a rare disease. This means that Orphan Drug Designations can be granted to drugs intended to treat GBM.

GBM is the most malignant and deadliest form of cancer of the central nervous system in humans. Death results from the rapid, aggressive, and infiltrative growth of GBM cells in the brain. GBM tumors exhibit invasive properties producing lesions, and possible spreading through the functional tissue in the brain. GBM usually spreads quickly and invades other parts of the brain with tentacle-like projections, making complete surgical removal virtually impossible. In addition, these tumors contain glioma stem-like cells which have high resistance to therapy and high recurrence rates. Average life-expectancy after diagnosis is less than 1 year[16], with fewer than 5% of patients surviving longer than 5 years[17].

Existing Treatments

GBM is aggressive and resists most treatments. The disease recently took the lives of Gordon Downie of The Tragically Hip and U.S. Senator John McCain. Current treatments are limited to reducing symptoms and prolonging a deteriorating quality of life. Consequently, new therapies and treatments are urgently needed. The standard of care for GBM consists of maximum safe surgical resection – complete surgical removal is virtually impossible due to the anatomy of the tumor – followed by radiotherapy with concomitant and adjuvant

15 Ernest, N. J. & Sontheimer, H. Glioma. in Encyclopedia of Neuroscience (ed. Squire, L. R.) 877–884 (Academic Press, 2009). doi:10.1016/B978-008045046-9.01008-1.

16 C. Nieder, A. L. Grosu, and M. Molls, "A Comparison of Treatment Results for Recurrent Malignant Gliomas," Cancer Treatment Reviews 26, no. 6 (December 1, 2000): 397–409.

17 Thakkar, J. P. et al. Epidemiologic and Molecular Prognostic Review of Glioblastoma. Cancer Epidemiol Biomarkers Prev 23, 1985–1996 (2014).

chemotherapy with temozolomide ("**TMZ**"). Treating with TMZ increases median survival to ~15 months and 2 year survival to ~30%[18]. Unfortunately, many gliomas grow back even after treatment; therefore, treatment with TMZ increases median survival by only about 2 – 3 months, compared with surgery and radiotherapy alone.

Cannabinoids and GBM

The cannabinoids CBD and THC have both been shown pre-clinically in in vivo and in vitro models to have potentially beneficial effects in GBM. These studies have shown that cannabinoids have anti-tumor activity and could be a key factor in the treatment of GBM[19],[20],[21]. In pre-clinical studies, Cannabinoids have been shown not only to reduce tumor growth via inhibition of tumor proliferation and angiogenesis, but also to induce tumor cell death by apoptosis as a consequence of increasing reactive oxygen species (ROS) levels[19]. Cannabinoids were further shown to inhibit the invasiveness and stem cell-like characteristics of GBM tumors. These findings have led to a Phase II clinical trial in which CBD:THC 1:1 significantly increased one-year survival rate in GBM patients (GW Pharmaceuticals press release 7 Feb 2017), and other botanical cannabis companies, including Tilray Inc., are also pursuing GBM as a clinical target.

Cardiol's Treatment Strategy for GBM

Based upon the immunology expertise within Cardiol and its advisors, the Corporation intends to develop a combination immunotherapeutic strategy in the oncology area focusing on orphan indications, initially GBM. Additional research collaborations are in the process of being established with centers of excellence in North America to develop a unique technology platform for the development and delivery of new cancer therapies to the pharmaceutical market. Cardiol has recently filed a provisional patent application for a combination of cannabinoids with immunotherapy.

Cardiol's patent pending cancer therapeutic platform envisages the use of certain immune modulators to stimulate the immune system to target tumors. Clinically, small improvements in survival of GBM patients has been shown for cell-based immunotherapies[22]. Tumor cell killing can ultimately be achieved in the body by activated white blood cells, such as tumor-infiltrating lymphocytes (TILs) and lymphokine-activated killer (LAK) cells; however, many tumors have an immunosuppressive environment to evade damage by white blood cells[23]. There are a number of immuno-oncology companies, including big pharma and biotechnology companies that are addressing these issues using a number of different approaches.

We believe that cannabinoids may represent one way of modifying the tumor environment to enable tumor cell killing[22,24]. Thus, an immunotherapeutic approach combined with cannabinoids, each acting via different pathways, may be complementary and offer the potential for a synergistic effect in the treatment of GBM.

**Cardiol's Commercial Cannabidiol Product Line**

New Frontier Data estimates that annual sales in Canada of medical cannabinoid products in 2017 exceeded $600 million and forecasts sales to reach $1.2 billion in 2018, of which Cardiol estimates half of all sales to be oil-based products. Cardiol believes that a pure pharmaceutical cannabidiol product, manufactured by a Health Canada licensed, FDA registered cGMP facility, will have key competitive advantages regarding dosimetry, consistency, and purity, and could provide a near-term revenue opportunity.

Projections published by New Frontier Data and the Brightfield Group, respectively, show that the total Canadian medical cannabinoid market in 2025 will be worth approximately CDN$2.35 billion and the global market could

18 R. Stupp et al., "Effects of Radiotherapy with Concomitant and Adjuvant Temozolomide versus Radiotherapy Alone on Survival in Glioblastoma in a Randomised Phase III Study: 5-Year Analysis of the EORTC-NCIC Trial," The Lancet Oncology 10, no. 5 (May 1, 2009): 459–66.

19 Hernán Pérez de la Ossa, D. et al. Local Delivery of Cannabinoid-Loaded Microparticles Inhibits Tumor Growth in a Murine Xenograft Model of Glioblastoma Multiforme. PLoS One 8, (2013).

20 Massi, P. et al. Antitumor Effects of Cannabidiol, a Nonpsychoactive Cannabinoid, on Human Glioma Cell Lines. J Pharmacol Exp Ther 308, 838–845 (2004).

21 Massi, P. et al. The non-psychoactive cannabidiol triggers caspase activation and oxidative stress in human glioma cells. Cell. Mol. Life Sci. 63, 2057–2066 (2006).

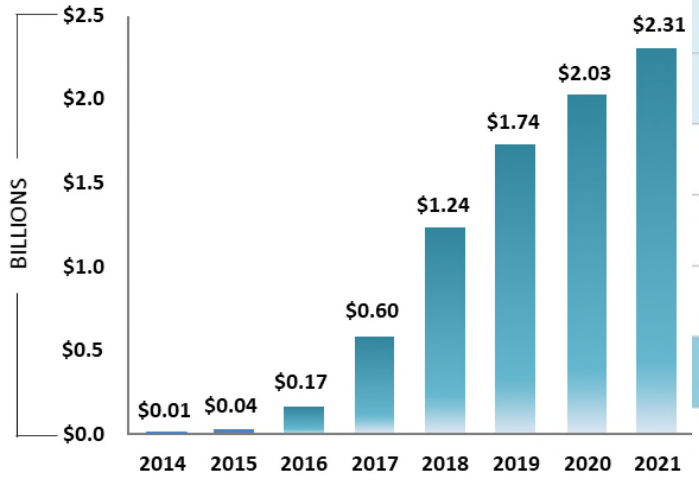
22 M. E. Eagles et al., "Dendritic Cell Vaccines for High-Grade Gliomas," Therapeutics and Clinical Risk Management 14 (July 26, 2018): 1299–1313.

23 S. Adams et al., "Involvement of the Kynurenine Pathway in Human Glioma Pathophysiology," ed. Adriano Boasso, PLoS ONE 9, no. 11 (November 21, 2014): e112945.

24 E. Gaffal et al., "Anti-Inflammatory Activity of Topical THC in DNFB-Mediated Mouse Allergic Contact Dermatitis Independent of CB1 and CB2 Receptors," Allergy 68, no. 8 (August 1, 2013): 994–1000.

quadruple to USD$31.4 billion by 2021. According to Health Canada, the Canadian medical cannabinoid market is growing even faster than forecasted, with patient registrations increasing 1500% in three years. With 296,702 patients registered as of March 2018, this represents a quarterly growth of 10% and an annual growth of 79.9%. StatsCan's Cannabis Stats Hub, estimates that the number of users of cannabis in Canada has grown from 2,193,000 in 1990 to 4,876,600 in 2017, with the age demographic of 45 to 64 year old growing the fastest over that period[25] (See **Figure 9** below). The demand for cannabinoid-based oils is surpassing dried flowers for medical use, with consumers looking for greater variety in treatments, further driving the demand for increased scientific research and product diversity.

**Canadian Medical Market Demand (CAD$)**




**Consumer Demographics**

| Years of Age | 1990 | 2017 | Annual Growth Rate |
|---|---|---|---|
| 15 to 17 yrs. | 194,300 | 291,300 | 1.5% |
| 18 to 24 yrs. | 932,400 | 1,341,700 | 1.4% |
| 25 to 44 yrs. | 961,300 | 2,104,800 | 2.9% |
| **45 to 64 yrs.** | **105,900** | **1,138,800** | **9.2%** |
| Total Consumers | 2,193,900 | 4,876,600 | 3% |

**Figure 9** – Canadian Medical Market Demand (CAD$) and Consumer Demographics, Source: New Frontier Data and StatsCan.

In collaboration with Dalton, Cardiol has developed expertise in the manufacturing of pure pharmaceutical cannabidiol in support of its nanotherapeutics program in heart failure. With the de-scheduling of cannabinoids from the federal CDSA expected to occur on October 17, 2018, Cardiol believes there is a significant opportunity to utilize Dalton's finished goods manufacturing expertise to develop and commercialize pharmaceutical cannabinoid-based products. Cardiol has entered into an exclusive global manufacturing agreement with Dalton for the manufacturing of pharmaceutical cannabidiol products for commercial introduction. Cardiol recently entered into an exclusive supply agreement with Noramco for the supply of up to metric tonnes per year of cannabidiol at >99.5% purity and less than 10 ppm THC.

Cardiol's Pure Pharmaceutically-Manufactured Cannabidiol Formulation

Cardiol is developing CardiolRx, a pure pharmaceutically-manufactured cannabidiol formulation for commercialization during 2019. The Corporation is leveraging its expertise to create formulations using cannabidiol with a purity of greater than 99.5% and a target level of 10ppm THC or less – Health Canada's specified threshold for THC free products. Cardiol's initial product under development is a novel, oil-based, formulation for oral administration.

25 https://www150.statcan.gc.ca/n1/pub/13-610-x/cannabis-eng.htm.


**Figure 10** –Image of a prototype concept of CardiolRx, Source: Cardiol.

Cardiol's Pure Pharmaceutical Cannabidiol Water-like Nanoformulation for Sublingual Administration

In collaboration with drug formulation experts at the University of Alberta and Cardiol's Health Canada and FDA registered pharmaceutical manufacturing partner Dalton, Cardiol is currently developing and testing proprietary nanoformulations of cannabidiol with water-like viscosity for sublingual administration. These formulations are designed to enable accurate and reproducible dosing utilizing precision metered sublingual spray technology (See **Figure 11** below). Cardiol's water-like cannabidiol formulations are expected to be commercially available during Q4 of calendar year 2019 coinciding with the expected authorization by Health Canada of the production and sale of cannabis concentrates under the Cannabis Act. The Corporation anticipates being in a position to scale the production of its water-like formulation by H2, 2019 when changes to the Cannabis Act regulations, scheduled to take place on October 17, 2019, are expected to allow concentrates to be commercialized in addition to oil-based formulations.


- >99.5% purity
- cGMP manufacturer, FDA and Health Canada certified
- Sublingual spray
- Ease of administration
- Water-like consistency

**Figure 11** – Prototype concept of CardiolRx pharmaceutical cannabidiol sublingual spray technology. Water-like cannabidiol formulations designed for accurate dosing using metered sublingual administration, Source: Cardiol.

**Cardiol's Sales and Distribution Strategy for CardiolRx**

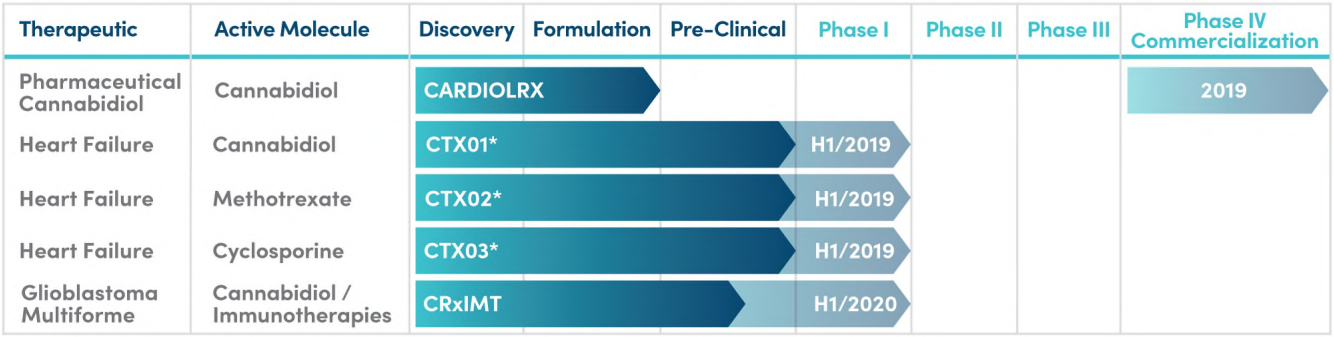
Cardiol intends for CardiolRx to be manufactured by Dalton and to be available for purchase by consumers through two different methods. The first method would be for consumers that have a prescription for medical cannabis. These consumers would be able to purchase CardiolRx through a licensed website, with fulfillment being handled by a third-party logistics company. Cardiol expects to engage suitable third-party service providers possessing

relevant expertise to handle the website sales and website maintenance. The second method would be for consumers without a prescription. These consumers would be able to go to one of the licensed private or public retail stores across the country with which Cardiol has developed relationships. Cardiol expects to engage suitable third-party service providers possessing relevant expertise to handle the logistics of direct-to consumer sales. Starting October 17, 2018, for cannabis based products all prescriptions must be fulfilled directly by a holder of a license for sale for medical purposes under the Cannabis Regulations. Sales of cannabidiol will require licensing under the Cannabis Act and Cardiol's partner, Dalton, has made application to transfer its Dealer's License under the Narcotic Control Regulations, under which it is currently mandated, to a "Standard Processing License" under the Cannabis Act. Cardiol expects that this license will be issued by the end of 2018.

For consumers with prescriptions, Cardiol intends to build awareness of CardiolRx by communicating directly with the physician community and educating them on the benefits of a pure pharmaceutically-manufactured product. This initiative will include assessing the correct level of third-party sales support to on-call doctors, as well as medical advocacy programs to support patient communities. Cardiol intends to create an e-commerce site to educate consumers in their selection process to help guide patients to the optimal product to match their prescription.

For consumers who choose to purchase without a prescription, Cardiol will consider entering physical retail locations. Cardiol's preference is to partner with store locations that are medically focused, targeting primarily pharmacies with the appropriate licenses. Cardiol is currently assessing the creation of a salesforce to manage retail location relationships or soliciting a broker to represent the Corporation's brand at the retail level where existing relationships with retail accounts of medical focus can be leveraged.

**Product Candidate Pipeline****




* Cardiol will advance the most promising nanoformulations for HF into clinical development.

**Exact timing of Phases may vary from projected timing based on receipt of required approvals and successful manufacturing of required formulations.

**Research Programs**

Cardiol has assembled an international network of experts in the synthesis, formulation, pharmacology and testing of drugs. Currently Cardiol has three research programs underway with the following organizations:

- University of Alberta
- TecSalud del Tecnológico de Monterrey & Nano4Heart
- Houston Methodist DeBakey Heart & Vascular Center

**University of Alberta**

Cardiol's research program at the University of Alberta is focused on the development of proprietary nanoformulations of anti-inflammatory drugs designed to enhance the solubility of lipophilic drugs, improve PK, and increase drug concentration at the site of disease. The Corporation's research program is being conducted under the direction of Dr. Afsaneh Lavasanifar, Professor in Pharmaceutical Sciences at the University of Alberta, and a recognized expert in pharmacology, nanomedicines, and drug formulation. In 2001, the University of Alberta, the National Research Council of Canada, and the Government of Alberta collaborated to create the National

Institute for Nanotechnology, the mission of which is to transform nanoscience ideas into novel, sustainable nanotechnology solutions.

In collaboration with Dr. Lavasanifar and the Faculty of Pharmaceutical Sciences at the University of Alberta, Cardiol is developing and optimizing proprietary nanoformulations of drugs for the treatment of heart failure, including pharmaceutical cannabidiol. Cannabidiol is a non-psychoactive molecule with broad therapeutic potential in the treatment of chronic inflammatory disease including heart failure.

**TecSalud & Nano4Heart**

Cardiol recently established a USD$3 million research and development collaboration (See "Commercialization Relationships") with TecSalud and Nano4Heart, both of the Instituto Tecnológico y de Estudios Superiores de Monterrey, Mexico, to collaborate on the research and development of proprietary nanotherapeutics for the treatment of heart failure. This research collaboration combines the significant research capability of TecSalud with Nano4heart's extensive experience in preclinical cardiovascular research and Cardiol's scientific, clinical, and business expertise. By combining these intellectual resources, Cardiol expects to accelerate the necessary research towards the mutual goal of developing a breakthrough heart failure treatment.

Nano4heart is an early stage association specializing in nanomedicine targeted for cardiovascular diseases, such as heart failure, that has emerged from TecSalud's Biomedical Research Center to focus on developing breakthrough nanomedicines to improve the quality of life of patients with heart failure. In collaboration with leading cardiologists, Nano4Heart is developing proprietary nanotechnology designed to deliver drugs more efficiently to the heart with a goal of improving the efficacy and safety profile of important medicines.

TecSalud is committed to delivering outstanding patient care with four state-of-the-art academic medical centers that combine innovative research, clinical services, and education. TecSalud has collaborative relationships with the Houston Methodist DeBakey Heart & Vascular Center and the University of Calgary and has established a formal agreement with the Massachusetts Institute of Technology to promote research and development in nanoscience and nanotechnology in Mexico.

The primary objective of this collaboration is to develop the experimental evidence necessary to support advancing breakthrough nanomedicines for heart failure into clinical development during the first half of 2019. Initially, research will investigate the therapeutic potential of patented nanotechnologies and nanoformulations in-licensed by Cardiol that target inflammation in heart failure, including Cardiol's CTX01, CTX02, and CTX03.

**Houston Methodist DeBakey Heart & Vascular Center**

In August 2017, Cardiol commenced experimental research at the Houston Methodist DeBakey Heart & Vascular Center in Texas to investigate the ability of the Corporation's nanotechnology to accumulate in inflamed heart tissue in an experimental model of heart failure. The Houston Methodist DeBakey Heart & Vascular Center is recognized internationally as a center of excellence for the treatment of heart failure. The center was the birthplace of cardiovascular bypass surgery in 1964 and currently is ranked the 14th best hospital for care in cardiology and heart surgery out of 5,028 hospitals in the United States by US News.

On January 9, 2018, Cardiol announced that experimental research performed at the Houston Methodist DeBakey Heart & Vascular Center showed new functionality of the Corporation's in-licensed patented nanotherapeutics. Designed to act as a vehicle to target anti-inflammatory drugs to inflamed heart tissue, these data demonstrated the accumulation of nanoparticles at regions of fibrosis in diseased hearts, showing potential for Cardiol's proprietary nanotechnology to be used to target anti-fibrotic drugs directly to areas of fibrosis to treat heart failure.

In August 2018, Cardiol entered into a research contract with the Houston Methodist DeBakey Heart & Vascular Center to build upon the initial research in an experimental model of heart failure.

**Commercialization Relationships**

**Meros**

Cardiol entered into a license agreement (the "**Meros License Agreement**") with Meros dated January 20, 2017, granting Cardiol the sole, exclusive, irrevocable, royalty-bearing license, including the right to sublicense, certain

patented nanotechnologies for use with any drugs or classes of drugs currently used or developed in the future to diagnose or treat heart failure and/or any cardiovascular disease and/or cardiopulmonary disease and/or cardiac arrhythmias. The term of the Meros License Agreement is 20 years or for the life of the patents of the licensed technologies.

Under the Meros License Agreement, Cardiol agreed to certain milestones and milestone payments, including the following:(i) payment of CDN$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 CDN$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) CDN$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 (the "**Meros Escrow Shares**") and to be released upon the first patient being enrolled in a Phase 1 clinical trial as described in the Meros License Agreement (the "**Meros Milestone**"). The 1,020,000 Meros Escrow Shares were subsequently cancelled and replaced with 1,020,000 special warrants (the "**Meros Special Warrants**") convertible automatically into Common Shares for no additional consideration upon the Corporation achieving the Meros Milestone; and (iii) appointed a nominee of Meros, Dr. Smith, to the Board and appointed Dr. Lavasanifar to the Scientific Advisory Board.

The Meros License Agreement may be terminated by Meros, if Cardiol breaches any payment provisions, if Cardiol ceases to develop and/or commercialize the licensed technologies, or ceases any and all attempts to raise capital to support developing and or commercializing the licensed technologies. Cardiol may terminate the Meros License Agreement if Cardiol determines in its sole discretion that the licensed technologies are not worthy of development based on research outcomes or commercial viability.

**Dalton**

Cardiol entered into an exclusive master services agreement (the "**Dalton Services Agreement**") dated April 17, 2018 and effective as of June 12, 2017 for pharmaceutical cannabidiol and has subcontracted the manufacturing of its drug product candidates to Dalton. Dalton has the manufacturing capability for Cardiol's clinical trial materials, scalable to support all stages of the drug development process (Phase I, II, III, and commercial). As consideration under the Dalton Services Agreement, Cardiol issued 400,000 Common Shares to Dalton. Cardiol also agreed to issue to Dalton an additional 400,000 Common Shares if Dalton meets certain performance objectives. The Dalton Services Agreement may be terminated by Cardiol upon provision of thirty days' notice of termination.

The services provided by Dalton under the Dalton Services Agreement are undertaken on a project and product basis. With respect to each project or product, Cardiol and Dalton will agree in writing upon objectives, scope, price and fees payable, specifications, deliverables, milestones and timelines in a work order.

**Noramco**

Cardiol entered into an exclusive supply agreement (the "**Noramco Exclusive Supply Agreement**") dated September 28, 2018 as amended on December 7, 2018 with Noramco, a global leader in the manufacture and supply of controlled drug substance APIs, for the exclusive rights to use Noramco's pharmaceutical cannabidiol in Canada and Mexico with the sole exception being that Noramco shall have the right to sell the 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. The Noramco Exclusive Supply Agreement provides Cardiol

with the necessary capacity to scale its commercial product business to metric tonnes per year of cannabidiol at >99.5% purity and less than 10 ppm THC.

The initial term of the Noramco Exclusive Supply Agreement expires on December 31, 2038, and thereafter automatically renews for successive periods of 2 calendar years each, unless written notice of termination is given by either party at least 18 months before the expiration of the initial term or completion of the then-current renewal term.

Noramco must meet certain specifications and volume requirements as set out in the Noramco Exclusive Supply Agreement. On or before November 30 of each year, Cardiol must order from Noramco a specified minimum quantity of pharmaceutical cannabidiol for delivery during the following year (the "**Noramco Minimum Yearly Purchase**") at prices specified in the Noramco Exclusive Supply Agreement.

As consideration for the exclusive right to purchase pharmaceutical cannabidiol from Noramco, Cardiol has agreed to pay Noramco a non-recoupable sum of US$3,000,000 by December 21, 2018, which payment will be credited towards payments for Cardiol's purchases of pharmaceutical cannabidiol during 2018 and 2019. On the condition that Cardiol timely pays the aforesaid sum and complies with the Noramco Minimum Yearly Purchase, Noramco has agreed to not sell pharmaceutical cannabidiol to any other party for use in the production of products of any kind in Canada or Mexico, or to any third party for delivery of products of any kind into Canada or Mexico. 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.

**TecSalud (CARO Development Agreement)**

Cardiol entered into a development agreement (the "**CARO Development Agreement**") with CARO dated August 29, 2018 for 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 its own development activities or through third-party providers. TecSalud and Nano4Heart are third parties through which CARO will provide its consulting and development activities for Cardiol.

Pursuant to the terms of the CARO Development Agreement, CARO will provide scientific experimentation, research activities, drug development activities, access to intellectual property, and drug formulation and discovery activities to Cardiol (the "**CARO Development Activities**"), as set out in a development plan (the "**CARO Development Plan**") through TecSalud and Nano4Heart. CARO and Cardiol value the CARO Development Activities, provided through research, at USD$3,000,000. Under the CARO Development Agreement, CARO may also engage third-party providers for development activities in support of the CARO Development Plan, which is anticipated to be limited to third-party vendors of materials.

As consideration under the CARO Development Agreement, Cardiol issued 824,000 Common Share purchase warrants (the "**CARO Compensation Warrants**") to CARO, with each CARO Compensation Warrant entitling CARO to purchase one Common Share (a "**CARO Compensation Warrant Share**") at an exercise price of CDN$4.00 per CARO Compensation Warrant Share until August 31, 2022. Cardiol also agreed to pay CARO USD$400,000 in cash on or before November 30, 2018.

The CARO Compensation Warrants and the issuance of the CARO Compensation Warrant Shares on the exercise thereof are to constitute full payment for the CARO Development Activities, both past and future, under the CARO Development Plan. CARO is not to issue invoices for any of the CARO Development Activities under the CARO Development Plan until such time as CARO, in its discretion, wishes to exercise any of its CARO Compensation Warrants. If CARO wishes to exercise any of the CARO Compensation Warrants, CARO is to provide Cardiol with one or more invoices, tied to milestones in the CARO Development Plan, and the aggregate amount of the invoices shall constitute payment in full of the aggregate exercise prices of the CARO Compensation Warrants being exercised.

Both Cardiol and CARO may terminate the CARO Development Agreement if the other party commits a material breach of the CARO Development Agreement and the breaching party fails to remedy the material breach within 60 days following receipt of written notice of the breach. In addition, either party may terminate the CARO Development Agreement by giving 30 days written notice to the other party if, acting reasonably and in good faith, it determines that the continued performance of the CARO Development Activities would (i) constitute a potential

or actual violation of applicable law or any policy of the terminating party adopted to ensure compliance with applicable law; (ii) constitute a potential or actual violation of any regulatory, medical or scientific standard of integrity or ethics; or (iii) potentially jeopardize patient safety, provided that during such 30 day period, the parties discuss in good faith possible changes to the CARO Development Activities.

However, if CARO terminates the CARO Development Agreement for any reason except breach of contract by Cardiol, or terminates the CARO Development Activities prior to achievement of all milestones in the CARO Development Plan, then any unexercised CARO Compensation Warrants that are not related to CARO Development Activities and milestones in the CARO 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.

If Cardiol terminates the CARO Development Agreement for any reason (including breach of contract by CARO), or requires CARO to terminate the CARO Development Activities prior to achievement of all milestones in the CARO 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.

**Competitive Conditions**

Cardiol's competitors include multinational pharmaceutical companies and specialized biotechnology companies, other medical cannabis licensees, universities, and other research institutions that are conducting research in both cannabinoid products and methotrexate products, as well as those focusing on a treatment therapy for heart failure, and immunotherapies for cancers.

More established companies may have a competitive advantage over Cardiol due to their greater size, capital resources, cash flows, and institutional experience. Compared to Cardiol, many of competitors may have significantly greater financial, technical, and human resources at their disposal. Due to these factors, competitors may have an advantage in marketing their approved products and may obtain regulatory approval of their product candidates before Cardiol can, which may limit Cardiol's ability to develop or commercialize its product candidates. Competitors may also develop drugs that are safer, more effective, more widely used, and less expensive, and may also be more successful in manufacturing and marketing their products. These advantages could materially impact Cardiol's ability to develop and commercialize its pharmaceutically-manufactured cannabidiol, CTX01, CTX02, CTX03, and its combination cannabinoid/immunotherapy successfully.

Mergers and acquisitions in the pharmaceutical and biotechnology industries may result in even more resources being concentrated among a smaller number of Cardiol's competitors. Smaller and other early- stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. These third parties also compete with Cardiol in recruiting and retaining qualified scientists, management, and commercial personnel, establishing clinical trial sites and subject registration for clinical trials, as well as in acquiring technologies complementary to, or necessary for, Cardiol's programs.

**Employees**

As of the date of this prospectus, Cardiol had 8 employees and 5 management consultants providing management services to Cardiol (one on a part-time basis).

**Intellectual Property Rights**

Cardiol strives to obtain and protect intellectual property that is important to its business. Such intellectual property includes, or may in future include, patents, patent applications, regulatory dossiers, manufacturing and process know-how, proprietary unpatented information including trade secrets, contractual arrangements, and trademarks. Patents and patent applications owned by or licensed to Cardiol cover compositions of matter, their methods of use, related technology, and other applicable inventions.

Cardiol's intellectual property portfolio has been built from in-house technology and product research and development, as well as strategic relationships with partners, including Dalton, the University of Alberta, Houston

Methodist DeBakey Heart and Vascular Centre, and TecSalud Instituto Tecnológico y de Estudios Superiores de Monterrey.

Cardiol has an exclusive in-licensing arrangement with Meros under which Cardiol licenses territorial rights to certain technologies, patents, and related know-how.

The Corporation's approach regarding intellectual property is to file and/or license patents and patent applications as appropriate and to seek to obtain patent protection in the major pharmaceutical markets, including Canada, the U.S., Japan, major European countries, and Mexico. Cardiol also relies on trade secrets, proprietary unpatented information, and contractual arrangements to protect its technology and enhance its competitive position. The Corporation currently has a patent estate comprising owned and exclusively in-licensed patents and patent applications.

**Patent Portfolio**

Cardiol owns or licenses the following patents and applications:

Patent Family 1 – Poly (Ethylene Oxide)-Block-Poly (Ester) Block Copolymers (the "Block Copolymer Family")

Cardiol currently has a sole, exclusive, worldwide, irrevocable, royalty-bearing license to exploit the Block Copolymer Family for the following fields of use:

(a) the delivery of any cannabinoids for any and all human or animal disease indications and any derivatives thereof; and

(b) the delivery of any drugs or classes of drugs currently used or developed in the future to diagnose or treat cardiovascular and/or cardiopulmonary disease, heart failure and/or cardiac arrhythmias in humans and animals, including Sildenafil, Pirfenidone, Rapamycin, Methotrexate, Amiodarone, Cannabinoids, blockers of HSP60 activity or inhibitors of production and/or transport of HSP60 and any derivatives of any of them.

The Block Copolymer Family consists of the following patents and application:

| Country | Publication Number | Application Date | Status |
|---|---|---|---|
| Canada | CA2857023C | 21Mar2007 | Granted |
| Canada | CA2646425C | 21Mar2007 | Granted |
| Europe | EP2730604A2 | 21Mar2007 | Allowed |
| France | EP1994081B1 | 21Mar2007 | Granted |
| Switzerland | EP1994081B1 | 21Mar2007 | Granted |
| United Kingdom | EP1994081B1 | 21Mar2007 | Granted |
| Germany | EP1994081B1 | 21Mar2007 | Granted |
| Japan | JP5933889B2 | 21Mar2007 | Granted |
| United States | US9139553B2 | 26Sep2012 | Granted |
| United States | US8309515B2 | 21Mar2007 | Granted |

The Block Copolymer Family covers, broadly, micelle-forming poly (ethylene oxide)-block-poly (ester) block copolymers having reactive groups on the polyester block therein. The block copolymer compounds are considered to be biodegradable and are effective carriers of a large number of bioactive agents such as DNA, RNA, oligonucleotides, proteins, peptides, and drugs. Example drugs that can be delivered using this technology include methotrexate, CsA, cannabinoids, and a wide range of other drugs, such as vaccines, doxorubicin (DOX), amphotericin B, cisplatin, paclitaxel, etoposide, PSC833, amiodarone, rapamycine, camptothecin, cholesterol and ergoesterol, dexamethasone, prednisone, cortisol, testosterone, estrogens, progestins, dromostanolone, testolactone, diethelstilbestrol, ethinyl estradiol, budesonide, beclomethasone, and vitamin D.

Thus, the Block Copolymer Family is relevant to all the product candidates in our product pipeline including, without limitation, CTX01, CTX02, and CTX03.

Drug-loaded micelle compositions using the technology described in the Block Copolymer Family may be administered orally or parenterally.

Patent Family 2 – Cannabinoid Compositions and Related Combination Therapy for the Treatment of GBM

This family is relevant to product candidates CRxIMT and CARDIOLRX.

The Corporation has filed a U.S. provisional application (which was assigned application serial number 62730274 and was filed on September 12, 2018) with claims to cannabinoid compositions and their use in (amongst other things) a combination therapy relating to the treatment and/or prevention of tumors. This includes a wide range of tumors including GBM. The therapies involve a regimen of administration of the Corporation's cannabidiol formulations in tandem with an immunotherapeutic approach.

Patent Family 3 – Amphiphilic Block Copolymers, Micelles, And Methods For Treating and/or Preventing Heart Failure

The Corporation filed U.S. Provisional Application 62/597740 on December 12, 2017. This application is directed towards micelles comprising a cardioactive agent for treating and/or preventing heart failure, wherein the micelle is formed from an amphiphilic block copolymer; and the micelle, when administered systemically, localizes in cardiac fibroblasts. The application also covers related compositions, drug delivery systems, methods, and uses for treating or preventing heart failure and cardiac arrhythmia.

The Corporation expects to file an international patent application later this year to extend the coverage to certain major industrialized nations.

This family is relevant to product candidates CTX01, CTX02, and CTX03.

**Future Filings**

Cardiol currently plans to continue expanding its intellectual property rights by filing additional patent applications for other technologies, including for cannabidiol-based pharmaceutical formulations.

**Trademarks and Domain Names**

Cardiol has registered the domain cardiolrx.com.

The following Canadian trademark applications were filed August 31, 2018 covering (1) therapeutic products, namely, pharmaceutical preparations and natural health products, whether sold-over-the-counter or by prescription, and including therapeutic products containing cannabinoids and (2) the manufacture and sale of these goods.

| TRADEMARK | APPLICATION SERIAL NUMBER |
|---|---|
| CARDIOL | 1917764 |
| CARDIOLRX | 1917765 |
| CARDIOL THERAPEUTICS | 1917766 |
| CARDIOL THERAPEUTICS | 1917767 |

Cardiol expects to continue to pursue trademark registrations as part of its policy on intellectual property.

**Cardiol's Protection of Intellectual Property Practices**

Cardiol's intellectual property protection practice is to strive to keep all information relating to proprietary compounds, inventions, improvements, trade secrets, know-how, and continuing technological innovation confidential and, where practicable, file patent and trademark applications. In particular, as part of the Corporation's intellectual property protection practice, Cardiol will, where it deems practicable and commercially reasonable:

- perform surveillance of third-party patents and patent applications in order to identify any third-party patent or third-party patent application which, if granted, could be infringed by our activities or could infringe our patents;
- file patent applications for any new and patentable invention, development, or improvement in the United States and in other countries;
- prosecute all pending patent applications in conformity with applicable patent laws and in a manner that efficiently covers our activities;
- file trademark applications in countries of interest for our trademarks;
- register domain names whose addresses include our trademark names; and
- maintain our intellectual property rights by paying government fees as may be necessary to ensure such rights remain in force.

**Regulatory Exclusivity**

The regulatory regimes of certain countries, such as the United States and Canada, provide market exclusivity for a pharmaceutical product once approved. Data protection provides a person or entity with protection against third parties who may wish to commercialize a product similar to an approved product.

In the United States, the Drug Price Competition and Patent Term Restoration Act of 1984, also known as the Hatch-Waxman Act, awards, in certain circumstances, non-patent marketing exclusivities to pioneer drug manufacturers. The Hatch-Waxman Act provides five years of non-patent marketing exclusivity within the United States to an applicant who gains approval of a new drug application under the FDA ("**FDA-NDA**") for a "new chemical entity," a drug with the same active moiety which the FDA has not previously approved. This marketing exclusivity generally prevents the FDA from approving, in certain circumstances, any abbreviated new drug application ("**ANDA**"), for a generic drug or any 505(b)(2) FDA-NDA that references the pioneer drug product.

In Canada, the Food and Drug Regulations provide an eight-year market exclusivity period to a Notice of Compliance holder who markets an innovative drug in Canada. The Patented Medicines (Notice of Compliance) Regulations provide freedom from generic competition for patented drugs under certain conditions.

In Europe, when a marketing authorization for a product is issued by the European Medicines Agency (the "**EMA**"), the approved product (including a biological product) benefits from 10 years of market exclusivity.

**Scientific Advisory Board**

To provide guidance and oversight to the Corporation's ongoing research programs, Cardiol has constituted a world-class Scientific Advisory Board comprised of thought leaders in cardiovascular medicine, drug delivery and formulation, basic science, and immunology. Their combined knowledge and insight will prove to be invaluable as Cardiol pursues the commercial development of breakthrough therapies for heart failure.

Initial appointments to Cardiol's Scientific Advisory Board include:

**James Young, MD**

Dr. Young is Professor of Medicine at Cleveland Clinic Lerner College of Medicine of Case Western Reserve University and Chief Academic Officer of the Cleveland Clinic. He is a Medical Director of the Kaufman Center for Heart Failure. He holds the George and Linda Kaufman Chair and was Study Chairman of the NIH, FDA, and CMS Interagency Registry for Mechanical Circulatory Assist Support (INTERMACS). He holds a joint appointment in the Cleveland Clinic Multi-Organ Transplant Center. Dr. Young is certified by the American Board of Internal Medicine, as well as the subspecialty of Cardiovascular Disease, and holds active medical licensure from the states of California, Illinois, Ohio, Pennsylvania, and Texas.

Dr. Young has participated in more than 150 clinical trials as an investigator and served as the U.S. Principal or Co-Principal Investigator for the HOPE, RESOLVED, SPICE, VMAC, MIRACLE-ICD, RED-heart failure, ACCLAIM, ONTARGET, TRENSCEND and CHARM multi-centre clinical trials. He has published more than 550 manuscripts and several textbooks. Professionally, Dr. Young gains the greatest satisfaction from his contributions to the development and administration of donor organ procurement programs, his efforts to secure recognition for the emerging cardiology subspecialty of heart failure and cardiac transplant medicine, and his collaborations with basic and clinical scientists.

**Afsaneh Lavasanifar, PharmD, PhD**

Appointed pursuant to the Meros License Agreement, Dr. Lavasanifar's area of expertise and interest is Pharmaceutics and drug delivery. She is a Professor in the Pharmaceutical Sciences Division of the Faculty of Pharmacy and Pharmaceutical Sciences at the University of Alberta and has a joint appointment in the Department of Chemical and Medical Engineering at the Faculty of Engineering in the same university. She is also the Chief Scientific Officer and Vice-President of Meros, a privately-held Alberta corporation formed in 2009 to commercialize advanced drug delivery technologies developed within the Faculty of Pharmacy and Pharmaceutical Sciences, University of Alberta.

Dr. Lavasanifar's research focuses on the design and development of polymer-based drug delivery systems that can increase solubility, modify the pharmacokinetic pattern, reduce toxicity, and increase the efficacy of different therapeutic agents. The ongoing research projects in her laboratory include the development of novel polymeric nano-carriers and stimulus-responsive gels for application in cancer, chemo, and immunotherapy or delivery of anti-inflammatory agents. Her research has been funded by grants from the Natural Science and Engineering Council of Canada (NSERC), the Canadian Institute of Health Research (CIHR), Canadian Foundation for Innovation (CFI); Alberta Innovates Health Solutions (AIHS), and Alberta Cancer Foundation (ACF).

Dr. Lavasanifar has more than 120 peer-reviewed published/in press manuscripts in highly-ranked journals in pharmaceutical sciences, three book chapters, several abstracts, and numerous conference presentations. Inventor of five patent/patent applications on novel polymer-based formulations for drug and siRNA delivery, she has been the recipient of the 2007 GlaxoSmithKline/CSPS Early Career Award, the 2009 Sanofi-Aventis/AFPC award in recognition of outstanding research in Pharmacy, and the 2013 and 2016 TEC Edmonton Innovation Makes Sense prize. Dr. Lavasanifar is the Associate Editor of the Journal of Pharmacy and Pharmaceutical Sciences and a member of the Editorial Board in Materials Sciences and Applications, and the Iranian Polymer Journal. She has an active teaching program in both undergraduate and graduate levels in pharmaceutics and nanotechnology for drug delivery.

**Jonathan Howlett, MD, FRCPC, FACC**

Dr. Jonathan Howlett graduated from the University of Toronto Medical School in 1989 and received specialty certification for Cardiology at Dalhousie University in 1994. He pursued further training at the Toronto Centre for Congenital Cardiac Diseases for Adults until 1995, when he joined the Faculty of Medicine at Dalhousie University.

In 2008, Dr. Howlett became Clinical Professor of Medicine and Staff Cardiologist at the Libin Cardiovascular Institute of Alberta / University of Calgary. Dr. Howlett's current activities include clinical trial research in heart failure, end-of-life care, evaluation of health care delivery systems, healthcare outcomes, and knowledge translation.

Dr. Howlett serves on several international clinical trial steering and executive committees, as a reviewer for numerous medical journals and national funding agencies, and serves or has served on several international consensus guideline committees, including the European Society for Cardiology, Heart Failure Society of America, Canadian Cardiovascular Society, the Canadian Heart Health Strategy and Action Plan, and the Heart Rhythm Society.

Dr. Howlett is currently a member and past Chair of the Canadian Cardiovascular Society Heart Failure Guidelines Committee, a member of the CCS Scientific Program Committee, Heart Failure Key Performance Indicator Working Group, and the 2008 Canadian Heart Health Strategy initiative. He is the past President of the Canadian Heart Failure Society.

**A. Graham Pockley, PhD**

Professor Pockley is currently the Director of the John van Geest Cancer Research Centre at Nottingham Trent University in Nottingham, UK, where he has many responsibilities relating to its administration and the management of its research programme.

Research in the Centre focuses on the discovery and application of new cancer biomarkers for detecting cancer, monitoring disease progression, and developing new immunotherapeutic approaches. Progress in these areas is based on a fundamental understanding of cancer cell biology and immunobiology.

Dr. Pockley is also the founder and CEO of Chromocyte, an online resource for assisting the design of complex multi-parameter flow cytometry experiments and sourcing reagents that are required for flow cytometry and all antibody-related techniques, and the CEO of multimmune GmbH, a private, clinical stage biopharmaceutical company.

An active research scientist who has spent the last 28 years on studies aimed at better understanding immunoregulatory mechanisms in health and disease using a range of techniques including multi-parameter flow cytometry, Professor Pockley's teaching interests relate to immunology and inflammatory mechanisms in a variety of disease states.

Having obtained a Doctor of Philosophy for studies investigating the immunomodulatory properties of human placental protein 14 from Sheffield City Polytechnic (now Sheffield Hallam University) in 1988, Professor Pockley undertook a two-year postdoctoral fellowship studying ocular mucosal immunoregulation in the Department of Immunology and Microbiology at Wayne State University, Detroit, U.S.

In January 1990, he returned to the UK to take up a Lectureship and direct the experimental transplantation programme in the Professorial Surgical Unit at the Medical College of St. Bartholomew´s Hospital, London. He returned to Sheffield as a Lecturer in September 1994 and was promoted to Reader in Immunobiology in 1996 and Professor of Immunobiology in 2004.

Professor Pockley was the recipient of a Yorkshire Enterprise Fellowship (2009-2010), the aim of which was to deliver training in Entrepreneurship and Commercial Exploitation. The Fellowship complimented his previous experience with the commercial sector via research contracts with biotechnology companies in Canada and was primarily focused on the development of a global resource for flow cytometry and related techniques (www.chromocyte.com). This has been incorporated in the UK and was launched in July 2010.

Professor Pockley's experience in these and associated areas positions him well for the provision of academic and commercial insight in areas relating to immunobiology, flow cytometry, and cell analysis. Professor Pockley retains an Honorary Professorship in the Department of Oncology at The University of Sheffield.

## USE OF PROCEEDS

The Corporation expects to receive approximately $13,100,000 in net proceeds from the Offering ($15,215,000 if the Over-Allotment Option is exercised in full), after deducting fees payable by us to the Underwriters in connection with the Offering and the estimated expenses of the Offering.

The principal purposes of this Offering are to obtain additional capital to support our operations, to establish a public market for our Common Shares, and to facilitate our future access to the public equity markets. We intend to use the net proceeds from this Offering for the following purposes:

- Approximately $4.2 million in the aggregate to fund the development of Cardiol's CTX product series. Cardiol intends to select the most promising of the CTX series nanotherapeutics to advance into clinical development, of which we expect:
    - Approximately $1.7 million will be used to fund basic science, preclinical studies, and Phase 1 clinical trials. This amount is expected to be divided equally between CTX01, CTX02 and CTX03; and
    - Approximately $2.5 million in the aggregate will be used to fund Phase 2 clinical trials designed to investigate the safety and initial efficacy of the CTX series nanotherapeutics. Cardiol expects to

direct approximately $1.25 million towards the initiation of Phase 2 clinical studies in two of the three CTX series product candidates for a total of $2.5 million. The determination of which two product candidates will be advanced to Phase 2 studies can only be made after the completion of the research activities described above;

- Approximately $1.1 million in the aggregate to fund the development efforts of Cardiol's immunotherapy in combination with cannabinoids for its target indication of GBM into Phase I, of which we expect:
    - Approximately $0.4 million will fund the general development efforts, including preclinical studies; and
    - Approximately $0.7 million in the aggregate will initiate Phase 1/2 clinical trials;

- Approximately $3.5 million to fund the market introduction, distribution, and marketing of a pharmaceutically manufactured commercial cannabidiol oil product, of which we expect:
    - Direct-to-consumer sales expenditure, including website development and marketing to third-party partners and logistics - $1.5 million; and
    - Prescription sales expenditure, including physician advocacy, creative developments and producing material samples - $2.0 million; and

- US$3.0 million (approximately CDN$3.9 million) to make an exclusivity payment to Noramco due by December 21, 2018 which will be credited towards the Corporation's purchases of pharmaceutical cannabidiol from Noramco.

The Corporation's Use of Proceeds includes the payment of $100,000 expected to be made on the initiation of a Phase IIB program to Meros. No other Meros milestone payments are expected to occur within the time period covered by the Use of Proceeds.

The Corporation expects to use the remaining net proceeds, along with cash currently available to the Corporation, to support manufacturing scale up and optimization of the CTX product series and the Corporation's pharmaceutically manufactured cannabidiol and to fund clinical trials for its pharmaceutically manufactured cannabidiol and to fund working capital and for general corporate purposes, including the recruitment of several key executive personnel and increase the Corporation's staff complement.

We expect that the net proceeds from this Offering and our existing cash and cash equivalents will be sufficient to fund our operations and capital requirements for the next 24 months. We believe that these available funds will be sufficient to complete the following:

(i) Up to three Phase 1 clinical trials designed to investigate the safety and PK of the CTX series products selected from the Corporation's pre-clinical research program.

(ii) Up to two Phase 2 clinical trials designed to investigate the safety and efficacy of the CTX series products in heart failure patients. The specific CTX series products selected for Phase 2 clinical trials will be based on the outcomes of the Corporation's Phase I program.

(iii) Initiate a Phase 1/2 clinical trial designed to investigate the safety and efficacy of the Corporation's CRxIMT combination therapy in GBM patients.

(iv) In collaboration with its exclusive partner, Dalton, a Health Canada-approved, FDA-registered, cGMP manufacturer of pharmaceuticals, including cannabinoids, Cardiol plans to introduce a product line developed and manufactured to pharmaceutical standards that meet or exceed the standards mandated under the Cannabis Act. Cardiol expects this product line to include a pharmaceutically-manufactured cannabidiol oil formulation for introduction during 2019 and a proprietary water-like cannabidiol nanoformulation currently in development for sublingual administration using a precise dosing spray technology for introduction by year end 2019. Cardiol anticipates commercializing our first-generation pharmaceutical cannabidiol product, CardiolRX cannabidiol, during 2019.

The progress of the CTX product series and immunotherapy in combination with cannabinoids is uncertain due to numerous factors, including, without limitations, the progress and results of pre-clinical studies and the rate of progress and results of clinical trials for such indications, the cost and timing of seeking and obtaining FDA, United States Drug Enforcement Agency ("**DEA**") and other regulatory approvals for clinical trials and FDA guidance regarding clinical trials for such indications.

While we currently anticipate that we will use the net proceeds of the Offering as set forth above, we may re allocate the net proceeds from time to time depending upon our growth strategy relative to market and other conditions in effect at the time. Until we use the net proceeds, we will hold them in cash and/or invest them in short-term, interest-bearing, investment-grade securities. The Corporation had negative cash flow from operating activities for the 2017 Fiscal Period. The Corporation may use up to $12 million of the net proceeds from the Offering to fund negative cash flows until sufficient revenue is generated. See "Risk Factors – Use of Proceeds" and "Risk Factors - Negative Cash Flow".

## REGULATORY OVERVIEW

Drugs are evaluated for safety, efficacy, and manufacturing quality as a condition of market access, and promotional messages must adhere to approved product labelling. Drug prices also are regulated in most countries with national health insurance systems. Regulation of market access and promotion derives from uncertainty about the real-life value of drugs. Real-life product characteristics can only be determined from accumulated experience over large numbers of patients in carefully designed epidemiological trials or observational studies.

### Government Regulation and Product Approval

As a pre-clinical stage biopharmaceutical company that intends to test, register and commercialize products in Canada and the United States and other jurisdictions, we are subject to extensive regulation by various regulatory authorities. The primary regulatory agency in the United States is the FDA, in Canada it is Health Canada, and in Europe it is the EMA. Along with these three, there are other federal, state, and local regulatory agencies. In the United States, the Federal Food, Drug, and Cosmetic Act (the "**FDCA**"), and its implementing regulations set forth, among other things, requirements for the research, testing, development, manufacture, quality control, safety, effectiveness, approval, labeling, storage, record keeping, reporting, distribution, import, export, advertising and promotion of our products. Although the discussion below focuses on regulation in the United States, we anticipate seeking approval for, and marketing of, our products in other countries.

Generally, our activities outside the United States will be subject to regulation that is similar in nature and scope as that imposed in the United States, although there can be important differences. Approval in the United States Canada, or Europe does not assure approval by other regulatory agencies, although often test results from one country may be used in applications for regulatory approval in another country. Additionally, some significant aspects of regulation in Europe are addressed in a centralized way through the EMA, but country-specific regulation remains essential in many respects. The April 2015 publication titled "Medicinal Products in the European Union, the legal framework for medicines for human use[26]" from the European Parliamentary Research Service gives a general overview of several aspects of European Union legislation on human medicines. A major difference in Europe, when compared to Canada and the United States, is with the approval process. In Europe, there are different procedures that can be used to gain marketing authorization. The first procedure is referred to as the centralized procedure and requires that a single application be submitted to the EMA and, if approved, allows marketing in all countries of the European Union. The centralized procedure is mandatory for certain types of medicines and optional for others. The second procedure is the decentralized procedure which requires one member state to act as the reference member state conducting the review of the application which is simultaneously filed to the reference member state and to selected other member states.

The process of obtaining regulatory marketing approvals and the subsequent compliance with appropriate federal, state, local and foreign statutes and regulations requires the expenditure of substantial time and financial resources and may not be successful. See "Risk Factors".

The Corporation does not engage in any U.S. marijuana-related activities as defined in Canadian Securities Administrators Staff Notice 51-352 - Issuers with U.S. Marijuana-Related Activities. The Corporation has research

26 EPRS | European Parliamentary Research Service, Author: Nicole Scholz, Members' Research Service, April 2015 – PE 554.174

and/or business relationships with Noramco and the Houston Methodist DeBakey Heart & Vascular Center, both of which are based in the U.S. and/or are U.S. based companies. Houston Methodist DeBakey Heart & Vascular Center provides contract research services investigating the Corporation's nanotechnology in experimental models of heart failure. Noramco is a manufacturer of controlled drug substance APIs and is registered with the DEA to manufacture pharmaceutically produced cannabidiol. Noramco supplies Cardiol's Canadian manufacturing partner, Dalton, with pharmaceutically produced cannabidiol for use in Cardiol's basic research program at the University of Alberta.

The Corporation does not currently, and does not plan to, engage in any marijuana-related activities in Europe.

**New Drug Submissions (NDS) – Health Canada**

To obtain approval to market a drug in Canada, a sponsor usually requests a pre-submission meeting with the review division of Health Canada responsible for the therapeutic field. If the meeting is granted, the sponsor must submit a Pre-Submission Information package to the TPD to meet with the review division. This process occurs prior to submitting the NDS application. The purpose of the pre-submission meeting is to review the evidence (non-clinical and clinical research, quality information, indication) that will be submitted in the NDS application.

During the drug development process, the sponsor prepares study reports. Once the sponsor releases the last study required for the submission, the sponsor completes the NDS application and submits it to TPD. Prior to submitting the NDS and if applicable based on the intended use of the product in the identified patient population, the sponsor may submit in advance a request for priority review status.

After submitting the NDS application, the file undergoes a screening process prior to being accepted for review. TPD has 45 calendar days from receipt to complete the screening review process. If granted a priority review, the screening period is reduced to 25 calendar days.

After a comprehensive review of an NDS application, Health Canada will issue a NOC if the product is approved or a NON if further questions remain. If a NOC is issued, a Drug Identification Number (DIN) is also issued that is required to be printed on each label of the product, as well as the final version of the Product Monograph that has been agreed to between Health Canada and the sponsor.

The average target time for reaching a first decision on an NDS is 300 calendar days, unless the submission has received a priority review in which case the time is 180 calendar days.

Fees are levied for a review of an NDS application.

**U.S. Government Regulation**

The FDA is the main regulatory body that controls pharmaceuticals in the United States, and its regulatory authority is based in the FDCA. Pharmaceutical products are also subject to other federal, state, and local statutes. A failure to comply explicitly with any requirements during the product development, approval, or post-approval periods, may lead to administrative or judicial sanctions. These sanctions could include the imposition by the FDA or an Investigational Review Board ("**IRB**") of a hold on clinical trials, refusal to approve pending marketing applications or supplements, withdrawal of approval, warning letters, product recalls, product seizures, total or partial suspension of production or distribution, injunctions, fines, civil penalties, or criminal prosecution. As presented on the section of the FDA's website titled "Drug Review Process: Ensuring Drugs are Safe and Effective[27]", the steps required before a new drug may be marketed in the United States generally include:

- completion of preclinical studies, animal studies, and formulation studies in compliance with the FDA's Good Laboratory Practice ("**GLP**"), regulations;
- submission to the FDA of an Investigational New Drug ("**IND**") application to support human clinical testing in the United States;
- approval by an IRB at each clinical site before each trial may be initiated;

27 https://www.fda.gov/Drugs/ResourcesForYou/Consumers/ucm143534.htm

- performance of adequate and well-controlled clinical trials in accordance with federal regulations and with Good Clinical Practices ("**GCP**"), and regulations to establish the safety and efficacy of the investigational product candidate for each target indication;
- submission of a New Drug Application ("**FDA-NDA**") to the FDA;
- satisfactory completion of an FDA Advisory Committee review, if applicable;
- satisfactory completion of an FDA inspection of the manufacturing facilities at which the investigational product candidate is produced to assess compliance with cGMP regulations, and to assure that the facilities, methods, and controls are adequate; and
- FDA review and approval of the FDA-NDA.

**Clinical Trials**

An IND is a request for authorization from the FDA to administer an investigational product candidate to humans. This authorization is required before interstate shipping and administration of any new drug product to humans in the United States that is not the subject of an approved FDA-NDA. A 30-day waiting period after the submission of each IND is required prior to the commencement of clinical testing in humans. If the FDA has neither commented on nor questioned the IND within this 30-day period, the clinical trial proposed in the IND may begin. Clinical trials involve the administration of the investigational product candidate to healthy volunteers or patients with the disease under study, under the supervision of qualified investigators following GCPs, an international standard meant to protect the rights and health of patients with the disease under study and to define the roles of clinical trial sponsors, administrators, and monitors. Clinical trials are conducted under protocols that detail the parameters to be used in monitoring safety, and the efficacy criteria to be evaluated. Each protocol involving testing on patients in the United States and subsequent protocol amendments must be submitted to the FDA as part of the IND. We have not yet submitted an IND for any clinical programs. We are reviewing the advantages and disadvantages of conducting our clinical program in the United States versus other international jurisdictions, where cannabinoids other than the chemical tetrahydrocannabinol, or THC, might not be regulated as controlled substances, as in the United States.

As set out in the July 1997 publication "ICH E8 Guideline – General Considerations for Clinical Trials[28]", published by the International Conference on Harmonization of Technical Requirements for Registration of Pharmaceuticals for Human Use, the three phases of clinical investigation are as follows:

- Phase 1/Phase I. Phase 1 includes the initial introduction of an investigational product candidate into humans. Phase 1 clinical trials may be conducted in patients with the target disease or condition, or in healthy volunteers. These studies are designed to evaluate the safety, metabolism, PK, and pharmacologic actions of the investigational product candidate in humans, the side effects associated with increasing doses, and if possible, to gain early evidence on effectiveness. During Phase 1 clinical trials, sufficient information about the investigational product's PK and pharmacological effects may be obtained to inform the design of Phase 2 clinical trials. The total number of participants included in Phase 1 clinical trials varies, but is generally in the range of 20 to 80.
- Phase 2/Phase II. Phase 2 includes the controlled clinical trials conducted to evaluate the effectiveness of the investigational product for a particular indication(s) in patients with the disease or condition under study, to determine dosage tolerance and optimal dosage, and to identify possible adverse side effects and safety risks associated with the product candidate. Phase 2 clinical trials are typically well-controlled, closely monitored, conducted in a limited subject population, and usually involve no more than several hundred participants
- Phase 3/Phase III. Phase 3 clinical trials are controlled clinical trials conducted in an expanded subject population at geographically dispersed clinical trial sites. They are performed after preliminary evidence suggesting effectiveness of the investigational product has been obtained, are intended to further evaluate dosage, clinical effectiveness and safety, to establish the overall benefit-risk relationship of the product candidate, and to provide an adequate basis for drug approval. Phase 3 clinical trials usually involve several hundred to several thousand participants. In most cases, the FDA requires two adequate and well controlled Phase 3 clinical trials to demonstrate the efficacy of the drug.

28 http://www.ich.org/fileadmin/Public_Web_Site/ICH_Products/Guidelines/Efficacy/E8/Step4/E8_Guideline.pdf

The decision to terminate development of an investigational product may be made by either a health authority body, such as the FDA or IRB/ethics committees, or by a company for various reasons. The FDA may order the temporary, or permanent, discontinuation of a clinical trial at any time, or impose other sanctions, if it believes that the clinical trial either is not being conducted in accordance with FDA requirements or presents an unacceptable risk to the clinical trial patients. In some cases, clinical trials are overseen by an independent group of qualified experts organized by the trial sponsor or the clinical monitoring board. This group provides authorization for whether or not a trial may move forward at designated check points. These decisions are based on the limited access to data from the ongoing trial. The suspension or termination of development can occur during any phase of clinical trials if it is determined that the participants or patients are being exposed to an unacceptable health risk. In addition, there are requirements for the registration of ongoing clinical trials of products on public registries and the disclosure of certain information pertaining to the trials, as well as clinical trial results after completion.

**New Drug Applications (NDA) – FDA**

In order to obtain approval to market a drug in the United States, a marketing application must be submitted to the FDA that provides data establishing the safety and effectiveness of the product candidate for the proposed indication. The application includes all relevant data available from pertinent preclinical studies and clinical trials, including negative or ambiguous results, as well as positive findings, together with detailed information relating to the product's chemistry, manufacturing, controls, and proposed labeling, among other things. Data can come from company-sponsored clinical trials intended to test the safety and effectiveness of a product, or from a number of alternative sources, including studies initiated by investigators. To support marketing approval, the data submitted must be sufficient in quality and quantity to establish the safety and effectiveness of the investigational product candidate to the satisfaction of the FDA. In most cases, the NDA must be accompanied by a substantial user fee; there may be some instances in which the user fee is waived. The FDA will initially review the FDA-NDA for completeness before it accepts the FDA-NDA for filing. The FDA has 60 days from its receipt of an FDA-NDA to determine whether the application will be accepted for filing based on the agency's threshold determination that it is sufficiently complete to permit substantive review. After the FDA-NDA submission is accepted for filing, the FDA begins an in-depth review. The FDA has agreed to certain performance goals in the review of FDA-NDAs. Most such applications for standard review products are reviewed within ten to twelve months. The FDA can extend this review by three months to consider certain late submitted information or information intended to clarify information already provided in the submission. The FDA reviews the FDA-NDA to determine, among other things, whether the proposed product is safe and effective for its intended use, and whether the product is being manufactured in accordance with cGMP. The FDA may refer applications for novel products that present difficult questions of safety or efficacy to an advisory committee, typically a panel that includes clinicians and other experts, for review, evaluation, and a recommendation as to whether the application should be approved and under what conditions. The FDA is not bound by the recommendations of an advisory committee, but it considers such recommendations carefully when making decisions.

Before approving an FDA-NDA, the FDA will inspect the facilities at which the product is manufactured. The FDA will not approve the product unless it determines that the manufacturing processes and facilities are in compliance with cGMP requirements and are adequate to assure consistent production of the product within required specifications. Additionally, before approving an FDA-NDA, the FDA will typically inspect one or more clinical sites to assure compliance with GCP. After the FDA evaluates the FDA-NDA and the manufacturing facilities, it issues either an approval letter or a complete response letter. A complete response letter generally outlines the deficiencies in the submission and may require substantial additional testing or information in order for the FDA to reconsider the application. If, or when, those deficiencies have been addressed to the FDA's satisfaction in a resubmission of the FDA-NDA, the FDA will issue an approval letter. Notwithstanding the submission of any requested additional information, the FDA ultimately may decide that the application does not satisfy the regulatory criteria for approval.

An approval letter authorizes commercial marketing of the drug with specific prescribing information for specific indications. Product approval may require substantial post-approval testing and surveillance to monitor the drug's safety or efficacy. Once granted, product approvals may be withdrawn if compliance with regulatory standards is not maintained or problems are identified following initial marketing.

**Disclosure of Clinical Trial Information**

Sponsors of clinical trials of certain FDA-regulated products, including prescription drugs, are required to register and disclose certain clinical trial information (though not specifically required for Phase 1 trials) on a public website

maintained by the U.S. National Institutes of Health, or NIH. Information related to the product, patient population, phase of investigation, study sites and investigator, and other aspects of the clinical trial is made public as part of the registration. Sponsors are also obligated to disclose the results of these trials after completion. Disclosure of the results of these trials can be delayed until the product or new indication being studied has been approved. Competitors may use this publicly available information to gain knowledge regarding the design and progress of our development programs.

**Advertising and Promotion**

As set out in the FDA`s website discussion[29] on the "The Prescription Drug Marketing Act of 1987", the FDA and other federal regulatory agencies closely regulate the marketing and promotion of drugs through, among other things, standards and regulations for direct-to-consumer advertising, communications regarding unapproved uses, industry-sponsored scientific and educational activities, and promotional activities involving the Internet. A product cannot be commercially promoted before it is approved. After approval, product promotion can include only those claims relating to safety and effectiveness that are consistent with the labeling (package insert) approved by the FDA. Healthcare providers are permitted to prescribe drugs for "off-label" uses – that is, uses not approved by the FDA and, therefore, not described in the drug's labeling – because the FDA does not regulate the practice of medicine. However, FDA regulations impose stringent restrictions on manufacturers' communications regarding off-label uses.

**Post-Approval Regulations**

As set out in the FDA`s website discussion[30] on "Post Marketing Requirements and Commitments", after regulatory approval of a drug is obtained, a company is required to comply with a number of post-approval requirements. For example, as a condition of approval of an FDA-NDA, the FDA may require post-marketing testing, including Phase 4 clinical trials, and surveillance to further assess and monitor the product's safety and effectiveness after commercialization. In addition, as a holder of an approved FDA-NDA, a company would be required to report adverse reactions and production problems to the FDA, to provide updated safety and efficacy information, and to comply with requirements concerning advertising and promotional labeling for any of its products. Also, quality control and manufacturing procedures must continue to conform to cGMP after approval to assure and preserve the long-term stability of the drug or biological product. The FDA periodically inspects manufacturing facilities to assess compliance with cGMP, which imposes extensive procedural and substantive record keeping requirements. In addition, changes to the manufacturing process are strictly regulated, and, depending on the significance of the change, may require prior FDA approval before being implemented. FDA regulations also require investigation and correction of any deviations from cGMP and impose reporting and documentation requirements upon a company and any third-party manufacturers that a company may decide to use. Accordingly, manufacturers must continue to expend time, money, and effort in the area of production and quality control to maintain compliance with cGMP and other aspects of regulatory compliance.

**Controlled Substances**

As described in Brian T. Yeh's 2012 publication[31] "The Controlled Substances Act: Regulatory Requirements", the United States federal Controlled Substances Act of 1970 ("**CSA**"), and its implementing regulations establish a "closed system" of regulations for controlled substances. The CSA imposes registration, security, recordkeeping and reporting, storage, manufacturing, distribution, importation, and other requirements under the oversight of the DEA. The DEA is the federal agency responsible for regulating controlled substances, and requires those individuals or entities that manufacture, import, export, distribute, research, or dispense controlled substances to comply with the regulatory requirements in order to prevent the diversion of controlled substances to illicit channels of commerce.

Facilities that research, manufacture, distribute, import or export any controlled substance must register annually with the DEA. The DEA registration is specific to the particular location, activity(ies), and controlled substance schedule(s). For example, separate registrations are required for importation and manufacturing activities, and

29 https://www.fda.gov/regulatoryinformation/lawsenforcedbyfda/significantamendmentstothefdcact/prescriptiondrugmarketingactof1987/default.htm

30 https://www.fda.gov/drugs/guidancecomplianceregulatoryinformation/post-marketingphaseivcommitments/default.htm

31 Yeh, BT. The Controlled Substances Act: Regulatory Requirements. https://www.amazon.com/Controlled-Substances-Act-Regulatory-Requirements-ebook/dp/B00BUBS8FC

each registration authorizes which schedules of controlled substances the registrant may handle. However, certain coincident activities are permitted without obtaining a separate DEA registration, such as distribution of controlled substances by the manufacturer that produces them.

The DEA categorizes controlled substances into one of five schedules – Schedule I, II, III, IV, or V – with varying qualifications for listing in each schedule. Schedule I substances by definition have a high potential for abuse, have no currently "accepted medical use" in treatment in the United States, and lack accepted safety for use under medical supervision. They may be used only in federally-approved research programs and may not be marketed or sold for dispensing to patients in the United States. Pharmaceutical products having a currently accepted medical use that are otherwise approved for marketing may be listed as Schedule II, III, IV, or V substances, with Schedule II substances presenting the highest potential for abuse and physical or psychological dependence, and Schedule V substances presenting the lowest relative potential for abuse and dependence. The regulatory requirements are more restrictive for Schedule II substances than for Schedule III substances. For example, all Schedule II drug prescriptions must be signed by a physician, physically presented to a pharmacist in most situations, and cannot be refilled. Cardiol's products are highly purified (>99%) cannabinoid compounds. In December 2016, the DEA issued a new classification code to cover marijuana extracts, and with this ruling all highly pure cannabinoids extracted from the plant are Schedule I drugs.

The DEA inspects all manufacturing facilities to review security, record keeping, reporting, and handling prior to issuing a controlled substance registration. The specific security requirements vary by the type of business activity and the schedule and quantity of controlled substances handled. The most stringent requirements apply to manufacturers of Schedule I and Schedule II substances. Required security measures commonly include background checks on employees and physical control of controlled substances through storage in approved vaults, safes, and cages, and through use of alarm systems and surveillance cameras. Manufacturing facilities must maintain records documenting the manufacture, receipt, and distribution of all controlled substances. Manufacturers must submit periodic reports to the DEA of the distribution of Schedule I and II controlled substances, Schedule III narcotic substances, and other designated substances. In addition to an importer or exporter registration, importers and exporters must obtain a permit for every import or export of a Schedule I and II substance or Schedule III, IV, and V narcotic, and submit import or export declarations for Schedule III, IV, and V non-narcotics.

For drugs manufactured in the United States, the DEA establishes annually an aggregate quota for the amount of substances within Schedules I and II that may be manufactured or produced in the United States based on the DEA's estimate of the quantity needed to meet legitimate medical, scientific, research, and industrial needs. The quotas apply equally to the manufacturing of the API, and production of dosage forms.

The states also maintain separate controlled substance laws and regulations, including licensing, record keeping, security, distribution, and dispensing requirements. State Authorities, including Boards of Pharmacy, regulate use of controlled substances in each state. Failure to maintain compliance with applicable requirements, particularly as manifested in the loss or diversion of controlled substances, can result in enforcement action that could have a material adverse effect on our business, operations and financial condition. The DEA may seek civil penalties, refuse to renew necessary registrations, or initiate proceedings to revoke those registrations. In certain circumstances, violations could lead to criminal prosecution.

Potential sources of active product ingredient ("**API**") for our cannabinoid products are in the United States, Canada, and certain European countries. We may choose to conduct clinical trials for any of our drug candidates outside the United States subject to regulatory approval. We may decide to develop, manufacture, or commercialize our product candidates in additional countries. As a result, we will also be subject to controlled substance laws and regulations from the various other regulatory agencies in other countries where we develop, manufacture, or commercialize our cannabinoid products in the future.

**Marketing Exclusivity**

As discussed in the May 19, 2015 issue[32] of the "FDA/CDER SBIA Chronicles" published by the FDA, upon FDA-NDA approval of a new chemical entity, which for this purpose is defined as a drug that contains no active moiety that has been approved by the FDA in any other FDA-NDA, that drug receives five years of marketing exclusivity during which the FDA cannot approve any abbreviated new drug application seeking approval of a

32 SBIA Chronicles. Patents and Exclusivity. May 19, 2015. https://www.fda.gov/downloads/Drugs/DevelopmentApprovalProcess/SmallBusinessAssistance/UCM447307.pdf

generic version of that drug. Certain changes to the scope of an approval for a drug, such as the addition of a new indication to the package insert, are associated with a three-year period of exclusivity during which the FDA cannot approve an ANDA for a generic drug that includes the change. A Section 505(b)(2) FDA-NDA may be eligible for three-year marketing exclusivity, assuming the FDA-NDA includes reports of new clinical studies (other than bioequivalence studies) essential to the approval of the FDA-NDA.

An ANDA may be submitted one year before marketing exclusivity expires if a Paragraph IV certification is filed. In this case, the 30 months stay, if applicable, runs from the end of the five-year marketing exclusivity period. If there is no listed patent in the FDA's Approved Drug Products with Therapeutic Equivalence Evaluations, commonly known as the Orange Book, there may not be a Paragraph IV certification, and, thus, no ANDA may be filed before the expiration of the exclusivity period.

Additionally, six months of marketing exclusivity in the United States is available under Section 505A of the FDCA if, in response to a written request from the FDA, a sponsor submits and the agency accepts requested information relating to the use of the approved drug in the pediatric population. This six-month pediatric exclusivity period is not a stand-alone exclusivity period, but rather is added to any existing patent or non-patent exclusivity period for which the drug product is eligible.

**Patent Term Extension**

As set out in the FDA`s website discussion[33] "Small Business Assistance: Frequently Asked Questions on the Patent Term Restoration Program", the term of a patent that covers an FDA approved drug may be eligible for patent-term extension, which provides patent-term restoration as compensation- for the patent term lost during the FDA regulatory review process. The United States Federal Drug Price Competition and Patent Term Restoration Act of 1984 permits a patent-term extension of up to five years beyond the expiration of the patent. The length of the patent-term extension is related to the length of time the drug is under regulatory review. Patent extension cannot extend the remaining term of a patent beyond a total of 14 years from the date of product approval and only one patent applicable to an approved drug may be extended. Similar provisions are available in Canada, Europe and other foreign jurisdictions to extend the term of a patent that covers an approved drug.

**European and Other International Government Regulation**

In addition to regulations in the United States and Canada, we will be subject to a variety of regulations in other jurisdictions governing, among other things, clinical trials and any commercial sales and distribution of our products. Whether or not we obtain FDA approval for a product, we must obtain the requisite approvals from regulatory authorities in foreign countries prior to the commencement of clinical trials or marketing of the product in those countries. Some countries outside of the United States have a similar process that requires the submission of a clinical trial application ("**CTA**") much like the IND prior to the commencement of human clinical trials. In Europe, for example, a CTA must be submitted to each country's national health authority and an independent ethics committee, much like the FDA and IRB, respectively. Once the CTA is approved in accordance with a country's requirements, clinical trial development may proceed.

To obtain regulatory approval to commercialize a new drug under European Union regulatory systems, we must submit a marketing authorization application ("**MAA**"). The MAA is similar to the FDA-NDA, with the exception of, among other things, country-specific document requirements.

For other countries outside of the European Union, such as countries in Eastern Europe, Latin America, or Asia, the requirements governing the conduct of clinical trials, product licensing, pricing, and reimbursement vary from country to country. Internationally, clinical trials are generally required to be conducted in accordance with GCP, applicable regulatory requirements of each jurisdiction, and the medical ethics principles that have their origin in the Declaration of Helsinki.

**Compliance**

During all phases of development (pre- and post-marketing), failure to comply with applicable regulatory requirements may result in administrative or judicial sanctions. These sanctions could include the FDA's imposition of a clinical hold on trials, refusal to approve pending applications, withdrawal of an approval, warning letters,

33 https://www.fda.gov/drugs/developmentapprovalprocess/smallbusinessassistance/ucm069959.htm

product recalls, product seizures, total or partial suspension of production or distribution, product detention, or refusal to permit the import or export of products, injunctions, fines, civil penalties, or criminal prosecution. Any agency or judicial enforcement action could have a material adverse effect.

**Other Special Regulatory Procedures**

**Fast Track Designation**

According to the discussion[34] on the FDA's website on "Fast Track", under the Fast Track program, the sponsor of an IND may request the FDA to designate the drug candidate as a Fast Track drug if it is intended to treat a serious condition and fulfill an unmet medical need. The FDA must determine if the drug candidate qualifies for Fast Track designation within 60 days of receipt of the sponsor's request. Once the FDA designates a drug as a Fast Track candidate, it is required to facilitate the development and expedite the review of that drug by providing more frequent communication with and guidance to the sponsor.

In addition to other benefits such as the ability to use surrogate endpoints and have greater interactions with the FDA, the FDA may initiate review of sections of a Fast Track drug's FDA-NDA before the application is complete. This rolling review is available if the applicant provides, and the FDA approves, a schedule for the submission of the remaining information and the applicant pays applicable user fees. However, the FDA's review period for filing and reviewing an application does not begin until the last section of the FDA-NDA has been submitted. Additionally, the Fast Track designation may be withdrawn by the FDA if the FDA believes that the designation is no longer supported by data emerging in the clinical trial process.

**Breakthrough Therapy Designation**

According to discussion [35] on the FDA's website on "Breakthrough Therapy", the FDA may provide the Breakthrough Therapy designation to drugs to expedite the development and review of a candidate that is planned for use to treat a serious or life-threatening disease or condition when preliminary clinical evidence indicates that the drug may demonstrate substantial improvement over existing therapies on one or more clinically significant endpoints. A Breakthrough Therapy designation includes all of the Fast Track program features, as well as more intensive FDA guidance on an efficient drug development program. The FDA also has an organizational commitment to involve senior management in such guidance.

**Orphan Drug Designation**

As set out in the FDA website discussion[36] on "Designating an Orphan Product: Drugs and Biological Products", the FDA may grant Orphan Drug Designation to drugs intended to treat a rare disease or condition that affects fewer than 200,000 individuals in the United States, or, if the disease or condition affects more than 200,000 individuals in the United States, if there is no reasonable expectation that the cost of developing and making the drug would be recovered from sales in the United States. As set out in the EMA's website discussion[37] on "Orphan Designation", in the European Union, the EMA's Committee for Orphan Medicinal Products grants Orphan Drug Designation to promote the development of products that are intended for the diagnosis, prevention, or treatment of life-threatening or chronically debilitating conditions affecting not more than five in 10,000 persons in the European Union community. Additionally, the Orphan Drug Designation is granted for products intended for the diagnosis, prevention or treatment of a life-threatening, seriously debilitating or serious and chronic condition and when, without incentives, it is unlikely that sales of the drug in the European Union would be sufficient to justify the necessary investment in developing the drug.

In the United States, Orphan Drug Designation entitles a party to financial incentives, such as opportunities for grant funding towards clinical trial costs, tax credits for certain research, and user fee waivers under certain circumstances. In addition, if a product receives the first FDA approval for the indication for which it has Orphan Drug Designation, the product is entitled to seven years of market exclusivity, which means the FDA may not approve any other application for the same drug for the same indication for a period of seven years, except in limited circumstances, such as a showing of clinical superiority over the product with orphan drug exclusivity.

34 https://www.fda.gov/ForPatients/Approvals/Fast/ucm405399.htm

35 https://www.fda.gov/ForPatients/Approvals/Fast/ucm405397.htm

36 https://www.fda.gov/forindustry/developingproductsforrarediseasesconditions/howtoapplyfororphanproductdesignation/default.htm

37 http://www.ema.europa.eu/ema/index.jsp?curl=pages/regulation/general/general_content_000029.jsp&mid=WC0b01ac0580b18a41

Orphan drug exclusivity does not prevent the FDA from approving a different drug for the same disease or condition, or the same drug for a different disease or condition. In the European Union, Orphan Drug Designation also entitles a party to financial incentives such as reduction of fees or fee waivers and ten years of market exclusivity following drug approval. This period may be reduced to six years if the Orphan Drug Designation criteria are no longer met, including where it is shown that the product is sufficiently profitable not to justify maintenance of market exclusivity. Orphan Drug Designation must be requested before submission of an application for marketing approval. Orphan Drug Designation does not convey any advantage in, or shorten the duration of, the regulatory review and approval process.

**Priority Review (United States) and Accelerated Assessment (European Union)**

Based on results of the Phase 3 clinical trial(s) submitted in an FDA-NDA, upon the request of an applicant, a priority review designation may be granted to a product by the FDA, which sets the target date for FDA action on the application at six months from the FDA's decision on priority review application, or eight months from the FDA-NDA filing. According to the FDA website discussion[38] on "Priority Review", this status is given where preliminary estimates indicate that a product, if approved, has the potential to provide a safe and effective therapy where no satisfactory alternative therapy exists, or a significant improvement compared to marketed products is possible. If criteria are not met for priority review, the standard FDA review period is ten months from the FDA's decision on priority review application, or 12 months from the FDA-NDA filing. The priority review designation does not change the scientific/medical standard for approval or the quality of evidence necessary to support approval.

According to the EMA website discussion[39] on "Accelerated Assessment", under the Centralised Procedure in the European Union, the maximum timeframe for the evaluation of a MAA is 210 days (excluding "clock stops," when additional written or oral information is to be provided by the applicant in response to questions asked by the Committee for Medicinal Products for Human Use ("**CHMP**"). Accelerated evaluation might be granted by the CHMP in exceptional cases, when a medicinal product is expected to be of a major public health interest, which takes into consideration: the seriousness of the disease (e.g., heavy-disabling or life-threatening diseases) to be treated; the absence or insufficiency of an appropriate alternative therapeutic approach; and anticipation of high therapeutic benefit. In this circumstance, EMA ensures that the opinion of the CHMP is given within 150 days.

**Accelerated Approval**

As set out in the FDA website discussion[40] on "Accelerated Approval", under the FDA's accelerated approval regulations, the FDA may approve a drug for a serious or life-threatening illness that provides meaningful therapeutic benefit to patients over existing treatments based upon a surrogate endpoint that is reasonably likely to predict clinical benefit. This approval mechanism is provided for under 21CRF314 Subpart H and Subpart E. In this case, clinical trials are conducted in which a surrogate endpoint is used as the primary outcome for approval. A surrogate endpoint is reasonably likely to predict clinical benefit, or an effect on a clinical endpoint that can be measured earlier than an effect on irreversible morbidity or mortality, that is reasonably likely to predict an effect on irreversible morbidity or mortality or other clinical benefit, taking into account the severity, rarity, or prevalence of the condition and the availability or lack of alternative treatments. This surrogate endpoint substitutes for a direct measurement of how a patient feels, functions, or survives and is considered reasonably likely to predict clinical benefit. Such surrogate endpoints may be measured more easily or more rapidly than clinical endpoints. A drug candidate approved on this basis is subject to rigorous post-marketing compliance requirements, including the completion of Phase 4 or post-approval clinical trials to confirm the effect on the clinical endpoint. When the Phase 4 commitment is successfully completed, the biomarker is deemed to be a surrogate endpoint. Failure to conduct required post-approval studies or confirm a clinical benefit during post-marketing studies, could lead the FDA to withdraw the drug from the market on an expedited basis. All promotional materials for drug candidates approved under accelerated regulations are subject to prior review by the FDA.

38 https://www.fda.gov/forpatients/approvals/fast/default.htm

39 http://www.ema.europa.eu/ema/index.jsp?curl=pages/regulation/general/general_content_000955.jsp&mid=WC0b01ac05809f843a

40 https://www.fda.gov/ForPatients/Approvals/Fast/ucm405447.htm

**Regulatory Framework in Canada for Cannabis**

**Adult Use Cannabis**

The Corporation intends to participate in the Canadian adult use market for cannabis in compliance with all applicable federal and provincial laws and regulations concerning the Canadian adult use cannabis market, a summary of which follows.

**Summary of the ACMPR**

The "Access to Cannabis for Medical Purposes Regulation" (the "**ACMPR**") which came into force on August 24, 2016, replaced the Marihuana for Medical Purposes Regulations (the "**MMPR**") as the governing regulations in respect of the production, sale, and distribution of medical cannabis and related oil extracts. The ACMPR effectively combines the regulations and requirements of the MMPR, the Marihuana Medical Access Regulations, and the section 56 exemptions relating to cannabis oil under the CDSA into one set of regulations. In addition, among other things, the ACMPR sets out the process patients are required to follow to obtain authorization from Health Canada to grow cannabis and to acquire seeds or plants from licensed producers (as defined in the ACMPR) to grow their own cannabis. Under the ACMPR, patients have three options for obtaining cannabis:

(a) they can continue to access quality-controlled cannabis by registering with licensed producers;

(b) they can register with Health Canada to produce a limited amount of cannabis for their own medical purposes; or

(c) they can designate someone else to produce it for them.

With respect to items (b) and (c) above, starting materials, such as plants or seeds, must be obtained from licensed producers. It is possible that (b) and (c) could significantly reduce the addressable market for the Corporation's products and could materially and adversely affect the business, financial condition, and results of operations of the Corporation. That said, management of the Corporation believes that many patients may be deterred from opting to proceed with options (b) or (c) since such steps require applying for and obtaining registration from Health Canada to grow cannabis, as well as the incurring of the up-front costs of obtaining equipment and materials to produce cannabis.

**Reporting Requirements under the ACMPR**

As described under the ACMPR (See Part 1, Division 5 of the ACMPR), licensed producers are required to keep records of, among other things, their activities with cannabis, including all transactions (sale, exportation, and importation), all fresh or dried marijuana or cannabis oils returned from clients, and an inventory of cannabis (e.g., seeds, fresh harvested marijuana, dried marijuana, packaged marijuana, packaged marijuana seeds, cannabis oil, marijuana plants destined to be sold or provided). All records have to be kept for a period of at least two years, in a format that will be easily auditable, and must be made available to Health Canada upon request. All communications regarding reports for healthcare licensing authorities, including both those sent and received, are also subject to this two-year requirement.

A licensed producer must provide Health Canada with a case report for each serious adverse reaction to fresh or dried marijuana or cannabis oil within 15 days of the licensed producer becoming aware of the reaction. A licensed producer must annually prepare and maintain a summary report that contains a concise and critical analysis of all adverse reactions that have occurred during the previous 12 months (the serious adverse reaction reports and the summary reports must be retained by the licensed producer for a period of 25 years after the day on which they were produced).

**Recent Regulatory Developments**

On December 13, 2016, the Task Force on Cannabis Legalization and Regulation (the "**Task Force**"), which was established by the Canadian Federal Government to seek input on the design of a new system to legalize, regulate and restrict access to cannabis, published its report outlining its recommendations. On April 13, 2017, the Canadian Federal Government released Bill C-45, An Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and other Acts (the "**Cannabis Act**"), which proposed the enactment of

the *Cannabis Act* (Canada) to regulate the production, distribution and sale of cannabis for unqualified adult use. On November 27, 2017, the House of Commons passed Bill C-45. On June 20, 2018 the Senate approved Bill C-45 and the Act received Royal Assent on June 21, 2018. The Cannabis Act came into force on October 17, 2018. The impact of such regulatory changes on the Corporation's business is unknown. See "Risk Factors – Changes in laws and regulations".

On November 22, 2017, Health Canada released for public consultation its proposed approach to the regulation of cannabis (the "**Regulations**"). The purpose of the consultation paper was to solicit public feedback on an initial set of regulatory proposals that Health Canada was considering and was focused on the regulations that would facilitate the coming into force of the proposed Cannabis Act. Health Canada's consultation addressed licensing, security requirements for producers and their facilities, product standards, labelling and packaging, and the proposed cannabis tracking system. It also addressed cannabis for medical purposes and health products containing cannabis. Health Canada proposed a risk-based approach to regulation, balancing the protection of health and safety of Canadians while enabling a competitive legal industry made up of large and small enterprises in all regions of Canada producing quality-controlled cannabis. On July 11, 2018, Health Canada released the regulations of cannabis in Canada Gazette, Part II, Volume 152, Number 14 – SOR/2018-144.

The Regulations are divided into the following seven major categories:

1. Licenses, Permits and Authorizations;
2. Security Clearances;
3. Reporting and Disclosure;
4. Cannabis Products;
4. Packaging and Labelling;
6. Access to Cannabis for Medical Purposes; and
7. Drugs Containing Cannabis.

**Licenses, Permits and Authorizations**

The Regulations establish different types of authorizations based on the activity being undertaken and, in some cases, the scale of the activity. Rules and requirements for different categories of authorized activities are intended to be proportional to the public health and safety risks posed by each category of activity. The types of authorizations include: (i) cultivation; (ii) processing; (iii) sale to the public for medical purposes and non-medical purposes in provinces and territories that have not enacted a retail framework; (iv) analytical testing; (v) import/export; and (vi) research.

The Regulations provide that all licenses issued under the Cannabis Act are valid for a period of five years and that no licensed activity can be conducted in a dwelling-house.

**Security Clearances**

Select personnel (including individuals occupying a "key position", such as directors, officers, large shareholders, and individuals identified by the Minister of Health) associated with certain licenses issued under the Cannabis Act are obliged to hold a valid security clearance issued by the Minister of Health. The Regulations enable the Minister of Health to refuse to grant security clearances to individuals with associations to organized crime or with past convictions for, or an association with, drug trafficking, corruption, or violent offences.

**Reporting and Disclosure**

Under the Cannabis Act, the Minister of Health is authorized to establish and maintain a national cannabis tracking system. The purpose of this system is to track cannabis throughout the supply chain to help prevent diversion of cannabis into, and out of, the legal market. The Regulations provide the Minister of Health with the authority to make a ministerial order that would require certain persons named in such order to report specific information about their authorized activities with cannabis, in the form and manner specified by the Minister.

**Cannabis Products**

The Regulations permit the sale to the public by licensed entities of dried cannabis, cannabis oil, fresh cannabis, cannabis plants, and cannabis seeds. The sale of edible cannabis products and concentrates (such as hashish, wax, and vaping products) will be permitted at the latest within one year following the coming into force of the Cannabis Act. The Regulations acknowledge that a range of product forms should be enabled to help the legal industry displace the illegal market.

A solution containing 100% pharmaceutically manufactured cannabidiol (CBD) and no tetrahydrocannabinol (THC) is classified as "Cannabis" under the Cannabis Act. Specifically, Schedule 1 of the Cannabis Act defines "Cannabis" to include "any substance that is identical to any phytocannabinoid produced by, or found in, such a plant [cannabis], regardless of how the substance was obtained." Cannabidiol pharmaceutically manufactured is identical to cannabidiol found in the cannabis plant.

The Cannabis Regulations (Section 1(1)) define "cannabis oil" as "an oil that contains anything referred to in item 1 or 3 of Schedule 1 to the Cannabis Act and that is in liquid form at a temperature of 22 ± 2°C.

A solution of pharmaceutically manufactured cannabidiol (CBD) not in oil would qualify as a "cannabis non-solid containing cannabis" (Section 1(1) of the Cannabis Regulations). The Cannabis Regulations define "cannabis non-solid containing cannabis" to mean "substances that are in non-solid form at a temperature of 22 ± 2°C and that have a maximum yield percentage of 3% w/w or less of THC, taking into account the potential to convert tetrahydrocannabinolic acid (THCA) into THC".

**Packaging and Labeling**

The Regulations set out requirements pertaining to the packaging and labelling of cannabis products. Such requirements promote informed consumer choice and allow for the safe handling and transportation of cannabis. Consistent with the requirements under the ACMPR, the Regulations require all cannabis products to be packaged in a manner that is tamper-evident and child-resistant.

While minor allowances for branding are permitted, Health Canada has mandated strict limits on the use of colours, graphics, and other special characteristics of packaging, and products are required to be labelled with specific information about the product, contain mandatory health warnings similar to tobacco products, and be marked with a clearly recognizable standardized cannabis symbol. All packaging is required to contain a standardized cannabis symbol for those products containing greater than 10 ppm of THC.

**Access to Cannabis for Medical Purposes**

The medical access regulatory framework would remain substantively the same as currently exists under the ACMPR, with adjustments to create consistency with rules for non-medical use, improve patient access, and reduce the risk of abuse within the medical access system.

**Drugs Containing Cannabis**

Health Canada is following a scientific, evidenced-based approach for the oversight of health products with cannabis that are approved with health claims, including prescription and non-prescription drugs, natural health products, veterinary drugs and veterinary health products, and medical devices. Health products can only be sold if they have been approved by Health Canada following a scientific review.

**Provincial and Territorial Regulatory Regimes**

While the Cannabis Act provides for the regulation of the commercial production of cannabis for recreational purposes and related matters by the federal government, the Cannabis Act states that the provinces and territories of Canada have authority to regulate other aspects of recreational cannabis (similar to what is currently the case for liquor and tobacco products), such as sale and distribution, minimum age requirements, places where cannabis can be consumed, and a range of other matters.

The governments of every Canadian province and territory have, to varying degrees, announced regulatory regimes for the distribution and sale of cannabis for recreational purposes within those jurisdictions. These

provincial regulatory regimes regarding recreational cannabis distribution, use and consumption were ultimately contingent on the Cannabis Act becoming law, which has occurred. See "Risk Factors – Change in laws and regulations".

To date, the governments of Ontario, Manitoba, Alberta, New Brunswick, Quebec, Newfoundland and Labrador, Prince Edward Island, Nova Scotia, Nunavut, the Yukon, the Northwest Territories, Saskatchewan and British Columbia have announced regulatory regimes for the distribution and sale of cannabis for recreational purposes within those jurisdictions.

Each of these Canadian jurisdictions has established a minimum age to purchase cannabis for recreational purposes of 19 years, except for Quebec and Alberta, where the minimum age will be 18.

On September 8, 2017, the Ontario Government announced its proposed retail and distribution model of legalized recreational cannabis to be modelled on the current Liquor Control Board of Ontario ("**LCBO**") framework. On December 12, 2017, the Ontario Government passed the Cannabis Act, 2017 (Ontario), which will regulate the lawful use, sale and distribution of cannabis for adult use in connection with the Federal Government's legalization.

The Cannabis Act, 2017 (Ontario) would, among other matters:

- create a new provincial retailer, overseen by the LCBO, to manage the distribution of recreational cannabis through stand-alone stores and an LCBO-controlled online order and distribution service, which together, will comprise the only channels through which consumers in Ontario will be able to legally purchase recreational cannabis;
- set a minimum age of 19 to use, buy, possess, and cultivate cannabis in Ontario; and
- ban the use of cannabis in public places, workplaces, and motor vehicles in Ontario, as is the case with alcohol.

Other details of Ontario's approach were to be set out in regulations to the Cannabis Act, 2017 (Ontario).

With the new government in Ontario, on August 13, 2018, the Ontario Government changed its course and announced a new regulated private retail model for cannabis in Ontario, which emphasizes three public policy objectives: to implement a safe, legal system for cannabis that will protect consumers, to undermine the illegal market, and to protect public safety. The Ontario Government announced that it will consult with various government agencies, community groups, and industry stakeholders in order to structure a private retail model in Ontario for cannabis by April 2019. Until then, the Ontario Cannabis Store (a government-run online store) will be the sole source of lawful adult use cannabis in Ontario.

The Government of Manitoba has a ''hybrid model'' for cannabis distribution. The supply of cannabis in the Province of Manitoba is secured and tracked by the Manitoba Liquor and Lotteries Corp.; however licensed private retail stores are permitted to sell recreational cannabis. Manitoba had a process through which it accepted applications from retailers to open stores for the sale of cannabis for recreational purposes. This process was open until December 22, 2017 and retail stores are now open in Manitoba.

The Government of Alberta has announced a cannabis framework providing for the purchase of cannabis products from private retailers that will receive their products from a government-regulated distributor, similar to the distribution system currently in place for alcohol in the province. Only licensed retail outlets will be permitted to sell cannabis with online sales run by the Alberta Gaming and Liquor Commission.

Similar to the approach taken by Ontario, the Province of New Brunswick announced that it will set up a network of tightly-controlled, stand-alone stores through the New Brunswick Liquor Corporation.

On July 19, 2018 the Government of Quebec passed its Cannabis law, Bill 157 which came into force on October 17, 2018. Bill 157 sets the legal age for cannabis consumption in the province at 18 years of age and all recreational marijuana will be managed and sold by Société québécoise du cannabis (the "**SQDC**") outlets and will be available for sale online, the entire process controlled by the Société des alcools du Québec.

In May 2018, Newfoundland and Labrador introduced legislation relating to the legalization of cannabis including the Cannabis Control Act (the "**CCA**") whereby recreational cannabis is sold through licensed private stores, with

its crown-owned liquor corporation, the Newfoundland and Labrador Liquor Corp. (the "**NLC**"), overseeing the distribution to private sellers who may sell to consumers. Pursuant to the CCA, the NLC controls the possession, sale and delivery of cannabis, and sets prices. It is also the initial online retailer, although licenses have been issued and private stores are now open in Newfoundland and Labrador.

Similarly, the Yukon has released the Cannabis Control and Regulation Act which limits the initial distribution and sale of recreational cannabis to government outlets and government-run online stores and allows for the later licensing of private retailers.

The Government of the Northwest Territories has also announced its proposed approach for the distribution and sale of recreational cannabis which relies on the N.W.T. Liquor Commission to control the importation and distribution of cannabis, whether through retail outlets or by mail order service run by the liquor commission. Communities in the Northwest Territories will be able to hold a plebiscite to prohibit cannabis, similar to the options currently available to restrict alcohol.

The Government of British Columbia's Cannabis Control and Licensing Act (the "**CCLA**") received royal assent on May 31, 2018. The CCLA stipulates that recreational cannabis will be sold in that province through both public and privately operated stores, with the provincial Liquor Distribution Branch handling wholesale distribution.

The Government of Saskatchewan announced that recreational cannabis will be sold by private retailers. The Saskatchewan Liquor and Gaming Authority will issue approximately 60 retail permits to private stores located in roughly 40 municipalities and First Nation communities across the province, with municipalities having the option of opting out of having a cannabis store if they choose.

In Nova Scotia, Bill 108, Cannabis Control Act received royal assent on April 18, 2018, and establishes the licensing system for the retail sale of non-medical cannabis. The Nova Scotia Liquor Corporation is responsible for the regulation of cannabis in the province, and recreational cannabis is only sold publicly through government-operated storefronts and online sales.

In Nunavut, Bill 7, Cannabis Act ("**Nunavut Cannabis Act**") received royal assent on June 13, 2018. The Nunavut Cannabis Act provides for the regulation of non-medical cannabis in the province of Nunavut, and establishes the licensing system for the retail sale of non-medical cannabis. Under the Nunavut Cannabis Act, a person can submit an application for a licence to operate a cannabis store, remote sales store, or cannabis lounge. Licences may not be issued to minors, employees or agents of the Liquor and Cannabis Commission (Nunavut), or a person who does not meet the conditions prescribed by regulation for applicants. Nunavut will allow for the sale of marijuana through both public and private retail and online.

In Prince Edward Island, Bill 29, An Act to Respond to the Legalization of Cannabis received royal assent on June 12, 2018. Similar to Nova Scotia, Prince Edward Island requires cannabis be sold publicly, through government stores and online.

There is no guarantee that the provincial and territorial frameworks supporting the legalization of cannabis for recreational use in Canada will be implemented on the terms outlined above or at all.

## DIVIDEND POLICY

We have not declared dividends on our Common Shares in the past. Following the Offering, we currently intend to reinvest all future earnings in order to finance the development and growth of our business. As a result, we do not intend to pay dividends on our Common Shares in the foreseeable future. Any future determination to pay dividends will be at the discretion of our Board of Directors and will depend on the financial condition, business environment, operating results, capital requirements, any contractual restrictions on the payment of dividends, and any other factors that the Board of Directors deems relevant.

## SELECTED FINANCIAL INFORMATION

The following sets out selected financial information of the Corporation for the initial period ended December 31, 2017, (49 weeks) for the nine months ended September 30, 2018. See "Financial Statement Presentation in this Prospectus" for a description of the financial statements in this prospectus.

| | As at September 30, 2018 (unaudited) | As at December 31, 2017 (audited) |
|---|---|---|
| **Balance Sheet Highlights** | | |
| Current Assets | $12,191,797 | $2,484,853 |
| Total Assets | 12,868,330 | 3,220,683 |
| Current Liabilities | 1,252,725 | 176,714 |
| Total Liabilities[(1)] | 13,830,526 | 366,757 |
| Shareholders' equity (deficiency) | (962,196) | 2,853,926 |

| | Nine Months Ended September 30, 2018 (unaudited) | Initial Period Ended December 31, 2017 (audited) |
|---|---|---|
| **Income Statement Highlights** | | |
| Net Loss | $4,573,457 | $1,660,926 |
| Net Loss Per Share | $0.30 | $0.13 |
| Research & Development | $1,251,508 | $441,257 |

Notes:

(1) In May 2018 and August 2018, $10,531,000 and $2,400,000, respectively, principal amount of 8% Convertible Debentures maturing on May 31, 2019 were issued. The carrying amount of the 8% Convertible Debentures outstanding as at September 30, 2018 was included in total liabilities. If the 8% Convertible Debentures were converted in full, the Corporation's shareholders' equity would increase by $12,331,601 and the total liabilities would decrease by $12,331,601 as at September 30, 2018. See "Options to Purchase Common Shares – Convertible Debentures".

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Introduction

The following management's discussion and analysis ("**MD&A**") of the financial condition and results of the operations of Cardiol constitutes Management's review of the factors that affected the Corporation's financial and operating performance for the period from January 19, 2017 to December 31, 2017 (the "**2017 Fiscal Period**"), as well as the unaudited condensed interim financial statements for the three and nine months ended September 30, 2018 (the "**2018 Q3 Period**"). This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the Audited Financial Statements for the 2017 Fiscal Period and the Interim Financial Statements for the 2018 Q3 Period, together with the respective notes thereto. Results are reported in Canadian dollars, unless otherwise noted. The Financial Statements and the financial information contained in this MD&A are prepared in accordance with IFRS as issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee. In the opinion of Management, all adjustments (which consist only of normal recurring adjustments) considered necessary for a fair presentation have been included.

This MD&A is presented as of the date of this prospectus and is current to that date unless otherwise stated. The financial information presented in this MD&A is derived from the Financial Statements. This MD&A contains forward-looking statements that involve risks, uncertainties, and assumptions, including statements regarding anticipated developments in future financial periods and our plans and objectives. There can be no assurance that such information will prove to be accurate, and readers are cautioned not to place undue reliance on such forward-looking statements. See "Forward-Looking Statements" and "Risk Factors" in this prospectus.

### Overview

See "Our Business – Corporation's Overview" for an overview of the business of the Corporation.

### Operations Highlights

### During the 2017 Fiscal Period

On January 19, 2017, Cardiol Therapeutics was incorporated under the OBCA.

On January 20, 2017, Cardiol signed a license agreement with Meros for the sole, exclusive, irrevocable license to patented nanotechnologies for use with any drugs or classes of drugs currently used or developed in the future to diagnose or treat heart failure and/or any cardiovascular disease and/or cardiopulmonary disease and/or cardiac arrhythmias. Meros is a privately-held corporation based in Edmonton, Alberta, Canada, focused on the advancement of nanotechnologies developed within the Faculty of Pharmaceutical Sciences at the University of Alberta.

On January 31, 2017, Cardiol entered into a debenture agreement with 1476448 Ontario Inc. for a $400,000 principal amount. The debenture has a maturity date of January 31, 2020. The principal sum is convertible into 2,700,000 Common Shares and bears interest payable at the rate of three percent (3%) per annum.

On March 24, 2017, Cardiol closed the sale of 3,032,000 Common Shares at a price of $0.50 per share for total gross proceeds of $1,516,000.

On June 14, 2017, Cardiol entered into an exclusive supply agreement with Dalton to provide Cardiol's research and development program with pharmaceutical cannabidiol.

On August 10, 2017, Cardiol entered into a research contract with the University of Alberta. Contracted research at University of Alberta is being directed by the principal investigator, Dr. Afsaneh Lavasanifar of the University's Department of Pharmacy and Pharmaceutical Sciences.

During August 2017 to December 2017, Cardiol closed the sale of 1,517,600 Common Shares at a price of $1.25 per share for total gross proceeds of $1,897,000 (See "Prior Sales").

On November 17, 2017, Cardiol signed a letter of intent with TecSalud and Nano4heart, both of the Instituto Tecnológico y de Estudios Superiores de Monterrey, Mexico, for the development of nanotherapeutics for the treatment of heart failure.

**During the Period Ending Q3 2018**

On January 9, 2018, Cardiol announced that experimental research performed at the Houston Methodist DeBakey Heart & Vascular Center, Texas, showed new functionality of the Corporation's in-licensed patented nanotherapeutics. Designed to act as a vehicle to target anti-inflammatory drugs to inflamed heart tissue. These new data demonstrated the accumulation of nanoparticles at regions of fibrosis in diseased hearts, showing potential for Cardiol's proprietary nanotechnology to be used to target anti-fibrotic drugs directly to areas of fibrosis to treat heart failure.

On May 24, 2018, Cardiol closed a brokered private placement of approximately $10.5 million principal amount of unsecured convertible debentures of the Corporation. AltaCorp Capital Inc. acted as exclusive financial advisor to the Corporation and sole agent for the Private Placement. See "Description of Material Indebtedness – Convertible Debentures".

On August 1, 2018, Cardiol closed a second tranche brokered private placement of $2.4 million principal amount of unsecured convertible debentures of the Corporation. See "Description of Material Indebtedness – Convertible Debentures". The Corporation also entered into the following arrangements:

1. the TecSalud Development Agreement (See "Our Business – Commercialization Relationships – TecSalud (CARO Development Agreement)"),

2. the Option Plan (See "Options to Purchase Common Shares – Summary of the Option Plan"),

3. the Noramco Exclusive Supply Agreement (See "Our Business – Commercialization Relationships – Noramco"),

**Subsequent to September 30, 2018**

In October 2018, the Corporation and Meros cancelled and returned to treasury 1,020,000 Meros Escrow Shares which were held in escrow pursuant to the Meros Licence Agreement. In exchange, the Corporation issued 1,020,000 Meros Special Warrants convertible automatically into Common Shares for no additional consideration upon the Corporation achieving the Meros Milestone.

For the fourth quarter, Cardiol anticipates research and development spending to further increase from third quarter spending, with increased additional research costs associated with TecSalud and further advanced manufacturing development costs with Dalton. These increases are the result of establishing a research and development collaboration with TecSalud in the third quarter and the increased capital available to the Corporation as described above.

**Outlook**

See "Our Business – Description of the Business" and "Use of Proceeds" for more information about the outlook of the Corporation.

**Selected Annual Financial Information**

The following is selected financial data derived from the Audited Financial Statements for the 2017 Fiscal Period.

| | **For the period from January 19, 2017 to December 31, 2017** |
|---|---|
| Net loss | $(1,660,926) |
| Net loss per share (basic and fully diluted) | $(0.13) |

| | For the period from January 19, 2017 to December 31, 2017 |
|---|---|
| | As at December 31, 2017 |
| Total assets | $3,220,683 |
| Total long-term financial liabilities | $190,043 |

## Summary of Quarterly Results

The Corporation's quarterly information in the table below is prepared in accordance with IFRS.

| Three Months Ended | Total Revenue ($) | Profit or (Loss) Total ($) | Profit or (Loss) Per Share[8] ($) | Total Assets ($) |
|---|---|---|---|---|
| September 30, 2018[1] | nil | (2,663,544) | (0.18) | 12,868,330 |
| June 30, 2018[2] | nil | (1,358,280) | (0.09) | 12,143,959 |
| March 31, 2018[3] | nil | (551,633) | (0.04) | 2,854,705 |
| December 31, 2017[4] | nil | (588,260) | (0.04) | 3,220,683 |
| September 30, 2017[5] | nil | (535,734) | (0.04) | 3,282,843 |
| June 30, 2017[6] | nil | (442,556) | (0.03) | 2,070,943 |
| Period from January 19, 2017 to March 31, 2017[7] | nil | (94,376) | (0.01) | 2,248,856 |

Note:

(1) Net loss of $2,663,544 included research and development of $447,023, administration of $716,192, accretion and interest on convertible debentures of $267,727, investor relations and promotions of $81,187, salaries and benefits of $410,912, and share-based compensation of $757,285.

(2) Net loss of $1,358,280 included research and development of $548,262, administration of $322,502, accretion and interest on convertible debentures of $108,041, investor relations and promotions of $41,038, and salaries and benefits of $315,342.

(3) Net loss of $551,633 included research and development of $256,223, administration of $164,957, accretion and interest on convertible debentures of $18,705, investor relations and promotions of $30,326, and salaries and benefits of $60,778.

(4) Net loss of $588,260 included research and development of $117,093, administration of $219,923, accretion and interest on convertible debentures of $18,443, investor relations and promotions of $74,076, and salaries and benefits of $138,514.

(5) Net loss of $535,734 included research and development of $110,315, administration of $294,361, accretion and interest on convertible debentures of $22,021, investor relations and promotions of $55,032, and salaries and benefits of $31,696.

(6) Net loss of $442,556 included research and development of $213,849, administration of $110,738, accretion and interest on convertible debentures of $12,505, investor relations and promotions of $29,045, and salaries and benefits of $61,301.

(7) Net loss of $94,376 included administration of $55,477, accretion and interest on convertible debentures of $7,593, investor relations and promotions of $5,670, and salaries and benefits of $25,000.

(8) Basic and fully diluted.

## Discussion of Operations

### Period from January 19, 2017 to December 31, 2017

The Corporation's net loss totalled $1,660,926 for the 2017 Fiscal Period, with a basic and diluted loss per share of $0.13.

The net loss for the 2017 Fiscal Period principally included administration expense of $680,498, investor relations and promotions of $163,823, research and development expenses of $441,257, and salaries and benefits of $256,511. Research and Development expenses for 2017 consisted primarily of a technology transfer from Meros to Dalton, pre-clinical research at the University of Alberta and associated research salaries.

### Nine months ended September 30, 2018, compared to the period from January 19, 2017 to September 30, 2017

For the nine months ended September 30, 2018, the Corporation's net loss was $4,573,457, compared to a net loss of $1,072,666 for the period from January 19, 2017 to September 30, 2017. The increase in net loss of $3,500,791 is a result of the following:

- Administration expense increased to $1,203,651 for the nine months ended September 30, 2018 compared to $460,575 for the period from January 19, 2017 to September 30, 2017. During the nine months ended September 30, 2018, the Corporation incurred higher professional fees due to the costs associated with preparing for the potential public listing and the increased operating activity of the Corporation and higher travel expenses as the Corporation's consultants were based outside of Ontario.

- Accretion and interest on convertible debentures increased to $394,473 for the nine months ended September 30, 2018, compared to $42,119 for the period from January 19, 2017 to September 30, 2017. The increase is the result of the Corporation issuing additional convertible debentures with face values of $10,531,000 in May 2018 and $2,400,000 in August 2018.

- Research and development increased to $1,251,508 for the nine months ended September 30, 2018, compared to $324,164 for the period from January 19, 2017 to September 30, 2017 which reflects the Corporation's increased level of research and development of CTX01.

- During the nine months ending September 30, 2018, the Corporation increased the pace of its spending on its research and development programs. Currently Cardiol has two ongoing research programs: a basic research program at University of Alberta and a research program that commenced at the beginning of April at TecSalud. The TecSalud program is focused on conducting the necessary experimental research to support an application for Phase I clinical studies involving the Corporation's nanoformulations in development for heart failure. Additionally, during the second quarter and continued into the third quarter, a development program was initiated with Dalton to focus on the scale-up of manufacturing of an oil-based formulation containing cannabidiol.

- Salaries and benefits increased to $787,032 for the nine months ended September 30, 2018, compared to $117,996 for the period from January 19, 2017 to September 30, 2017. The increase is the result of the Corporation hiring additional employees at increased salary levels in the current period due to the increased level of operations.

- Share-based compensation increased to $757,285 for the nine months ended September 30, 2018, compared to $nil for the period from January 19, 2017 to September 30, 2017. The increase is the result of 920,000 stock options granted during the nine months ended September 30, 2018 compared to none during the period from January 19, 2017 to September 30, 2017.

**Three months ended September 30, 2018, compared to the three months ended September 30, 2017**

For the three months ended September 30, 2018, the Corporation’s net loss was $2,663,544 compared to a net loss of $535,734 for the three months ended September 30, 2017. The increase in net loss of $2,127,810 is a result of the following:

- Administration expense increased to $716,192 for the three months ended September 30, 2018 compared to $294,361 for the three months ended September 30, 2017. During the three months ended September 30, 2018, the Corporation incurred higher professional fees due to the costs associated with preparing for the potential public listing and the increased operating activity of the Corporation and higher travel expenses as the Corporation's consultants were based outside of Ontario.

- Accretion and interest on convertible debentures increased to $267,727 for the three months ended September 30, 2018 compared to $22,021 for the three months ended September 30, 2017. The increase is the result of the Corporation issuing additional convertible debentures with face values of $10,531,000 in May 2018 and $2,400,000 in August 2018.

- Research and development increased to $447,023 for the three months ended September 30, 2018 compared to $110,315 for the three months ended September 30, 2017 which reflects the Corporation's increased level of research and development of CTX01.

- Salaries and benefits increased to $410,912 for the three months ended September 30, 2018 compared to $31,695 for the three months ended September 30, 2017. The increase is the result of the Corporation hiring additional employees at increased salary levels in the current period due to the increased level of operations.

- Share-based compensation increased to $757,285 for the three months ended September 30, 2018, compared to $nil for the period from January 19, 2017 to September 30, 2017. The increase is the result of 920,000 stock options granted during the nine months ended September 30, 2018 compared to none during the period from January 19, 2017 to September 30, 2017.

**Capital Management**

The Corporation 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 Corporation 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 Corporation 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 on an ongoing basis.

The Corporation considers its capital to be total shareholders' equity, comprising share capital, contributed surplus and the equity portion of convertible debentures less accumulated deficit which at September 30, 2018, totalled a deficit of $962,196 (December 31, 2017 – equity of $2,853,926).

The Corporation manages capital through its financial and operational forecasting processes. The Corporation 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. Information is provided to the Board.

As the Corporation does not have a credit facility, the Corporation is not currently subject to any capital requirements imposed by a lending institution or regulatory body. The Corporation expects that its capital resources will be sufficient to discharge its liabilities as of the current statement of financial position date. This is based on the assumption that the convertible debentures with an aggregate principal amount of $12,931,000 will be automatically converted into Common Shares of the Corporation on the Triggering Event (as defined below).

**Off-Balance-Sheet Arrangements**

As of the date of this MD&A, the Corporation does not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Corporation, including, and without limitation, such considerations as liquidity and capital resources.

**Transactions**

During the quarter, the corporation entered into the following arrangements:

1. the TecSalud Development Agreement (See "Our Business – Commercialization Relationships – TecSalud (CARO Development Agreement)"),

2. the Option Plan (See "Options to Purchase Common Shares – Summary of the Option Plan"),

3. the Noramco Exclusive Supply Agreement (See "Our Business – Commercialization Relationships – Noramco")

Subsequent to the quarter, the corporation entered into the following arrangement:

4. In October 2018, the Corporation and Meros cancelled and returned to treasury 1,020,000 Meros Escrow Shares which were held in escrow pursuant to the Meros Licence Agreement. In exchange, the Corporation issued 1,020,000 Meros Special Warrants convertible automatically into Common Shares for no additional consideration upon the Corporation achieving the Meros Milestone.

**Liquidity and Financial Position**

At September 30, 2018, Cardiol had $11,664,844 in cash and cash equivalents (December 31, 2017 – $2,356,524).

At September 30, 2018, accounts payable and accrued liabilities were $1,252,725 (December 31, 2017 – $176,714). The Corporation's cash and cash equivalents balances as at September 30, 2018 and December 31, 2017 are sufficient to pay these liabilities.

As at September 30, 2018, the Corporation had convertible debentures payable with an aggregate principal amount of $13,331,000 (December 31, 2017 - $400,000). $12,931,000 of this balance (December 31, 2017 - $nil) is convertible into Common Shares, plus accrued and unpaid interest, on the earlier of May 31, 2019 or the 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 remaining balance of $400,000 (December 31, 2017 - $400,000) is convertible into 2,700,000 Common Shares at the holder's option at any time prior to the close of business on January 31, 2020.

The Corporation has no operating revenues and therefore must utilize its funds from financing transactions to maintain its capacity to meet ongoing operating activities.

As of December 31, 2017, September 30, 2018 and to the date of this MD&A, the cash resources of Cardiol are held with one Canadian chartered bank. The Corporation has no variable interest rate debt and its credit and interest rate risk is minimal. Accounts payable and accrued liabilities are short-term and non-interest-bearing.

**For the 2017 Fiscal Period**

Cash and cash equivalents used in operating activities were $1,292,194 for the 2017 Fiscal Period. Operating activities were affected by a net loss of $1,660,926 offset partially by non-cash adjustments of $3,135 for amortization of equipment, $50,206 for amortization of intangible assets, $217,500 for research supplies and other services paid with the issuance of share capital, $49,506 for accretion on convertible debentures, and the net change in non-cash working capital balances of $48,385 because of increases in interest receivable, commodity tax receivable, prepaid expenses, and accounts payable and accrued liabilities.

Cash and cash equivalents used in investing activities were $29,171 for the 2017 Fiscal Period. This pertained to the purchase of tangible and intangible assets.

Cash and cash equivalents provided by financing activities were $3,677,889 for the 2017 Fiscal Period, which represents net proceeds from the issuance of shares of $3,277,889 and convertible debentures of $400,000.

**For the 2018 Q3 Nine-Month Period**

Cash and cash equivalents used in operating activities were $2,751,827 for the 2018 Q3 Period. Operating activities were affected by adjustments of $4,675 for amortization of equipment, $63,333 for amortization of intangible assets, $757,285 for share-based compensation, $56,156 for accretion on convertible debentures, $262,794 for financing costs and the net change in non-cash working capital balances of $677,387 because of increases in interest receivable, commodity tax receivable, prepaid expenses and accounts payable and accrued liabilities.

Cash and cash equivalents used in investing activities were $8,711 for the 2018 Q3 Period, which represents purchase of equipment.

Cash and cash equivalents provided by financing activities were $12,068,858 for the 2018 Q3 Period, which represents $12,068,808 for net proceeds from the issuance of convertible debentures and $50 for proceeds from stock options exercised.

**Use of Working Capital**

As of September 30, 2018, Cardiol's working capital is $10,939,072. Based on current projections, this is sufficient to meet its planned development activities for the fiscal year ending December 31, 2018 and the nine months

ended September 30, 2019. The net proceeds of the Offering are estimated at $13,100,000 ($15,215,000 if the Over-Allotment Option is exercised in full), after deducting fees payable by us to the Underwriters in connection with the Offering and the estimated expenses of the Offering). See “Use of Proceeds” for a description of the use of the proceeds of the Offering which are in addition to the uses of the working capital set out above.

The Corporation has material commitments and obligations for cash resources set out below.

| Contractual Obligations | Total ($) | Up to 1 year ($) | 1 – 3 years ($) | 4 – 5 years ($) | After 5 years ($) |
|---|---|---|---|---|---|
| Amounts payable and other liabilities | 1,252,725 | 1,252,725 | Nil | Nil | Nil |
| Office lease [(1)] | 20,370 | 20,370 | Nil | Nil | Nil |
| **Total** | **1,273,095** | **1,273,095** | **Nil** | **Nil** | **Nil** |

Note:
(1) The Corporation has leased premises from third parties.

**Related-Party Transactions**

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

**For the 2017 Fiscal Period**

(i) Included in research and development expense is $211,680 paid to a company Dalton Chemical Laboratories, Inc. operating as Dalton that is related to a director (Peter Pekos). Mr. Pekos is also the President and CEO of Dalton. See “Our Business – Commercialization Relationships – Dalton”.

(ii) Included in administration is $278,600 for corporate advisory services, paid to a company (Punchcast Inc.) related to a director (Terry Lynch). Punchcast Inc. is controlled by a son of Terry Lynch. As well, included in share capital is $34,000 of finders’ fees paid to this company. The Corporation has no ongoing contractual or other commitment with Punchcast Inc.

(iii) Included in administration is $64,800 for Chief Financial Officer, accounting and other administrative services, paid to a company (Ian S. Hulbert Professional Corporation) controlled by the former Chief Financial Officer of the Corporation. As at December 31, 2017, $11,300 was owed to this company and this amount was included in accounts payable and accrued liabilities. The Corporation has no ongoing contractual commitment with Ian S. Hulbert Professional Corporation.

**For the 2018 Q3 Nine-Month Period**

(i) Included in research and development expense is $141,100 and $178,100, respectively, for the three and nine months ended September 30, 2018 (three and nine months ended September 30, 2017 - $10,415 and $211,680, respectively) paid to a company (Dalton) that is related to a director (Peter Pekos). As at September 30, 2018, $21,753 (December 31, 2017 - $nil) was owed to this company and this amount was included in accounts payable and accrued liabilities. See "Our Business - Commercialization Relationships - Dalton".

(ii) Included in administration is $40,000 and $105,000, respectively, for corporate advisory services for the three and nine months ended September 30, 2018 (three and nine months ended September 30, 2017 - $187,000 and $243,100) paid to a company (Punchcast Inc.) related to a director (Terry Lynch). As well, included in share capital is $nil (three and nine months ended September 30, 2017 - $nil and $34,000, respectively) of finders' fees paid to this company. The Corporation has no ongoing contractual or other commitment with Punchcast Inc.

(iii) Included in administration are fees of $50,238 and $130,238 for Chief Financial Officer, accounting and other administrative services (three and nine months ended September 30, 2017 - $18,420 and $24,820, respectively), paid to a company (Ian S. Hulbert Professional Corporation) controlled

by the former Chief Financial Officer of the Corporation. As at September 30, 2018, $nil (December 31, 2017 - $11,300) was owed to this company and this amount was included in accounts payable and accrued liabilities. The Corporation has no ongoing contractual commitment with Ian S. Hulbert Professional Corporation.

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

| | Three Months Ended September 30, 2018 ($) | Three Months Ended September 30, 2017 ($) | Nine Months Ended September 30, 2018 ($) | Period from January 19, 2017 to September 30, 2017 ($) | Period from January 19, 2017 to December 31, 2017 ($) |
|---|---|---|---|---|---|
| Salaries and benefits | 232,509 | 75,000 | 546,176 | 159,480 | 182,924 |
| Share-based payments | 695,300 | - | 695,300 | - | - |
| | 927,809 | 75,000 | 1,241,476 | 159,480 | 182,924 |

As at September 30, 2018, $118,836 (December 31, 2017 - $nil) was owed to key management personnel and this amount was included in accounts payable and accrued liabilities.

**Contractual Obligations**

Refer to the commitment table under the section “Liquidity and Financial Resources” above for details regarding the Corporation’s contractual obligations as at September 30, 2018.

**Critical Accounting Judgments, Estimates, and Assumptions**

The preparation of the 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. The 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 valuation of the liability component of convertible debt is estimated using the prevailing market interest rate for similar non-convertible instruments at the date of issue. This amount is recorded as liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument’s maturity date.
- The valuation of the income tax non-current asset would increase if there was virtual certainty that the tax benefit of net operating losses could be applied to future periods’ taxable income. In the 2017 financial statements the amount of this unbooked benefit was $439,000.
- The valuation of the income tax current asset would increase if there was virtual certainty of realizing the tax benefit from Canadian investment tax credits (“ITCs”) applicable to Canadian qualifying scientific research and experimental development (“SRED”). Virtual certainty has not been obtained for the 2017 SRED ITC claim because the claim has not been filed. Management estimates that the claim, once filed, will be for under $70,000.

- Intangible assets are comprised of the exclusive global license. Intangible assets are initially stated at cost, less accumulated amortization and accumulated impairment losses. Intangible assets with finite useful lives are amortized over their estimated useful lives. The exclusive global license's useful life is 9 years.

**Critical accounting judgments**

- Management applied judgment in determining the functional currency of the Corporation as Canadian dollars; and
- Management's assessment of no indicators of impairment exist for intangible assets, based on the facts and circumstances that existed during the period.

**Share Capital**

Other than as described below, as of the date of this MD&A, there are no equity or voting securities of the Corporation outstanding, and no securities convertible into, or exercisable or exchangeable for, voting or equity securities of the Corporation.

As of the date of this MD&A, the outstanding capital of the Corporation includes 15,213,100 issued and outstanding Common Shares, convertible debentures convertible into 2,700,000 Common Shares, 1,020,000 Meros Special Warrants convertible automatically into Common Shares (upon the Corporation achieving the Meros Milestone) for no additional consideration pursuant to the Meros License Agreement, 200,000 Options exercisable at an exercise price of $5.00 (the Offering Price) until August 16, 2025, 620,000 Options exercisable at an exercise price of $5.00 (the Offering Price) until August 30, 2025, and a series of convertible debentures with a total face value of $12,931,000 convertible into a minimum of 4,497,737 Common Shares, plus accrued and unpaid interest, on the earlier of May 31, 2019 or the 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. See "Options to Purchase Common Shares".

The Triggering Event means a transaction or series of transactions that result in an initial public offering of the Corporation's securities resulting in the Corporation's securities being listed for trading on a stock exchange; an amalgamation, arrangement, merger, reverse takeover, reorganization, or other similar transaction of the Corporation; a sale or conveyance of all or substantially all of the property and assets or shares of the Corporation to any other person for securities of an issuer other than the Corporation.

**Financial Instruments**

**Recognition**

The Corporation 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 Corporation 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 Corporation has no reasonable expectations of recovering the contractual cash flows on a financial asset.

**Classification and Measurement**

The Corporation 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 Corporation 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 Corporation's credit risk.

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

**Financial Instrument Risks**

The Corporation's activities expose it to a variety of financial risks: credit risk, liquidity risk, and market risk (including interest rate and foreign currency risk). These financial risks are in addition to the risks set out under "Risk Factors".

Risk management is carried out by the Corporation'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 2017 Fiscal Period and the 2018 Q3 Period.

**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 Corporation's financial instruments that are exposed to concentrations of credit risk relate primarily to cash and cash equivalents and interest receivable.

The Corporation 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 Corporation's management considers that all the above financial assets are of good credit quality.

**Liquidity risk**

Liquidity risk is the risk that the Corporation encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Corporation 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 Corporation limits its exposure to this risk by closely monitoring their cash flow.

**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 Corporation currently does not have any short-term or long-term debt that is variable interest bearing and, as such, the Corporation'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 Corporation 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 Corporation does not currently use derivative instruments to reduce its exposure to foreign currency risk.

The Corporation holds balances in U.S. 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 U.S. dollar against the Canadian dollar would affect the reported loss and comprehensive loss by approximately $4,500.

**Commitments and Contingency**

The Corporation has leased premises from third parties. The minimum annual lease payments as at December 31, 2017 were $24,000 and as at September 30, 2018 were $20,370.

**Breakdown of Expensed Research and Development**

| | Three Months Ended September 30, 2018 ($) | Three Months Ended September 30, 2017 ($) | Nine Months Ended September 30, 2018 ($) | Period from January 19, 2017 to September 30, 2017 ($) | Period from January 19, 2017 to December 31, 2017 ($) |
|---|---|---|---|---|---|
| Contract research | 207,430 | 86,400 | 814,610 | 86,400 | 369,010 |
| Wages | 81,221 | 13,500 | 241,526 | 26,084 | 60,567 |
| Supplies | 141,100 | 10,415 | 178,100 | 211,680 | 11,680 |
| Regulatory | 17,272 | - | 17,272 | - | - |
| **Total** | **447,023** | **110,315** | **1,251,508** | **324,164** | **441,257** |

**Breakdown of Operating Expenses**

| | Three Months Ended September 30, 2018 ($) | Three Months Ended September 30, 2017 ($) | Nine Months Ended September 30, 2018 ($) | Period from January 19, 2017 to September 30, 2017 ($) | Period from January 19, 2017 to December 31, 2017 ($) |
|---|---|---|---|---|---|
| Administration | 716,192 | 294,361 | 1,203,651 | 460,575 | 680,498 |
| Depreciation of equipment | 1,995 | 1,400 | 4,675 | 2,988 | 3,135 |
| Amortization of intangible assets | 21,111 | 14,568 | 63,333 | 28,735 | 50,206 |
| Accretion and interest on convertible debentures | 267,727 | 22,021 | 394,473 | 42,119 | 60,562 |
| Investor relations and promotions | 81,187 | 55,032 | 152,550 | 89,747 | 163,823 |
| Salaries and benefits | 410,912 | 31,695 | 787,032 | 117,996 | 256,511 |
| Share-based compensation | 757,285 | - | 757,285 | - | - |
| **Total** | **2,256,409** | **419,077** | **3,362,999** | **742,160** | **1,214,735** |

**Breakdown of Intangible Assets**

| | As at September 30, 2018 ($) | As at December 31, 2017 ($) |
|---|---|---|
| Exclusive global license agreement | 767,228 | 767,228 |
| Accumulated amortization | (113,539) | (50,206) |
| **Carrying value** | **653,689** | **717,022** |

## DESCRIPTION OF SHARE CAPITAL

### Common Shares

As of the date hereof 15,213,100 Common Shares are issued and outstanding. Each Common Share entitles the holder to receive notice of and attend all meetings of the Shareholders. Each Common Share carries the right to one vote. The holders of Common Shares are entitled to receive any dividends declared by the Corporation in respect of the Common Shares at such time and in such amount as may be determined by the Board, in its discretion. In the event of the liquidation, dissolution, or winding-up of the Corporation, whether voluntary or involuntary, holders of Common Shares are also entitled to participate, rateably, in the distribution of the assets of the Corporation, subject to the rights of the holders of any other class of shares ranking in priority to the Common Shares. For more information on Common Shares reserved for issuance see "Management's Discussion and Analysis – Share Capital". For a description of the Corporation's dividend policy, see "Dividend Policy".

### Warrants

The Warrants will be governed by the terms of the Warrant Indenture. See "*Material Contracts*". The following summary of certain anticipated provisions of the Warrant Indenture does not purport to be complete and is subject in its entirety to the detailed provisions of the Warrant Indenture. Reference is made to the Warrant Indenture for the full text of the attributes of the Warrants which will be filed by the Corporation under its corporate profile on SEDAR following the closing of the Offering. A register of holders will be maintained at the principal offices of Computershare Trust in Vancouver, British Columbia.

The Unit Shares and the Warrants comprising the Units will separate upon the closing of the Offering. Each Warrant will entitle the holder to acquire, subject to acceleration and adjustment in certain circumstances, one Warrant Share at an exercise price of $6.50 until 4:00 p.m. (Eastern time) on the date that is the earlier of (i) 24 months

from the Closing Date, and (ii) the date specified in any Warrant Acceleration Notice delivered in accordance with the terms of the Warrant Indenture, after which time the Warrants will be void and of no value.

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 Corporation may provide written notice to Computershare Trust and the registered holders of Warrants (a "**Warrant Acceleration Notice**") that the expiry time of the Warrants shall be accelerated to the date which is not less than 15 trading days after the date of such Warrant Acceleration Notice, subject to TSX approval.

The Warrants cannot be exercised through CDS. To exercise their Warrants, all warrant holders have to withdraw their Warrants from CDS and obtain a physical certificate representing their Warrants and then exercise their Warrants in accordance with the terms of the Warrant Indenture.

The Warrant Indenture will provide for adjustment in the number of Warrant Shares issuable upon the exercise of the Warrants and/or the exercise price per Warrant Share upon the occurrence of certain events, including:

i. the issuance of Common Shares or securities exchangeable for or convertible into Common Shares to all or substantially all of the holders of the Common Shares as a stock dividend or other distribution (other than a distribution of Common Shares upon the exercise of Warrants);

ii. the subdivision, redivision or change of the Common Shares into a greater number of shares;

iii. the reduction, combination or consolidation of the Common Shares into a lesser number of shares;

iv. the issuance to all or substantially all of the holders of the Common Shares of rights, options or warrants under which such holders are entitled, during a period expiring not more than 45 days after the record date for such issuance, to subscribe for or purchase Common Shares, or securities exchangeable for or convertible into Common Shares, at a price per share to the holder (or at an exchange or conversion price per share) of less than 95% of the "current market price", as defined in the Warrant Indenture, for the Common Shares on such record date; and

v. the issuance or distribution to all or substantially all of the holders of the Common Shares of shares of any class other than the Common Shares; rights, options or warrants to acquire Common Shares or securities exchangeable or convertible into Common Shares; of evidences of indebtedness, or any property or other assets.

The Warrant Indenture will also provide for adjustments in the class and/or number of securities issuable upon exercise of the Warrants and/or exercise price per security in the event of the following additional events: (a) reclassification or redesignation of the Common Shares or a capital reorganization of the Corporation (other than as described in clauses i or ii above), (b) consolidations, amalgamations, arrangements, mergers or other business combination of the Corporation with or into another entity, or (c) any sale, lease, exchange or transfer of the undertaking or assets of the Corporation as an entirety or substantially as an entirety to another entity, in which case each holder of a Warrant which is thereafter exercised will receive, in lieu of Common Shares, the kind and number or amount of other securities or property which such holder would have been entitled to receive as a result of such event if such holder had exercised the Warrants prior to the event.

The Corporation will also covenant in the Warrant Indenture that, during the period in which the Warrants are exercisable, it will give notice to holders of Warrants of certain stated events, including events that would result in an adjustment to the exercise price for the Warrants or the number of Warrant Shares issuable upon exercise of the Warrants, at least 14 days prior to the record date or effective date, as the case may be, of such events.

No fractional Common Shares will be issuable to any holder of Warrants upon the exercise thereof, and no cash or other consideration will be paid in lieu of fractional shares. The holding of Warrants will not make the holder thereof a shareholder of the Corporation or entitle such holder to any right or interest in respect of the Warrants except as expressly provided in the Warrant Indenture. Holders of Warrants will not have any voting or pre-emptive rights or any other rights of a holder of Common Shares.

The Warrant Indenture will provide that, from time to time, Computershare Trust and the Corporation, without the consent of the holders of Warrants, may be able to amend or supplement the Warrant Indenture for certain

purposes, including rectifying any ambiguities, defective provisions, clerical omissions or mistakes, or other errors contained in the Warrant Indenture or in any deed or indenture supplemental or ancillary to the Warrant Indenture, provided that, in the opinion of Computershare Trust, relying on counsel, the rights of the holders of Warrants are not prejudiced, as a group. Any amendment or supplement to the Warrant Indenture that is prejudicial to the interests of the holders of Warrants, as a group, will be subject to approval by an "Extraordinary Resolution", which will be defined in the Warrant Indenture as a resolution either: (i) passed at a meeting of the holders of Warrants at which there are holders of Warrants present in person or represented by proxy representing at least 25% of the aggregate number of the then outstanding Warrants and passed by the affirmative vote of holders of Warrants representing not less than 66⅔% of the aggregate number of all the then outstanding Warrants represented at the meeting and voted on the poll upon such resolution; or (ii) adopted by an instrument in writing signed by the holders of Warrants representing not less than 66⅔% of the number of all of the then outstanding Warrants.

The principal transfer office of Computershare Trust in Vancouver, British Columbia is the location at which Warrants may be surrendered for exercise or transfer.

## DESCRIPTION OF MATERIAL INDEBTEDNESS

### Convertible Debentures

The Corporation entered into a debenture indenture (the "**Debenture Indenture**") with Alliance Trust Corporation dated May 15, 2018, pursuant to which the Corporation issued, in May and August 2018, convertible debentures (the "**8% Convertible Debentures**") at a price of $1,000 per debenture for aggregate gross proceeds of $12,931,000. The 8% Convertible Debentures bear interest at a rate of 8.00% per annum (on a compounded basis), payable semi-annually in arrears and mature on May 31, 2019 (the "**Maturity Date**"). The 8% Convertible Debentures are direct, subordinated, unsecured obligations of the Corporation and rank equally with one another and to all other existing and future unsecured subordinated indebtedness of the Corporation to the extent subordinated on the same terms. The Debenture Indenture does not restrict the Corporation or its subsidiaries from incurring additional indebtedness or from mortgaging, pledging or charging its properties to secure any indebtedness or liabilities, which may rank ahead of the 8% Convertible Debentures. On the earlier of the Maturity Date (if the Loan Option, as defined below, has not been exercised) or the occurrence of a triggering event which includes a public listing of the Corporation (the "**Triggering Event**"), the 8% Convertible Debentures plus accrued and unpaid interest will be automatically converted into Common Shares, subject to adjustment in certain circumstances, at a price equal to the lesser of ("**Conversion Price**"): (a) 90% of the deemed price of the Common Shares in a Triggering Event; or (b) $2.875 per Common Share. The 8% Convertible Debenture holders may elect, upon providing written notice to the Corporation, that any accrued and unpaid interest on the 8% Convertible Debentures be paid in cash to them in lieu of it being automatically converted into Common Shares at the Conversion Price.

On the Maturity Date, if the Triggering Event has not occurred, the 8% Convertible Debenture holders have the option (the "**Loan Option**") to convert the 8% Convertible Debentures plus accrued and unpaid interest into a loan (the "**Loan**"). The Loan will be payable in equal quarterly payments in arrears over a five-year period. Interest of 12.0% per annum will compound, accrue, and be payable quarterly in arrears on the outstanding balance of the Loan. From time to time, the Corporation may prepay any or all of the principal owing on the Loan without a prepayment penalty. The Loan will be a subordinated and unsecured obligation of the Corporation and will rank equally with all other existing and future unsecured subordinated indebtedness of the Corporation to the extent subordinated on the same terms. The Loan will not restrict the Corporation or its subsidiaries from incurring additional indebtedness or from mortgaging, pledging or charging its properties to secure any indebtedness or liabilities, which may rank ahead of the Loan.

Upon closing of the Offering, the 8% Convertible Debentures will automatically be converted into a minimum of 4,497,737 Common Shares at a price of $2.875 per Common Share. On November 30, 2018, the Corporation paid $517,683.73 in interest to holders of the 8% Convertible Debentures.

Also, on January 31, 2017, the Corporation entered into a convertible debenture (the "**3% Debenture**") with 1476448 Ontario Inc. in the principal amount of $400,000 (the "**3% Convertible Debenture**"). The 3% Convertible Debenture bears interest at a rate of 3.00% per annum, payable monthly in arrears and matures on January 31, 2020. On maturity, the principal amount of the 3% Convertible Debenture is payable in cash if not converted at the discretion of 1476448 Ontario Inc. The 3% Convertible Debenture may be converted into 2,700,000 Common

Shares at any time prior to the close of business on January 31, 2020. The 3% Convertible Debenture is unsecured and is subordinate to all of the Corporation's other short-term and long-term loans and borrowings.

## CONSOLIDATED CAPITALIZATION

The following table sets forth the loan and share capital of the Corporation as at September 30, 2018 together with cash, and cash equivalents, the date of the Corporation's most recent filed financial statements included in this prospectus, being the Interim Financial Statements for the nine months ended September 30, 2018. Other than as disclosed in this prospectus, since September 30, 2018, there have been no material changes in the share capital of the Corporation. This table should be read in conjunction with the Financial Statements and the related notes and Management's Discussion and Analysis of financial condition and results of operations in respect of the Financial Statements appearing elsewhere in this prospectus.

| | **As at September 30, 2018, before giving effect to the Offering** | **As at September 30, 2018, after giving effect to the Offering[(1)]** |
|---|---|---|
| Cash and Cash Equivalents | $11,664,844 | $24,764,844 |
| Convertible Debentures | $12,577,801 | $246,200 |
| Equity Portion of Convertible Debentures | $259,463 | $259,463 |
| Contributed Surplus | $357,335 | $357,335 |
| Share Capital | $4,655,389 | $30,686,389 |
| Deficit | ($6,234,383) | ($6,833,782) |
| Total Equity (Deficit) | ($962,196) | $24,469,405 |

Note:
(1) Assumes that the Over-Allotment Option is not exercised and includes the conversion of the aggregate principal amount of, but not the accrued and unpaid interest due pursuant to, the 8% Convertible Debentures.

## OPTIONS TO PURCHASE COMMON SHARES

### Options

The Board of Directors has adopted a stock option plan (the "**Option Plan**") under which options to purchase Common Shares may be granted to the Corporation's Directors, officers, employees, and consultants. See below "Summary of Option Plan".

As of the date of this prospectus, 820,000 options have been granted and are outstanding under the Corporation's Option Plan. The following table sets out information regarding the outstanding options to purchase Common Shares as of the date of this prospectus.

| **Holder of Options** | **Number of Optionees** | **Common Shares Underlying Options** | **Exercise Price[(1)]** | **Expiry Date** |
|---|---|---|---|---|
| Executive Officers | 1 | 200,000 | $5.00 | August 16, 2025 |
| Directors (other than those who are also Executive Officers) | 4 | 240,000 | $5.00 | August 30, 2025 |
| Other Current and Former Employees and Consultants | 17 | 380,000 | $5.00 | August 30, 2025 |
| **Total** | 22 | 820,000 | $5.00 | August 30, 2025 |

Note:
(1) The exercise price of the Options will be equal to the Offering Price.

**Summary of the Option Plan**

The Option Plan is designed to give individuals an interest in preserving and maximizing shareholder value in the longer term, to enable the Corporation to attract and retain individuals with experience and ability and to reward individuals for current performance and expected future performance.

A description of the current Option Plan in accordance with the disclosure requirements of the TSX is set out below.

Eligible Participants: Directors, Employees and Service Providers (as those terms are defined in the Option Plan) are eligible to be granted options under the Option Plan and are Optionees.

Number of Shares Reserved: The number of Common Shares which may be issued pursuant to options granted under the Option Plan may not exceed 10% of the issued Common Shares from time to time. Common Shares covered by an option that have been exercised, terminated, or expired shall again be available for an option grant. Following the closing of the Offering, a maximum of 2,371,083 Common Shares will be reserved for issuance under the Option Plan (representing approximately 10% of the Common Shares outstanding). As of the date hereof, the total number of Common Shares issuable upon exercise of options granted under the Option Plan is 820,000 Common Shares (representing approximately 5.4% of the Common Shares outstanding and approximately 53.9% of the Common Shares reserved for issuance under the Option Plan). As of the date hereof, Common Shares available for issuance pursuant to future Option grants is 701,310 Common Shares (representing approximately 4.6% of the Common Shares outstanding and approximately 46.1% of the Common Shares reserved for issuance under the Option Plan).

Limitations on Grants: The aggregate number of Common Shares issuable to insiders of the Corporation within any one-year period under the Option Plan, or when combined with all of the Corporation's other security-based compensation arrangements, shall not exceed 10% of the Corporation's total issued and outstanding Common Shares. The aggregate number of Common Shares reserved for issuance to insiders of the Corporation at any time under the Option Plan, or when combined with all of the Corporation's other security-based compensation arrangements, shall not exceed 10% of the Corporation's total issued and outstanding Common Shares.

Exercise Price: The exercise price of the Common Shares covered by each Option is determined by the Board. While the Common Shares are listed on the TSX, the exercise price shall not be less than the "Market Price" of the Common Shares at the time the option is granted. "Market Price" is defined in the Option Plan as the closing price of the Common Shares on the TSX, or another stock exchange where the majority of the trading volume and value of the Common Shares occurs, on the day immediately preceding the relevant date.

Vesting: The Option Plan provides that an option may be exercised (in each case to the nearest full share) during the term of the Option as follows: (a) one-third on the first anniversary of the date of the Option certificate relating to the options; (b) one-third on the second anniversary of the date of the Option certificate; and (c) the remaining one-third shall vest on the third anniversary of the date of the Option certificate.

Term of Options: Subject to the termination and change of control provisions noted below, the term of any option granted under the Option Plan is determined by the Board and may not exceed ten years from the date of grant. Should the expiry date for an option fall within a blackout period or within nine business days following the expiration of a blackout period, such expiry date shall be automatically extended without any further act or formality to that date which is the tenth business day after the end of the blackout period, such tenth business day to be considered the expiry date for such option for all purposes under the Option Plan. A "blackout period" is a period during which designated persons cannot trade Common Shares of the Corporation pursuant to any policy of the Corporation respecting restrictions on trading.

Termination: If the Optionee is a director, Employee, or Service Provider of the Corporation and ceases to be such, other than by reason of death, then the expiry date of the Option is 90 days following the termination date, provided that, the Board has the discretion to waive the 90-day termination requirement, to permit the Optionee to exercise any options for the full term of the Options, unless the Optionee is terminated as a result of certain specified circumstances (including termination for cause for Employees and Service Providers) in which case the expiry date will be the date the Optionee is terminated.

In the event of the death of an Optionee, the Optionee's Option may be exercised only within one year next succeeding such death and then only (i) by the person or persons to whom the Optionee's rights under the Option

shall pass by the Optionee's will or the laws of descent and distribution, and (ii) to the extent that the Optionee was entitled to exercise the Option at the date of death.

Change of Control: In the event of an actual or potential change of control, the Board has the right to deal with any Options in the manner it deems equitable and appropriate in the circumstances, including the right to: (i) determine that any Options will remain in full force and effect in accordance with their terms after the change of control; (ii) cause any Options to be converted or exchanged for options to acquire shares of another entity involved in the change of control, having the same value and terms and conditions as the Options; (iii) accelerate the vesting of any unvested Options; (iv) provide Optionees with the right to surrender any Options for an amount per underlying Common Share equal to the positive difference, if any, between the fair market value of the Common Share on the date of surrender and the Option exercise price of such Options; and (v) accelerate the date by which any Options must be exercised.

Assignability: The benefits, rights, and Options accruing to any Optionee in accordance with the terms and conditions of the Option Plan are not transferable or assignable. During the lifetime of an Optionee any benefits, rights and Options may only be exercised by the Optionee.

Amendment Provisions: The Option Plan provides that the Board may from time to time amend the Option Plan and the terms and conditions of any Option granted thereunder, provided that any such amendment, modification, or change to the provisions of the Option Plan shall: (a) not adversely alter or impair any Option previously granted except as permitted by the adjustment provisions in the Option Plan; (b) be subject to any regulatory approvals, where required, including the approval of the TSX, where necessary; (c) be subject to Shareholder approval in accordance with the rules of the TSX in circumstances where the amendment, modification or change to the Option Plan would (i) reduce the exercise price of an option held by an insider of the Corporation; (ii) extend the term of an Option held by an insider of the Corporation beyond the original term of the Option (other than pursuant to the blackout period provisions); (iii) amend to remove or to exceed the insider participation limits in the Option Plan; (iv) increase the fixed maximum percentage of issued and outstanding Common shares which may be issued pursuant to the Option Plan or change from a fixed maximum percentage of issued and outstanding Common Shares to a fixed maximum number of Common Shares; or (v) amend the amendment provisions and (d) not be subject to Shareholder approval in circumstances where the amendment, modification or change to the Option Plan or Option would (i) be of a "housekeeping nature"; (ii) be necessary for Options to qualify for favourable treatment under applicable tax laws; (iii) alter, extend or accelerate any vesting terms or condition in the Option Plan or any option; (iv) introduce, amend or modify any mechanics for exercising any Option (including relating to a cashless exercise feature or an automatic exercise feature); (v) change the term of an Option or change any termination provision in the Option Plan or any Option (for example, relating to termination of employment, resignation, retirement or death), provided that such change does not entail an extension beyond the original term of such option (other than such period being extended by virtue of the blackout provisions); (vi) introduce a share appreciation right feature payable in cash or Common Shares, provided that such feature provides for a full deduction of the number of underlying Common Shares from the Option Plan maximum as applicable; (vii) change the application of the adjustment or change of control provisions; (viii) add a form of financial assistance or amend a financial assistance provision which is adopted; or (ix) change the eligible participants under the Option Plan.

Financial Assistance: The Option Plan does not provide for the Corporation to give financial assistance to facilitate the purchase of Common Shares under the Option Plan.

Taxes and Source Deductions: The Option Plan provides that the Corporation or any subsidiary may take such reasonable steps for the deduction and withholding of any taxes and other required source deductions that the Corporation or the subsidiary, as the case may be, is required by any law or regulation of any governmental authority whatsoever to withhold, deduct or remit in connection with the Option Plan, any exercise or surrender of any option, or a portion thereof, by an Optionee or any issuance of Common Shares to an Optionee.

In addition, the delivery of any Common Shares to be issued to an Optionee on the exercise or termination of options by the Optionee, may be made conditional upon the Optionee (or other person) reimbursing or compensating the Corporation or making arrangements satisfactory to the Corporation for the payment to it in a timely manner of all taxes required to be remitted for the account of the Optionee.

**Convertible Debentures**

The Corporation issued the 8% Convertible Debentures. Subsequent to the conversion of the convertible debentures, the debenture holders will hold Common Shares. The terms of the 8% Convertible Debentures are set forth in the following table. See "Description of Material Indebtedness" for a complete summary of the terms of the 8% Convertible Debentures.

| Date of Issuance | Principal Amount | Exercise Price per Common Share | Expiry Date | Number of Common Shares into which Convertible Debentures may be Converted |
|---|---|---|---|---|
| January 31, 2017 | $400,000 | $0.14815 | January 31, 2020 | 2,700,000 |
| May 15, 2018 | $5,592,000 | $2.875(1) | May 31, 2019(2) | 1,945,043(3) |
| May 18, 2018 | $3,195,000 | $2.875(1) | May 31, 2019(2) | 1,111,304(3) |
| May 23, 2018 | $1,644,000 | $2.875(1) | May 31, 2019(2) | 571,826(3) |
| May 29, 2018 | $100,000 | $2.875(1) | May 31, 2019(2) | 34,782(3) |
| August 1, 2018 | $2,400,000 | $2.875(1) | May 31, 2019(2) | 834,782(3) |
| **Total** | **$13,331,000** | | | **7,197,737** |

Notes:
(1) The Conversion Price of the Convertible Debentures is the lesser of $2.875 and 90% of the Offering Price.
(2) The Convertible Debentures may only be converted for a period ending 30 days after the Closing.
(3) The number of Common Shares into which Convertible Debentures may be converted is calculated on the basis of the subscription amount per subscriber. The agreements governing the terms of the Convertible Debentures stipulate that any fractional shares will be rounded down with the remainder being paid to the subscriber in cash, in accordance to a prescribed formula.

## PRIOR SALES

The following table summarizes details of the securities issued and issuable by the Corporation during the 12-month period prior to the date of this prospectus.

| Date of Issuance | Description of Transaction | Price per Security | Number of Securities |
|---|---|---|---|
| September 15, 2017 | Private Placement of Common Shares | $1.25 | 1,061,600 |
| September 22, 2017 | Private Placement of Common Shares | $1.25 | 15,000 |
| September 29, 2017 | Private Placement of Common Shares | $1.25 | 126,000 |
| October 26, 2017 | Common Shares issued for services provided(1) | $0.50 | 20,000 |
| October 26, 2017 | Private Placement of Common Shares | $1.25 | 27,000 |
| December 7, 2017 | Private Placement of Common Shares | $1.25 | 45,000 |
| December 14, 2017 | Private Placement of Common Shares | $1.25 | 20,000 |
| December 22, 2017 | Common Shares Issued pursuant to the Meros License Agreement | $1.25 | 200,000 |
| May 15, 2018 | Private Placement of $5,592,000 Convertible Debentures | $2.875 (3) | 1,945,043 |
| May 18, 2018 | Private Placement of $3,195,000 Convertible Debentures | $2.875 (3) | 1,111,304 |
| May 23, 2018 | Private Placement of $1,644,000 Convertible Debentures | $2.875 (3) | 571,826 |
| May 29, 2018 | Private Placement of $100,000 Convertible Debentures | $2.875 (3) | 34,782 |
| August 1, 2018 | Private Placement of $2,400,000 Convertible Debentures | $2.875 (3) | 834,782 |
| August 16, 2018 | Options granted under Stock Option Plan | $5.00(4) | 200,000 |
| August 29, 2018 | CARO Compensation Warrants issued pursuant to the CARO Development Agreement | $4.00 | 824,000(5) |

| Date of Issuance | Description of Transaction | Price per Security | Number of Securities |
|---|---|---|---|
| August 30, 2018 | Common Shares Issued Under Employment Agreement(2) | $0.0005 | 100,000 |
| September 5, 2018 | Options granted under Stock Option Plan | $5.00(4) | 620,000 |
| October 2, 2018 | Meros Special Warrants issued pursuant to the Meros Licence Agreement | $nil(6) | 1,020,000 |

Notes:
(1) Issued to 6341241 Canada Inc. a company owned and controlled by Mr. Michal Mulik, a website developer whom Cardiol engaged on March 13, 2017 to create Cardiol's website. The value of the website development work was determined to be $10,000 based on arm's length negotiations and these Common Shares were issued to 6341241 Canada Inc. following completion of the work in October 2017.
(2) On August 16, 2018, Mr. Waddick was granted an option to acquire 100,000 Common Shares exercisable at a nominal exercise price as a signing bonus as part of his compensation arrangement negotiated at arm's length with the Corporation. Mr. Waddick exercised this option on August 21, 2018.
(3) The Conversion Price of the Convertible Debentures is the lesser of $2.875 and 90% of the Offering Price.
(4) The exercise price of the Options will be equal to the Offering Price.
(5) The exercise price for these warrants will be paid by CARO conducting CARO Development Activities under the CARO Development Agreement See "Our Business – Commercialization Relationships – TecSalud (CARO Development Agreement)".
(6) Issued to replace 1,020,000 Meros Escrow Shares held in escrow pursuant to the Meros Licence Agreement which were cancelled and returned to treasury.

## PRINCIPAL SHAREHOLDERS

As of the date of this prospectus, to the knowledge of the Directors and officers of the Corporation, no person beneficially owns or exercises control or direction over Common Shares carrying more than 10% of the votes attached to Common Shares, except for the following(1):

| Name | Type of Ownership | Number of Common Shares Owned before the Offering | Number of Common Shares Owned after the Offering | Percentage of Outstanding Shares after the Offering |
|---|---|---|---|---|
| David Elsley | Common Shares | 3,000,000 (19.7%) | 3,000,000 | 13.2%(2) |

Notes:
(1) Meros holds 1,020,000 Meros Special Warrants, convertible automatically into Common Shares for no additional consideration on the Corporation's achievement of the Meros Milestone, which, if added to Common Shares currently held by Meros, would result in Meros holding 2,040,000 Common Shares and approximately 13% of the issued and outstanding Common Shares prior to the completion of the Offering.
(2) If the Over-Allotment Option is exercised in full, such holder will own 13.0% (9.3% on a fully diluted basis) of the issued and outstanding Common Shares after the Offering.

## MANAGEMENT

The following table sets out, for each of our directors and executive officers, the person's name, province or state and country of residence, position with us, principal occupation and, if a director, the date on which the person became a director. Our directors are expected to hold office until our next annual general meeting of Shareholders. Our directors are elected annually and, unless re-elected, retire from office at the end of the next annual general meeting of Shareholders. As a group, the Directors and executive officers beneficially own, or control or direct, directly or indirectly, a total of 6,700,000 Common Shares, representing 28.3% of the Common Shares outstanding immediately following the Closing (not including Common Shares that may be issuable on exercise of the Over-Allotment Option and not including Common Shares that are to be issued on the conversion of the accrued and unpaid interest owing pursuant to the 8% Convertible Debentures).

**Directors and Executive Officers**

| Name and Province or State and Country of Residence | Position with the Corporation | Since | Principal Occupation |
|---|---|---|---|
| David Elsley<br>Ontario, Canada | Director, President, and Chief Executive Officer | January 19, 2017 | President, Chief Executive Officer, and Secretary of Cardiol since January 19, 2017. Self-employed, investigating drug formulations that are the foundation of Cardiol's business (from 2013 to 2017). |
| Chris Waddick<br>Ontario, Canada | Chief Financial Officer and Corporate Secretary | August 16, 2018 | Chief Financial Officer and Corporate Secretary of Cardiol since August 16, 2018. Executive Vice President and CFO of Active Energy Inc. since January 2013 and President of NRJ Consulting Inc. since November 2009. |
| Dr. Eldon R. Smith<br>Alberta, Canada | Chief Medical Officer (CMO), Chairman and Director | Chairman since August 21, 2018, Director and CMO since January 19, 2017 | Chief Medical Officer of Cardiol since January 19, 2017. President & CEO, Eldon R. Smith and Associates Ltd., a consulting company, and professor emeritus at the University of Calgary, Faculty of Medicine. |
| Deborah Brown[(1)(2)(4)(5)]<br>Ontario, Canada | Director | August 20, 2018 | Managing Partner of Accelera Canada Ltd., a specialty consultancy firm that assists emerging biopharma ventures in the United States and Europe with the development and implementation of Canadian market strategies; formerly with EMD Serono, an affiliate of Merck KGaA, from 2000 to 2014, including serving as Executive Vice-President of Neuroimmunology for the company's U.S. operations and President and Managing Director of the company's Canadian operations. |
| Iain Chalmers[(1)(2)(5)]<br>Ontario, Canada | Director | August 20, 2018 | Professor of Marketing and Alcohol Business Management, Centennial College, Toronto. Previously, Vice-President of Marketing and Innovation for Diageo Canada (from 2000 to 2016). |
| Terry Lynch[(1)(2)(3)(5)]<br>Ontario, Canada | Director | January 19, 2017 | Chief Executive Officer of Chilean Metals Inc. |
| Dr. Anthony E. Bolton<br>Derbyshire, England | Chief Scientific Officer | January 19, 2017 | Chief Scientific Officer of Cardiol, former Director of Research of Cardiol. Previously self-employed, investigating drug formulations that are the foundation of Cardiol's business (from 2013 to 2017). |
| Peter Pekos<br>Ontario, Canada | Director | December 15, 2017 | President and Chief Executive Officer of Dalton Pharma Services. |
| Dr. Guillermo Torre-Amione[(5)]<br>Monterrey, Mexico | Director | August 20, 2018 | President of TecSalud. Previously, Chief of Heart Failure Division and Medical Director of Cardiac Transplantation, Houston Methodist DeBakey Heart & Vascular Center. |

Notes:
(1) Member of the Audit Committee.
(2) Member of the Corporate Governance and Compensation Committee ("**CG&C Committee**").
(3) Chair of the Audit Committee.
(4) Chair of the CG&C Committee.

(5) Independent.

The following are the remaining members of the Management team of Cardiol that are not executive officers: Anne Tomalin, BA, BSc, RAC – Director of Regulatory Affairs; Blagoja Ristevski, BSc – Director of Chemical Engineering and Manufacturing; and Dolly Kao, BSc, JD – Intellectual Property Counsel.

**Biographies of Directors and Executive Officers**

The following are brief profiles of our executive officers and directors, including a description of each individual's principal occupation within the past five years.

**David Elsley, MBA – President, Chief Executive Officer, and Director**

Mr. David Elsley, MBA, is a business leader with a proven track record of developing, financing, and managing all aspects of corporate development in biotechnology and high-growth organizations. In 1990, Mr. Elsley founded Vasogen Inc., a biotechnology company focused on the research and commercial development of novel therapeutics for the treatment of heart failure and other inflammatory conditions. Mr. Elsley assembled a team of management, directors, and scientific advisors comprising industry professionals and thought leaders from North America and Europe. He managed and directed Vasogen's growth from start-up to an organization employing over 250 people with operations and R&D programs in Canada, the United States, and Europe. Mr. Elsley established the research and development infrastructure, partnerships, manufacturing capability, and corporate quality systems necessary to advance two anti-inflammatory therapies from concept to completion of international multi-center pivotal phase III clinical trials involving 2,500 patients. Vasogen went public on the TSX and the Nasdaq, raising over $200 million to support corporate development and reached a market capitalization of over US$1 billion. Mr. Elsley holds a Master of Business Administration from the Ivey School of Business, University of Western Ontario.

**Eldon R. Smith, OC, LLD (Hon), MD, FCAHS, FCCS, FRCPC – Chairman and Chief Medical Officer**

Dr. Eldon Smith received his medical degree cum laude from Dalhousie University. Following Internal Medicine and Cardiology training in Canada, the UK, and the USA, he joined the Faculty at Dalhousie in 1973. In 1980, Dr. Smith became Head of Cardiology at the University of Calgary and the Foothills Hospital in Calgary; subsequently becoming Chairman of Medicine, Associate Dean for Clinical Affairs, and from 1992 to 1997 Dean of Medicine. From 1997 to 2010, he was Editor-in-Chief of the Canadian Journal of Cardiology. Dr. Smith has published more than 250 papers and has contributed to many organizations, including being President of the Canadian Cardiovascular Society and the Association of Canadian Medical Colleges. In 2006, the Federal government appointed him to Chair the Steering Committee for the Canadian Heart Health Strategy. Dr. Smith became an Officer of the Order of Canada in 2005 and in 2014 received an Honorary Doctor of Laws Degree from Dalhousie University. Over the past 20 years, Dr. Smith has been a Director of more than ten public companies focused on the biotech sector; among his roles are Chairman and Lead Director. Dr. Smith currently serves as Cardiol's Chief Medical Officer.

**Chris Waddick, MBA, CPA – Chief Financial Officer and Corporate Secretary**

Mr. Chris Waddick, MBA, CPA, has thirty years of experience in financial and executive roles in the biotechnology and energy industries, with substantial knowledge of public company management and corporate governance, and in designing, building, and managing financial processes, procedures, and infrastructure. Mr. Waddick most recently served as Executive Vice President and Chief Financial Officer for a private Ontario energy company where he was retained by the shareholders to refinance the company and establish a new strategic direction, as well as the appropriate financial infrastructure. During his tenure, he implemented two corporate restructurings, drove substantial earnings growth, and significantly reduced both cost of capital and debt levels. Mr. Waddick spent more than twelve years at Vasogen Inc., a biotechnology company focused on the research and commercial development of novel therapeutics for the treatment of heart failure and other inflammatory conditions. While serving as Chief Financial Officer and Chief Operating Officer, the company grew from start up to an organization employing over 250 employees that established the necessary systems and infrastructure to advance an anti-inflammatory therapy through to the completion of an international multi-center pivotal trial involving 2,500 patients. Vasogen went public on the TSX and the NASDAQ, raising over $200 million to support corporate development and reached a market capitalization of over US$ 1 billion. Prior to Vasogen, he held progressively

senior financial positions at Magna International Inc. and Union Gas Limited. Mr. Waddick is a CPA and earned a business degree from Wilfrid Laurier University and a Master of Business Administration from York University.

**Anthony E. Bolton, BSc, PhD, DSc – Chief Scientific Officer**

Dr. Anthony Bolton, BSc, PhD, DSc, graduated from the University of London (BSc) in 1967, and from the University of Reading (PhD) in 1970. He was awarded the degree of DSc by the University of Reading and was elected to Fellowship of the Royal College of Pathologists (FRCPath) in 1990. Dr. Bolton's academic career included positions with the Medical Research Council in Edinburgh (1970-76; tenured member of scientific staff), St. Bartholomew's Hospital, London (1976-79; Deputy Director, Immunoassay Research Unit), and the University of East London (1979-85; Reader in Biochemistry). He was appointed Head of Department and Professor of Biomedical Sciences at Sheffield Hallam University (1985-92) and Scientific Director, Biomedical Research Unit, Jessop Hospital for Women, Sheffield (1992-95). His areas of research focus include diagnostics, reproductive physiology, infertility, and immunology/inflammation. Dr. Bolton was co-founder and VP Research, Intermune Life Sciences Inc., Toronto (1992-1995), a biotech company developing technologies in human infertility, and was co-founder, Director of Research, and ultimately CSO, Vasogen Inc. (1992-2008), a company investigating novel anti-inflammatory therapeutic approaches to cardiovascular disease. Dr. Bolton has published over 100 research papers and is named inventor on 15 issued patents.

**Guillermo Torre-Amione, MD, PhD – Director**

Board certified in Cardiovascular Disease and Advanced Heart Failure/Transplant Cardiology, Dr. Guillermo Torre-Amione is former chief of the Heart Failure Division and former medical director of Cardiac Transplantation at the Houston Methodist DeBakey Heart & Vascular Center. He is a senior member at The Methodist Hospital Research Institute, full professor of medicine at the Weill Cornell Medical College of Cornell University, New York, and, more recently, became President of TecSalud, an academic medical center and medical school of the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) in Mexico. Dr. Torre-Amione spearheads the Gene and Judy Campbell Laboratory for Cardiac Transplant Research, where his primary areas of research include heart failure, cardiac transplantation, and the role of the immune response in modulating the progression of heart failure. He initiated a series of clinical studies that led to an FDA-approved phase II clinical trial of neurostimulation in heart failure, a novel approach to the treatment of patients with advanced heart failure. Dr. Torre-Amione received his medical degree from the ITESM and a doctorate degree in immunology from the University of Chicago. He has published more than 170 manuscripts in peer-reviewed journals. He currently divides his time between his clinical and academic activities at The Methodist Hospital and ITESM. Prior to being appointed to Cardiol's Board of Directors, Dr. Torre-Amione was a member of the Corporation's Scientific Advisory Board.

**Iain Chalmers, MBA – Director**

Mr. Iain Chalmers is currently a professor of Marketing and Alcohol Business Management at Centennial College in Toronto, Ontario. He recently transitioned to teaching after spending nearly thirty years in the Consumer Packaged Goods business, where for the last eight years, he was the Vice President of Marketing & Innovation for Diageo Canada, the world's largest alcohol spirits company. Prior to this, he spent eleven years at Gillette/Procter & Gamble in various senior positions, including General Sales and Marketing Director for the Gillette Grooming Division. Iain is a seasoned marketer and brand builder with experience in Canada and the U.S. He led the Business Development and Sales Planning function for Braun USA and worked in marketing and sales positions at Unilever and Wrigley Canada. While at Diageo Canada, he was recognized by Marketing Magazine as one of the top four Marketers in Canada, based on the strong creative output of his team and consistent business performance for global brands, including Guinness, Smirnoff, Crown Royal, and Captain Morgan. Working in the alcohol industry has given Iain extensive experience building brands in a highly government-regulated environment. He is a past member of the Association of Canadian Advertisers, Advertising Standards Canada (ASC) and was a member of the Judicial Committee for ASC. Iain holds a BA in Political Science from University of Western Ontario, a Graduate Certificate in Management from Harvard University, a Bachelor of Education and an MBA from Charles Sturt University, and is a Certified Advertising Agency Practitioner (CAAP) from the Institute of Canadian Advertising.

**Peter Pekos, BSc, MSc – Director**

Mr. Peter Pekos, BSc, MSc, is a veteran of the pharmaceutical services industry. In 1986, he was a founder of Dalton Pharma Services (Dalton). Over a period of 30 years, he directed Dalton's growth based on strong client

relationships. Dalton provides pharma and biotech clients with an array of integrated services in a world-class 42,000 square foot facility, with more than 110 employees, in the heart of one of North America's largest biomedical clusters. This includes premium contract chemistry research, a full range of analytical support, medicinal chemistry, formulation, cGMP manufacture of solid dosage forms, and cGMP aseptic fill-in vials and syringes. Mr. Pekos is currently President and CEO of Dalton, guiding the evolution of the company to best serve the changing needs of its clients throughout the major global economies, including the world's largest pharmaceutical companies. In 1983, he obtained a Chemistry/Biochemistry Double Specialist Degree with a Minor in Biology from the University of Toronto. In 1986, he completed a Master's Degree in synthetic chemistry at York University, and with his Professor, Doug Butler, founded Dalton with a very modest amount of capital. The company used incubator facilities at York University, and initially manufactured and sold specialty chemical compounds. Mr. Pekos also founded Ashbury Biologicals. Inc., a phyto-pharmaceutical company, Jupiter Consumer Products, a company that targeted the development of adult-focused confections, and several other technology-based companies focused on advanced materials and pharmaceutical development tools. Mr. Pekos is currently on the board and was founding Chairman of ventureLAB, a Regional Innovation Center located at IBM's York Region campus. VentureLAB guides government program delivery to support the innovation ecosystem for biotechnology and related industries in southern Ontario.

**Deborah M. Brown, MBA – Director**

Ms. Deborah Brown is Managing Partner of Accelera Canada Ltd., a specialty consultancy firm that assists emerging biopharma ventures with the development and implementation of their Canadian market strategy. She has extensive North American leadership experience, having held progressively senior roles at EMD Serono (a division of Merck KGaA, Merck Serono) from 2000 to 2014, including Executive Vice President of Neuroimmunology for the company's U.S. operations, and President and General Manager of the company's Canadian operations. During her 15 years at EMD Serono Canada, Ms. Brown led the organization through a period of unprecedented growth from a small $10-million affiliate to a mid-sized pharma business with a diversified portfolio generating $150 million in revenue. She led the successful and most critical product launch in Serono's company history in the United States, resulting in a blockbuster product. In 2009, Ms. Brown was inducted into the Canadian Healthcare Marketing Hall of Fame and in 2012, she chaired the National Pharmaceutical Organization (now Innovative Medicines Canada) and served on its Board of Directors from 2007 to 2014. Currently, she sits on the Boards of Life Sciences Ontario, Oncolytics Biotech Inc., the Strategic Executive Advisory Council for Canadian Cancer Trials Group, and her local SPCA. Ms. Brown holds an MBA from University of Western Ontario's Ivey School of Business, a B.Sc. (Hons) from the University of Guelph, and completed the Merck Executive MBA Program at the University of Hong Kong, INSEAD, and Northwestern University's Kellogg School of Management and the Harvard University Advanced Negotiation Skills program.

**Terry Lynch, BBA (Hon) – Director**

Mr. Terry Lynch, BBA (Hon), is currently Chairman and CEO of Chilean Metals Inc., formerly International PBX Ventures, where he was CEO from 2012 to 2016. Mr. Lynch has had a varied and successful career focused on start-up and turn-around opportunities in Energy, Technology, Bio-Technology, Mining, Media, and Industrials. A graduate of St. Francis Xavier University BBA with a joint-honors in Economics, Mr. Lynch started his career in commercial real estate in Calgary in 1981. He moved to Toronto in 1986 within the same field and then left a successful practice to launch his first start-up company, Pallet, Pallet Inc. Over the course of four years, Pallet, Pallet Inc. evolved from original idea to over $100 million in sales, becoming North America's largest manufacturer of wooden pallets. Mr. Lynch then became involved as an Angel Investor start-up board member and executive for several ventures: Energy (Pacific Tiger), Technology (Prolessons.com), and Mining (Reliefgold). In 2007, he became a partner in Kingsmill Capital, a Limited Market Dealer, where he again funded and invested in numerous start-up technology and biotechnology firms.

**Corporate Cease Trade Orders**

Other than as provided below, none of our Directors or executive officers has, within the ten years prior to the date of this prospectus, been a director, chief executive officer, or chief financial officer of any company (including Cardiol) that, while such person was acting in that capacity (or after such person ceased to act in that capacity but resulting from an event that occurred while that person was acting in such capacity) was the subject of a cease-trade order, an order similar to a cease-trade order, or an order that denied the company access to any exemption under securities legislation, in each case for a period of more than 30 consecutive days.

Terry Lynch was the Chief Executive Officer and a director of Firstgold Corp. ("**Firstgold**"). On June 10, 2010, the Ontario Securities Commission issued a temporary cease trade order in respect of the trading in the securities of Firstgold, and later issued a cease trade order in respect of the trading in securities of Firstgold on June 23, 2010.

**Corporate Bankruptcies**

Other than as provided below, none of our Directors or executive officers has, within the ten years prior to the date of this prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager, or trustee appointed to hold its assets, been a director or executive officer of any company, that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager, or trustee appointed to hold its assets.

On January 27, 2010, while Mr. Lynch was the Chief Executive Officer and a director of Firstgold, Firstgold voluntarily filed for bankruptcy protection under Chapter 11 of the U.S Bankruptcy Code. The filing was made in the United States Bankruptcy Court, District of Nevada.

**Penalties or Sanctions**

No Director or executive officer of the Corporation or Shareholder holding sufficient securities of the Corporation to affect materially the control of the Corporation has:

- been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

**Conflicts of Interest**

Other than as described below, to the best of our knowledge, there are no known existing or potential conflicts of interest among us and our Directors, officers, or other members of Management as a result of their outside business interests except that certain of our Directors and officers serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to us and their duties as a director or officer of such other companies.

Peter Pekos, one of our Directors, founded Dalton in 1986 and continues to serve as its President and CEO. Cardiol and Dalton are parties to the Dalton Services Agreement pursuant to which Cardiol has subcontracted the manufacturing of its drug product candidates to Dalton. See "Our Business - Commercialization Relationships – Dalton".

**Advance Notice Requirement**

By-law No. 1 of the Corporation includes an advance notice requirement with respect to the election of our Directors (the "**Advance Notice Requirement**"). The Advance Notice Requirement applies to any Shareholder who intends to nominate any person for election as director of the Corporation, other than pursuant to (a) a requisition of a meeting of shareholders made in accordance with the provisions of the OBCA, or (b) a shareholder proposal made in accordance with the provisions of the OBCA.

Among other things, the Advance Notice Requirement fixes a deadline by which Shareholders must provide notice to the Corporation of nominations for election to the Board. The notice must include all information that would be required to be disclosed, under applicable corporate and securities laws, in a dissident proxy circular in connection with the solicitations of proxies for the election of directors relating to the shareholder making the nominations (as if that shareholder were a dissident soliciting proxies) and each person that the shareholder proposes to nominate for election as a director. In addition, the notice must provide information as to the shareholdings of the shareholder making the nominations, confirmation that the proposed nominees meet the qualifications of directors and residency requirements imposed by corporate law, and confirmation as to whether each proposed nominee is

independent for the purposes of National Instrument 52-110. The deadline by which the notice must be delivered to the Corporation is set out in the table below.

| **Meeting Type** | **Nomination Deadline** |
|---|---|
| Annual meeting of Shareholders | Either (a) no more than 10 days after the date of the first public filing or announcement of the date of the meeting, if the meeting is called for a date that is fewer than 50 days after the date of that public filing or announcement or (b) no fewer than 30 days and no more than 65 days prior to the date of the meeting. |
| Special meeting of Shareholders (which is not also an annual meeting) | No more than 15 days after the date of the first public filing or announcement of the date of the meeting. |

## EXECUTIVE COMPENSATION

### Introduction

The following discussion describes the significant elements of our executive compensation program, with particular emphasis on the process for determining compensation payable to the Corporation's CEO and CFO and the Corporation's only other executive officer, or individual acting in a similar capacity, whose total compensation was, individually, more than $150,000 at the end of the most recently completed financial year (collectively, the "**Named Executive Officers**" or "**NEOs**"). The NEOs are:

- David Elsley, President and CEO;
- Chris Waddick, CFO and Corporate Secretary; and
- Dr. Anthony E. Bolton, CSO.

### Overview

Our Board, with the recommendation of the Corporate Governance and Compensation ("**CG&C**") Committee, makes decisions regarding all forms of compensation, including salaries, bonuses and equity incentive compensation for our President and CEO and our CFO, as well as approves corporate goals and objectives relevant to their compensation. Our CG&C Committee makes decisions in conjunction with feedback from the President and CEO and the CFO regarding the performance of the Corporation's other executive officers. Finally, the CG&C Committee, in tandem with the President and CEO and the CFO, also administers employee incentive compensation, including the Option Plan.

### Compensation Discussion and Analysis

### Our Compensation Objectives

Our compensation practices are designed to retain, motivate, and reward our executive officers for their performance and contribution to our long-term success. The Board seeks to compensate executive officers by combining short-term and long-term cash and equity incentives. It also seeks to reward the achievement of corporate and individual performance objectives and to align executive officers' incentives with the Corporation's performance. The Corporation seeks to tie individual goals to the area of the senior executive officer's primary responsibility. These goals may include the achievement of specific financial or business development goals. Corporation performance goals are based on our financial performance during the applicable financial year.

In order to achieve our growth objectives, attracting and retaining the right team members is critical. A key part of this is a well-thought out compensation plan that attracts high performers and compensates them for continued achievements. Many of the Corporation's team members will participate in the Option Plan, driving retention and ownership. Communicating clear and concrete criteria and processes for merit-based increases and bonuses will also motivate the entire team to achieve individual and corporate goals.

### Elements of Compensation Program

Our executive compensation consists primarily of three elements: base salary, annual bonuses, and long-term equity incentives.

Base Salary

Base salaries for executive officers are established based on the scope of their responsibilities and their prior relevant experience, taking into account compensation paid by other companies in the industry for similar positions and the overall market demand for such executives at the time of hire. The Corporation does not actively benchmark its compensation to other companies, but has reviewed the public disclosure available for other comparable medical marijuana companies to assist in determining the competitiveness of base salary, bonuses, benefits, and stock options paid to the executive officers of the Corporation. An executive officer's base salary is determined by reviewing the executive officer's other compensation to ensure that the executive officer's total compensation is in line with the Corporation's overall compensation philosophy.

Base salaries are reviewed annually and increased for merit reasons, based on the executive's success in meeting or exceeding individual objectives and/or for market competitiveness. Additionally, base salaries can be adjusted as warranted throughout the year to reflect promotions or other changes in the scope or breadth of an executive's role or responsibilities, as well as for market competitiveness.

Bonus Plans

Our compensation program includes eligibility for annual incentive cash bonuses. The range of potential bonuses is based on a percentage of base salary and is reviewed annually. NEO bonuses include corporate and financial performance targets, as well as personal performance objectives that are determined by the Board upon recommendations by the CG&C Committee, which may include the implementation of new strategic initiatives, the development of innovations, team building, the ability to manage the costs of the business, and other factors. The mix between corporate and financial performance targets and personal performance objectives and the resulting bonus entitlements vary for each NEO.

Option Plan

The Board of Directors has adopted the Option Plan, which allows for the grant of incentive stock options to the Corporation's employees, Directors, officers, and consultants. Our Board of Directors will be responsible for administering the Option Plan and the CG&C Committee will make recommendations to the Board of Directors in respect of matters relating to the Option Plan. See "Options to Purchase Common Shares – Summary of the Stock Option Plan".

**Compensation of Named Executive Officers**

The Corporation was not a reporting issuer at any time during its most recently completed financial year. The following table sets out information concerning the expected compensation for the initial period ending December 31, 2018 to be paid to our NEOs, effective as of the Closing.

| Name and Principal Position | Salary[(1)] | Option-Based Awards | Annual Incentive Plans | All other Compensation | Total Compensation |
|---|---|---|---|---|---|
| David Elsley, President and CEO | $450,000 | N/A | Nil | N/A | $450,000 |
| Chris Waddick, CFO and Corporate Secretary | $182,000 | $779,993[(4)] | Nil | $399,950[(3)] | $1,361,943 |
| Dr. Anthony Bolton, CSO | $220,000 | N/A | Nil | N/A | $220,000 |

Notes:

(1) Amounts represent the annualized base salary to be in effect as of the Closing.
(2) Ian Hulbert acted as CFO of the Corporation until August 15, 2018.
(3) On August 16, 2018, Mr. Waddick was granted an option to acquire 100,000 Common Shares exercisable at a nominal exercise price as a signing bonus with respect to his employment with the Corporation. Mr. Waddick exercised this option on August 21, 2018.
(4) The fair value of the options granted has been estimated using the Black-Scholes option-pricing model with the following assumptions: expected dividend yield of 0%; risk-free rate of 2.22%; expected life of 7 years; and an expected volatility of 162%

### Outstanding Option-Based Awards

The following table sets out for each of our NEOs information concerning all option-based awards expected to be outstanding immediately following the Closing.

| | Option-Based Awards | | | |
|---|---|---|---|---|
| **Name** | **Number of Common Shares Underlying Unexercised Options** | **Option Exercise Price** | **Option Expiration Date** | **Value of Unexercised In-the-Money Options[(1)]** |
| David Elsley | N/A | N/A | N/A | N/A |
| Chris Waddick | 200,000[(2)] | $5.00[(3)] | August 16, 2025 | Nil |
| Dr. Anthony Bolton | N/A | N/A | N/A | N/A |

Notes:
(1) The value of unexercised in-the-money options is calculated based on the Offering Price.
(2) These options vest on the earlier to occur of (a) Cardiol'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.
(3) The exercise price of the Options will be equal to the Offering Price.

### Incentive Plan Awards – Value Vested or Earned During the Year

The following table indicates, for each of our NEOs, a summary of the value of the option-based and share-based awards expected to be vested in accordance with their terms during fiscal 2018 (assuming the continued employment of each NEO):

| **Name and Principal Position** | **Option-based awards – Value Expected to be vested during the year** | **Share-based awards – Value Expected to be vested during the year** | **Non-equity incentive plan compensation – Value Expected earned during the year** |
|---|---|---|---|
| David Elsley, President and CEO | N/A | N/A | N/A |
| Chris Waddick, CFO and Corporate Secretary | 200,000[(1)] | N/A | N/A |
| Dr. Anthony Bolton, CSO | N/A | N/A | N/A |

Note:
(1) The value of options expected to be vested during the year is calculated based on the Offering Price of $5.00 per Common Share.

### Employee Agreements and Termination and Change of Control Benefits

The President and Chief Executive Officer and Chief Financial Officer have each entered into an employment agreement with the Corporation. Those employment agreements include provisions regarding base salary, eligibility for annual bonuses, and enrolment of benefits, among other things.

In connection with their employment agreements, and, in the case of the Chief Scientific Officer, his management consulting agreement, each Named Executive Officer entered into a non-disclosure and confidentiality agreement (the "**NDA**"). The NDA requires that all information, such as trade secrets, data, or other proprietary information relating to products, procedures or formulas, that is disclosed to the Named Executive Officer through the course of his or her employment is considered "confidential information" that is the exclusive right and property of the Corporation. Upon the termination of employment, the NDA provides that each Named Executive Officer is prohibited for a period of six years from developing, manufacturing, and marketing products or engaging in consulting services which, in the Corporation's sole discretion, are competitive to the Corporation's business.

The Corporation entered into an employment agreement (the "**Elsley Employment Agreement**") with David Elsley as President and CEO, dated August 4, 2017. Pursuant to the Elsley Employment Agreement, Mr. Elsley may terminate his agreement upon provision of 90 days' written notice to the Corporation. The Corporation may terminate the Elsley Employment Agreement without cause, by providing Mr. Elsley with prior written notice of termination or payment in lieu of notice, or any combination thereof, in the following amounts: (a) if Mr. Elsley is terminated on or after July 1, 2017, the notice period is 12 months; and (b) if Mr. Elsley is terminated without cause

on or after July 1, 2022, the notice period is 18 months. If the Corporation elects to pay Mr. Elsley in lieu of notice, that payment amount is calculated as: (i) prorated base salary; and (ii) an additional 10% for loss of fringe benefits. In addition, Cardiol agreed that should Mr. Elsley's employment terminate for any reason, all unvested stock options held by Mr. Elsley will vest immediately and be exercisable by him at any time up to the original expiry date of that stock option. The Elsley Employment Agreement does not provide change of control benefits.

The estimated incremental payments that would be made to Mr. Elsley upon termination other than for cause is approximately $450,000 if termination occurs after July 1, 2017 and $675,000 if termination occurs after July 1, 2022. See ''Elements of Compensation Program''.

The Corporation entered into an employment agreement (the "**Waddick Employment Agreement**") with Chris Waddick as CFO, dated August 16, 2018. Pursuant to the Waddick Employment Agreement, Mr. Waddick may terminate his agreement upon provision of two weeks' prior written notice to the Corporation. The Corporation may terminate the Waddick Employment Agreement without cause or if Mr. Waddick is Totally Disabled (as such term is defined in the Waddick Employment Agreement), by providing Mr. Waddick greater of: (a) $91,000 (which is the amount equal to six months' pay) or (b) notice of termination or payment in lieu of notice, or any combination thereof and severance pay and vacation pay, if applicable. The Waddick Employment Agreement does not provide change of control benefits.

The estimated incremental payments that would be made to Mr. Waddick upon termination other than for cause is approximately $91,000. See "Elements of Compensation Program''.

### Director Compensation

### Summary of Director Compensation

Each non-employee director of the Corporation receives an annual fee of $40,000 and an additional fee of $5,000 for serving as a member of a committee of the Board. The chairs of the Audit Committee and the CG&C Committee receive an additional annual fee of $15,000 and $10,000, respectively. All Directors are reimbursed for their respective out-of-pocket expenses in relation to their attendance at Board of Directors meetings and committee meetings. Director compensation matters are dealt with by the CG&C Committee.

### Outstanding Option-Based Awards

The following table sets out for each of our directors, other than directors who are also Named Executive Officers, information concerning all option-based awards expected to be outstanding immediately following the Closing of the Offering.

| | Option-Based Awards | | | |
|---|---|---|---|---|
| **Name** | **Number of Common Shares Underlying Unexercised Options** | **Option Exercise Price** | **Option Expiration Date** | **Value of Unexercised In-the-Money Options[(1)]** |
| Dr. Eldon Smith | Nil | N/A | N/A | N/A |
| Peter Pekos | 60,000 | $5.00[(2)] | August 30, 2025 | Nil |
| Terry Lynch | Nil | N/A | N/A | N/A |
| Deborah Brown | 60,000 | $5.00[(2)] | August 30, 2025 | Nil |
| Guillermo Torre-Amione | 60,000 | $5.00[(2)] | August 30, 2025 | Nil |
| Iain Chalmers | 60,000 | $5.00[(2)] | August 30, 2025 | Nil |

Notes:
(1) The value of unexercised in-the-money options is calculated based on the Offering Price.
(2) To be priced at the Offering Price.

### Insurance

The Corporation maintains director and officer liability insurance and errors and omissions insurance.

## Corporate Governance

### Board of Directors

#### Overview

Our articles provide that our Board of Directors is to consist of a minimum of one and a maximum of 10 directors as determined from time to time by the Directors. The articles also provide that the Board of Directors has the power to appoint additional directors. In accordance with the articles of the Corporation and the OBCA, the Board of Directors may appoint one or more additional directors who shall hold office until the close of the next annual meeting of Shareholders, provided that the total number of directors so appointed does not exceed one-third of the number of directors elected at the previous annual meeting of Shareholders.

Our Board of Directors is responsible for supervising the management of our business and affairs. Our Board has adopted a formal mandate setting out its stewardship responsibilities, including its responsibilities for the appointment of Management, management of our Board, strategic and business planning, monitoring of financial performance, financial reporting, risk management, and oversight of our policies and procedures, communications, and reporting and compliance. A copy of the mandate of our Board is attached as Appendix A to this prospectus.

Our Board currently consists of seven directors: Dr. Eldon R. Smith, Peter Pekos, David Elsley, Terry Lynch, Deborah Brown, Dr. Guillermo Torre-Amione, and Iain Chalmers.

Our Board has established the Audit Committee and the CG&C Committee and has or will approve charters for each of these committees, in a form described below, and any other committee established by the Board. Our Board will delegate to the applicable committee those duties and responsibilities set out in each committee's charter. The mandate of our Board, as well as the charters of the various Board committees, sets out in writing the responsibilities of our Board and the committees for supervising the Chief Executive Officer.

#### Independence

As of the Closing, the Board will consist of seven directors, four of whom are independent. Under National Instrument 52-110 – Audit Committees ("**NI 52-110**"), an independent director is one who is free from any direct or indirect relationship which could, in the view of the Board, be reasonably expected to interfere with a director's exercise of independent judgment. The Board has determined that David Elsley and Dr. Eldon Smith, executive officers of the Corporation, and Peter Pekos are not considered independent. Each of Terry Lynch, Deborah Brown, Iain Chalmers, and Guillermo Torre-Amione is considered independent.

In addition to chairing all Board meetings, the Chair's role is to facilitate and chair discussions among the Corporation's independent directors, facilitate communication between the independent directors and Management, and, if and when necessary, act as a spokesperson on behalf of the Board in dealing with the press and members of the public. The Chair's responsibilities and duties will be described in detail in a position description to be developed by the Board.

The Audit Committee consists solely of independent directors, and the CG&C Committee also consists solely of independent directors. In addition, where potential conflicts arise during a director's tenure on the Board, such conflicts are expected to be immediately disclosed to the Board.

We have taken steps to ensure that adequate structures and processes will be in place upon completion of the Offering to permit our Board to function independently of our Management. Our Board will hold regularly scheduled meetings, as well as ad hoc meetings from time to time. It is contemplated that in the course of meetings of the Board or committees of the Board, the independent directors are expected to hold in-camera sessions at which neither non-independent directors nor officers of the Corporation are in attendance.

Our Board will approve written position descriptions for the chair of each of our Board's committees and our Chief Executive Officer.

**Other Directorships**

The following directors of the Corporation are also directors of other reporting issuers (or the equivalent) in Canada or a foreign jurisdiction:

| Name of Director | Name of Reporting Issuer |
|---|---|
| Dr. Eldon R. Smith | Intellipharmaceutics International Inc.<br>Resverlogix Corp.<br>Zenith Capital Corp. |
| Terry Lynch | Chilean Metals Inc. |
| Deborah Brown | Oncolytics Biotech Inc. |

**Orientation and Continuing Education**

New directors of the Corporation are expected to participate in an initial information session on the Corporation in the presence of its senior executive officers to learn about, among other things, the business of the Corporation, its financial situation and its strategic planning. In addition, new directors will be furnished with appropriate documentation providing them with information about, among other matters, the corporate governance practices of the Corporation, the structure of the Board and its committees, the Corporation's history, its commercial activities, its corporate organization, the charters of the Board and its committees, the Corporation's articles, the Corporation's Code of Business Conduct and Ethics, and other relevant corporate policies.

The Corporation will encourage all Directors to attend continuing education programs and intends to facilitate such continuing education of its Directors by providing them with information on upcoming courses and seminars that may be relevant to their role as directors or by hosting brief information sessions during Board meetings by invited external advisors. In addition, the Corporation's Management will periodically make presentations to the Directors on various topics, trends, and issues related to the Corporation's activities during meetings of the Board or its committees, which will be intended to help the Directors to constantly improve their knowledge about the Corporation and its business.

**Code of Conduct**

Our Board of Directors will adopt a written Code of Business Conduct and Ethics (the "**Code**") that applies to directors, officers, and employees. The objective of the Code is to provide guidelines for enhancing our reputation for honesty, integrity and the faithful performance of undertakings and obligations. The Code will address conflicts of interest, use of company assets, inventions, use of Corporation email and internet services, disclosure, corporate opportunities, confidentiality, fair dealing, and compliance with laws. As part of our Code, any person subject to the Code is required to avoid any activity, interest (financial or otherwise), or relationship that would create or appear to create a conflict of interest.

Our Directors will be responsible for monitoring compliance with the Code, for regularly assessing its adequacy, for interpreting the Code in any particular situation, and for approving changes to the Code from time to time.

Directors and executive officers are required by applicable law and our corporate governance practices and policies to promptly disclose any potential conflict of interest that may arise. If a director or executive officer has a material interest in an agreement or transaction, applicable law and principles of sound corporate governance require them to declare the interest in writing and where required by applicable law, to abstain from voting with respect to such agreement or transaction.

A copy of the Code will be available for review under our profile on the SEDAR website at www.sedar.com upon the completion of the Offering.

The Corporation will also adopt an Insider Trading Policy, a Confidentiality and Disclosure Policy and a Whistleblower Policy, which complement the obligations of our Directors, officers, and employees under the Code. Copies of the Insider Trading Policy, Confidentiality and Disclosure Policy, and Whistleblower Policy will be available on our website at www.cardiolrx.com following the Closing.

**Board of Directors Committees**

**Audit Committee**

The Corporation's Audit Committee consists of three directors, all of whom are independent. They are also all financially literate in accordance with NI 52-110. The members of the Audit Committee are Terry Lynch (Chair), Iain Chalmers, and Deborah Brown.

For the purposes of NI 52-110, an individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the issuer's financial statements. All members of the Audit Committee have experience reviewing financial statements and dealing with related accounting and auditing issues. The education and experience of each member of the Audit Committee relevant to the performance of his/her duties as a member of the Audit Committee can be found under the heading "Management – Biographies".

Our Board of Directors has adopted a written charter for the Audit Committee. The mandate of the Audit Committee is to assist our Board in fulfilling its financial oversight obligations, including the responsibility: (1) to identify and monitor the management of the principal risks that could impact the financial reporting of the Corporation; (2) to monitor the integrity of our financial reporting process and our internal accounting controls regarding financial reporting and accounting compliance; (3) to oversee the qualifications and independence of our external auditor; (4) to oversee the work of our financial management and external auditor; and (5) to provide an open avenue of communication between the external auditors, our Board, and our Management.

A copy of the charter of the Audit Committee is attached as Appendix B to this prospectus.

Under its charter, the Audit Committee is required to pre-approve all audit and non-audit services to be performed by the external auditors in relation to us, together with approval of the engagement letter for all non-audit services and estimated fees thereof. The pre-approval process for non-audit services will also involve a consideration of the potential impact of such services on the independence of the external auditors.

Fees billed by the Corporation's external auditor, BDO, since their appointment were as follows: audit fees[(1)] of $●, audit related fees[(2)] of $●, tax fees[(3)] of $●, and all other fees[(4)] $●, for a total of $●.

Notes:
(1) Fees for audit services.
(2) Fees for assurance and related services not included in audit services above.
(3) Fees for tax compliance, tax advice and tax planning.
(4) All other fees not included above.

**Corporate Governance and Compensation Committee**

The Board has appointed the CG&C Committee comprising three directors, all of whom are independent. The members of the CG&C Committee are Deborah Brown (Chair), Iain Chalmers, and Terry Lynch.

Prior to the Closing, our Board will adopt a written charter setting forth the purpose, composition, authority and responsibility of the CG&C Committee. The mandate of the CG&C Committee is to assist our Directors in carrying out the Board's oversight responsibility for (i) ensuring that our strategic direction is reviewed annually, (ii) ensuring that the Board and each of its committees carry out their respective functions in accordance with an appropriate process; (iii) overseeing our human resources and compensation policies and processes; and (iv) demonstrating to our Shareholders that the compensation of the directors who are also our employees is recommended by directors who have no personal interest in the outcome of decisions of the CG&C Committee and who will have due regard to the interests of all of our Shareholders.

The CG&C Committee is responsible for overseeing and assessing the functioning of the Board of Directors, its committees and individual directors, and for the development, recommendation to the Board, implementation and assessment of effective corporate governance principles. The CG&C Committee is also responsible for identifying candidates for directorship and recommending that the Board select qualified director candidates for election to the Board. There is no formal assessment process. Rather, the CG&C Committee is responsible for determining the appropriate assessment process.

The process by which the Board of Directors identifies new candidates for board nomination is set out in the CG&C Committee charter.

The primary responsibilities of the CG&C Committee with respect to compensation are to make recommendations to our Board in respect of: (1) compensation policies and guidelines; (2) Management incentive and perquisite plans and any non-standard remuneration plans; (3) senior management, executive, and officer compensation; and (4) Board compensation matters. In carrying out these responsibilities, the CG&C Committee will evaluate the performance of our CEO and all other senior executives in consideration of the respective performance goals and objectives for each such individual and recommend to our Board the amount of regular and incentive compensation to be paid to our CEO and all other senior executives; review and recommend to our Board our CEO's performance evaluations and recommendations for compensation of our officers and key employees (other than our senior executives); review our compensation philosophy and make recommendations for changes, where appropriate; review and make recommendations to our Board with respect to incentive-based compensation plans and equity-based plans (including stock option plans); review and recommend to our Board the aggregate bonus pools to be made available under our incentive compensation plans for senior management, executives, and officers; prepare or review the report on executive compensation and compensation discussion and analysis required to be included in our continuous disclosure documentation; and review and make periodic recommendations to our Board regarding the compensation of our Board. More information on the process by which compensation for our Directors and officers is determined as set forth under the headings "Executive Compensation" and "Director Compensation".

**Majority Voting Policy**

Prior to the Closing the Corporation will adopt a Majority Voting Policy in director elections that will apply at any meeting of our Shareholders where an uncontested election of directors is held. Pursuant to this policy, if the number of proxy votes withheld for a particular director nominee is greater than the votes for such director, the director nominee will be required to submit his or her resignation as a director to the chair of the Board promptly following the applicable shareholders' meeting. Following receipt of the resignation, the CG&C Committee will consider whether or not to accept the offer of resignation and make a recommendation to the Board. Within 90 days following the applicable shareholders' meeting, the Board shall publicly disclose their decision whether or not to accept the applicable director's resignation, including the reasons for rejecting the resignation, if applicable. A director who tenders his or her resignation pursuant to this policy will not be permitted to participate in any meeting of the Board or the CG&C Committee at which the resignation is considered. A copy of the Majority Voting Policy will be available on our website at www.cardiolrx.com following the Closing.

**Assessments**

As described above, the CG&C Committee is responsible for overseeing and assessing the functioning of the Board and the committees of the Board. The CG&C Committee must annually review and evaluate and make recommendations to the Board with regard to the size, composition, and role of the Board and its committees (including the type of committees to be established) and the methods and processes by which the Board, committees and individual directors fulfill their duties and responsibilities, including the methods and processes for evaluating Board, committee, and individual director effectiveness.

**Term**

The Corporation has not adopted term limits for Directors of the Corporation. The Board believes that the need to have experienced directors who are familiar with the business of the Corporation must be balanced with the need for renewal, fresh perspectives, and a healthy skepticism when assessing Management and its recommendations. In addition, as mentioned above, the Board undertakes an assessment process that evaluates its effectiveness.

While term limits can help ensure the Board gains fresh perspective, imposing this restriction means the Board would lose the contributions of longer serving directors who have developed a deeper knowledge and understanding of the Corporation over time. The Board believes that term limits have the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increased insight into the Corporation and its operations and therefore provide an increased contribution to the Board as a whole.

**Board and Senior Management Diversity**

The Corporation recognizes and embraces the benefits of diversity, including gender diversity on the Board and in senior management. Currently, 14.3% (one) of the Board members is female and none of the executive officers of the Corporation is female. Prior to the Closing, the Corporation will adopt a Diversity Policy, which recognizes that it is important to ensure that members of the Board and our senior management provide the necessary range of perspectives, experience, and expertise required to achieve our objectives and deliver for our stakeholders.

The Corporation also recognizes that the Board and its senior management appointments must be based on performance, ability, merit and potential. Therefore, the Corporation ensures a merit-based competitive process for appointments. The Corporation's commitment to diversity will include ensuring that diversity is fully considered by CG&C Committee in identifying, evaluating, and recommending Board appointees/nominees to the Board.

With respect to the Board composition, on an annual basis, the CG&C Committee will (i) assess the effectiveness of the Board appointment/nomination process at achieving the Corporation's diversity objectives; and (ii) consider and, if determined advisable, recommend to the Board for adoption, measurable objectives for achieving diversity on the Board. Currently, the Board does not believe that targets or strict rules set forth in a formal policy necessarily result in the identification or selection of the best candidates. At any given time, the Board may seek to adjust one or more objectives concerning its diversity and measure progress accordingly.

With respect to senior management appointments, on an annual basis, the CG&C Committee will (i) assess the effectiveness of the senior management appointment process at achieving the Corporation's diversity objectives; and (ii) consider and, if determined advisable, recommend to the Board for adoption, measurable objectives for achieving diversity in senior management. At any given time, the Board may seek to adjust one or more objectives concerning senior management diversity and measure progress accordingly.

## INDEBTEDNESS OF DIRECTORS AND SENIOR OFFICERS

None of the Corporation's Directors or officers or any of their respective associates is indebted to the Corporation or has been subject of a guarantee, support agreement, letter of credit or similar arrangement or understanding provided by the Corporation or any of our subsidiaries.

## PLAN OF DISTRIBUTION

**General**

Notwithstanding the following, an Underwriting Agreement is not expected to be executed by the Corporation and the Underwriters until a final prospectus is finalized.

Pursuant to the Underwriting Agreement dated December ●, 2018 between the Corporation and the Underwriters, the Corporation has agreed to sell and the Underwriters has agreed to purchase on December ●, 2018 (or such later date as the Corporation and the Underwriters agree, but not later than ●, 2019. 3,000,000 Units, each at a price of $5.00 per Unit, for approximate aggregate gross consideration of $15,000,000 payable in cash to the Corporation against delivery of the Units. The Offering Price of the Units has been determined by negotiation between the Corporation and the Underwriters.

Pursuant to the Underwriting Agreement, the Corporation has granted the Underwriters an over-allotment option to cover over-allotments, if any. The Over-Allotment Option may be exercised by the Underwriters, in whole or in part, for a 30-day period following the Closing. The Over-Allotment Option may be exercised by the Underwriters: (i) to acquire Over-Allotment Units at the Offering Price; (ii) to acquire Over-Allotment Shares at a price of $4.62 per Over-Allotment Share; or (iii) to acquire Over-Allotment Warrants at a price of $0.38 per Over-Allotment Warrant; or (iv) to acquire any combination of Over-Allotment Units, Over-Allotment Shares or Over-Allotment Warrants, so long as the aggregate number of Over-Allotment Shares and Over-Allotment Warrants that may be issued under the Over-Allotment Option does not exceed 450,000 Over-Allotment Shares and 450,000 Over-Allotment Warrants. If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Underwriters' Fee" and "Net Proceeds to the Corporation" will be $17,250,000, $1,035,000 and $16,215,000, respectively.

The Units will be offered in each of the provinces of Canada, except Québec, through the Underwriters or their respective affiliates who are registered to offer the Units for sale in such provinces and such other registered

dealers as may be designated by the Underwriters. Subject to applicable law, the Underwriters may offer the Units outside of Canada.

Subscriptions will be received subject to rejection or allotment in whole or in part and the Underwriters reserves the right to close the subscription books at any time without notice. One or more certificates representing the Units to be sold in the Offering will be issued in registered form to CDS and deposited with CDS on the Closing Date. A purchaser of Units will receive only a customer confirmation from the registered dealer from or through which the Units are purchased. Notwithstanding the foregoing, Unit Shares and Warrants sold to certain persons in the United States will be represented by physical certificates registered in the names of the purchasers thereof or their nominees.

The TSX has conditionally approved the listing of the Common Shares, the Unit Shares, the Warrants and the Warrant Shares on the TSX. Listing is subject to approval by the TSX of our listing application and the fulfillment by us of all of the initial listing requirements and conditions of the TSX. The Common Shares and the Unit Shares will be listed on the TSX under the symbol “CRDL”. The Warrants will be listed on the TSX under the symbol “CRDL.WT”.

The Units being issued in the Offering, the Unit Shares and the Warrants underlying the Units and the Warrant Shares issuable upon exercise of the Warrants, have not been or will not be registered under the U.S. Securities Act or any state securities laws and may not be offered and sold in the United States (within the meaning of Regulation S under the U.S. Securities Act) or to, or for the account or benefit of, U.S. persons (within the meaning of Regulation S under the U.S. Securities Act) except pursuant to an exemption from the registration requirements of the U.S. Securities Act and applicable state securities laws. Accordingly, except to the extent permitted by the Underwriting Agreement, the Units may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons. The Underwriting Agreement provides that the Underwriters may offer and sell the Units that they have acquired pursuant to the Underwriting Agreement to “qualified institutional buyers” in the United States or who are U.S. persons, in accordance with Rule 144A under the U.S. Securities Act and in compliance with applicable state securities laws. The Underwriting Agreement also provides that the Underwriters may offer the Units in the United States to, and to U.S. persons who are, “accredited investors” within the meaning of Rule 501(a) of Regulation D under the U.S. Securities Act, for sale directly the Corporation in accordance with the exemption from the registration requirements of the U.S. Securities Act provided by Rule 506(b) of Regulation D under the U.S. Securities Act. Moreover, the Underwriting Agreement provides that the Underwriters will offer and sell the Units outside the United States only to non-U.S. persons in accordance with Rule 903 of Regulation S under the U.S. Securities Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Units within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from the registration requirements of the U.S. Securities Act.

In connection with the Offering, the Underwriters or securities dealers may distribute the prospectus electronically.

Upon completion of the Offering, assuming there has been no exercise of the Over-Allotment Option (and excluding any Common Shares that may be issued on the conversion of the accrued and unpaid interest owing under the 8% Convertible Debentures), the Corporation expects to have a total of 22,710,837 outstanding Common Shares issued and outstanding on a non-diluted basis, and if the Over-Allotment Option is exercised in full, a total of 23,160,837 Common Shares issued and outstanding on a non-diluted basis.

The obligations of the Underwriters under the Underwriting Agreement are subject to certain closing conditions and may be terminated at their discretion on the basis of their assessment of the state of the financial markets and upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Common Shares if any Common Shares are purchased under the Underwriting Agreement. In consideration for its agreement to purchase the Common Shares, the Corporation has agreed to pay the Underwriters a fee equal to $0.30 per Unit sold in the Offering. The Corporation has agreed to indemnify the Underwriters against certain liabilities under applicable securities laws, and to contribute to payments that the Underwriters may be required to make in respect of applicable securities laws.

**Pricing of the Offering**

Prior to the Offering, there was no public market for the Common Shares. The Offering Price has been negotiated between the Corporation and the Underwriters. Among the factors considered in determining the Offering Price of the Units were the following:

- prevailing market conditions
- historical performance and capital structure of the Corporation
- estimates of the business potential and earnings prospects of the Corporation
- availability of comparable investments
- an overall assessment of Management
- the consideration of these factors in relation to market valuation of companies in related businesses

**Price Stabilization, Short Positions, and Passive Market Making**

In connection with the Offering, the Underwriters may over allocate or effect transactions that stabilize or maintain the market price of the Common Shares at levels other than those that otherwise might prevail on the open market, including:

- stabilizing transactions
- short sales
- purchases to cover positions created by short sales
- imposition of penalty bids
- syndicate covering transactions

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Common Shares while the Offering is in progress. These transactions may also include making short sales of the Common Shares, which involve the sale by the Underwriters of a greater number of Common Shares than is required to purchase in the Offering. Short sales may be “covered short sales”, which are short positions in an amount not greater than the Over-Allotment Option, or may be “naked short sales”, which are short positions in excess of that amount.

The Underwriters may close out any covered short position either by exercising the Over-Allotment Option, in whole or in part, or by purchasing Common Shares in the open market. In making this determination, the Underwriters will consider, among other things, the price of Common Shares available for purchase in the open market compared with the price at which they purchase Common Shares through the Over-Allotment Option.

The Underwriters must close out any naked short position by purchasing Common Shares in the open market. A naked short position is more likely to be created if the Underwriters are concerned that there may be downward pressure on the price of the Common Shares in the open market that could adversely affect investors who purchase Common Shares in the Offering. Any naked short sales will form part of the Underwriters’ over-allocation position. A purchaser who acquires Common Shares forming part of the Underwriters’ over-allocation position resulting from any covered short sales or naked short sales will, in each case, acquire such Common Shares under this Prospectus, regardless of whether the Underwriters’ over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

In addition, in accordance with rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period of distribution, bid for or purchase Common Shares. The foregoing restriction is, however, subject to exceptions where the bid or purchase is not made for the purpose of creating actual or apparent active trading in, or raising the price of, the Common Shares. These exceptions include a bid or purchase permitted under the rules of applicable regulatory authorities and the applicable stock exchange, including the Universal Market Integrity Rules for Canadian Marketplaces, relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution.

As a result of these activities, the price of the Common Shares may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Underwriters at any

time. The Underwriters may carry out these transactions on any stock exchange on which the Common Shares are listed, in the over-the-counter market, or otherwise.

**Over-Allotment Option**

The Corporation has granted to the Underwriters an over-allotment option, exercisable, in whole or in part, at the sole discretion of the Underwriters, for a period of 30 days from the Closing Date, to purchase from the Corporation: (i) up to 600,000 Over-Allotment Units (representing 15% of the Units offered under this prospectus), at the Offering Price; or (ii) up to 450,000 Over-Allotment Shares at a price of $4.62 per Over-Allotment Share; or (iii) up to 450,000 Over-Allotment Warrants at a price of $0.38 per Over-Allotment Warrant; or (iv) any combination of Over-Allotment Units, Over-Allotment Shares or Over-Allotment Warrants, so long as the aggregate number of Over-Allotment Shares and Over-Allotment Warrants that may be issued under the Over-Allotment Option does not exceed 450,000 Over-Allotment Shares and 450,000 Over-Allotment Warrants. The Over-Allotment Option is exercisable in whole or in part only for the purpose of covering over-allotments, if any, made by the Underwriters in connection with the Offering. The Corporation will pay the Underwriters' commission in respect of Over-Allotment Securities sold under the Over-Allotment Option if the Over-Allotment Option is exercised. If the Over-Allotment Option is exercised in full, the total price to the public, the Underwriters' commission, and net proceeds to the Corporation before deducting other expenses of the Offering will be $17,250,000, $1,035,000 and $16,215,000, respectively. This prospectus qualifies the grant of the Over-Allotment Option and the issuance of Over-Allotment Securities issuable upon exercise of the Over-Allotment Option. A purchaser who acquires securities forming part of the Underwriters' over-allocation position acquires those securities under this prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

**Lock-Up Arrangements**

In connection with the completion of the Offering, we expect (i) each member of Management; (ii) each Director of the Corporation; (iii) those persons identified as significant shareholders and (iv) certain shareholders that are not significant shareholders as mutually agreed upon between the Underwriters and the Corporation, to agree, subject to certain customary exceptions, to not, directly or indirectly, offer, sell, contract to sell, secure, pledge, grant or sell any option, right or warrant to purchase, or otherwise lend, transfer or dispose of any equity securities of the Corporation or make any short sale, engage in any hedging transaction or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of equity securities of the Corporation during a period commencing on the Closing Date and ending on the date which is 180 days after the Closing Date for persons described in (i), (ii), and (iii) and 90 days for persons described in (iv). In addition, we will enter into an agreement with the Underwriters in which we will agree that the Corporation will not, directly or indirectly, offer, issue, grant any option, right or warrant to purchase, or otherwise transfer or dispose of any equity securities of the Corporation, financial instruments or equity securities convertible into or exercisable or exchangeable for equity securities of the Corporation or announce any intention to do any of the foregoing, in a public offering, by way of a private placement or otherwise (except pursuant to employee or executive incentive compensation arrangements approved by the Underwriters), or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of equity securities of the Corporation, whether any such transaction is to be settled by delivery of equity securities of the Corporation, other securities, cash or otherwise.

**Standstill**

The Corporation has agreed with the Underwriters that until the date which is six months after the Closing Date, the Corporation will not, without the prior written consent of the Lead Underwriters, which such consent is not to be unreasonably withheld, directly or indirectly, issue, sell, offer, grant an option or right in respect of (or agree to or publicly announce any intention to do any of the foregoing) any additional securities of the Corporation, other than (i) pursuant to the Offering; (ii) grant, exercise or conversion of stock options and other similar issuances pursuant to any stock option plan, profits interest plan or similar share compensation arrangements; (iii) the issuance of securities of the Corporation upon the exercise of convertible securities, warrants, options or similar obligations.

**Commissions and Expenses**

The following table shows the per Unit and total Underwriters' commission the Corporation will pay to the Underwriters, assuming both no exercise and full exercise of the Underwriters' Over-Allotment Option:

| | Over-Allotment Not Exercised | Over-Allotment Fully Exercised |
|---|---|---|
| Per Unit (total) | $0.30 (900,000) | $0.30 (1,035,000) |
| Compensation Warrants | 180,000 | 207,000 |

The Underwriters proposes to offer the Units initially at the Offering Price stated on the cover page of this prospectus. After the Underwriters has made a reasonable effort to sell all of the Units offered by this prospectus at that price, the initially stated Offering Price may be decreased, and further changed from time to time, by the Underwriters to an amount not greater than the initially stated Offering Price and, in such case, the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the Units is less than the gross proceeds paid by the Underwriters to the Corporation.

It is estimated that the total expenses of the Offering, not including the Underwriters' commission, will be approximately $1,000,000.

**Book Entry System**

Subscriptions for the Units will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Certificates representing the Units sold under the Offering in Canada will be issued in registered form to CDS or its nominee on the Closing Date. Transfers of ownership of Units in Canada will be effected through records maintained by participants in the CDS depository service ("**CDS Participants**"), which include securities brokers and dealers, banks and trust companies. Indirect access to the CDS book entry system is also available to other institutions that maintain custodial relationships with a CDS Participant, either directly or indirectly. Each purchaser of Units in Canada will receive a customer confirmation of purchase from the CDS Participant from or through which such Units are purchased in accordance with the practices and procedures of such CDS Participant.

## RISK FACTORS

Investing in our Common Shares involves significant risks. You should carefully consider the risks described below, which are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this prospectus, and all other information contained in this prospectus, including the Financial Statements and accompanying notes, before purchasing the Units. The risks and uncertainties described below are those we currently believe to be material, but they are not the only ones we face. If any of the following risks, or any other risks and uncertainties that we have not yet identified or that we currently consider not to be material, actually occur or become material risks, our business, prospects, financial condition, results of operations, and cash flows could be materially and adversely affected. In that event, the trading price of our Common Shares could decline materially, and you could lose part or even all of your investment.

**Risks Related to Our Business**

**The Corporation's prospects depend on the success of its nanotherapeutic and GBM product candidates which are at early stages of development, and from sales of our pharmaceutical cannabidiol products and we do not expect to generate revenue for several years, if at all, from these products**

Given the early stage of development of our nanotherapeutics and GBM product candidates, we can make no assurance that our research and development programs will result in regulatory approval or commercially viable products. To achieve profitable operations, we, alone or with others, must successfully develop, gain regulatory approval, and market our future products. We currently have no products that have been approved by the FDA, Health Canada, or any similar regulatory authority. To obtain regulatory approvals for our product candidates being developed and to achieve commercial success, clinical trials must demonstrate that the product candidates are safe for human use and that they demonstrate efficacy. We have no products or technologies which are currently in human clinical trials.

Many product candidates never reach the stage of clinical testing and even those that do have only a small chance of successfully completing clinical development and gaining regulatory approval. Product candidates may fail for a number of reasons, including, but not limited to, being unsafe for human use or due to the failure to provide therapeutic benefits equal to or better than the standard of treatment at the time of testing. Positive results of early preclinical research may not be indicative of the results that will be obtained in later stages of preclinical or clinical research. Similarly, positive results from early stage clinical trials may not be indicative of favorable outcomes in later-stage clinical trials. We can make no assurance that any future studies, if undertaken, will yield favorable results. The early stage of our nanotherapeutic and GBM product development makes it particularly uncertain whether any of our product development efforts will prove to be successful and meet applicable regulatory requirements, and whether any of our product candidates will receive the requisite regulatory approvals, be capable of being manufactured at a reasonable cost or be successfully marketed. If we are successful in developing our current and future product candidates into approved products, we will still experience many potential obstacles such as the need to develop or obtain manufacturing, marketing and distribution capabilities. If we are unable to successfully commercialize any of our products, our financial condition and results of operations may be materially and adversely affected.

We currently have no products for commercial sale or licensed for commercial sale. Our only current potential source of revenue is the potential sale of our pharmaceutical cannabidiol, and significant efforts are needed to achieve sales of such product and consequently initial revenues from the sale of pharmaceutical cannabidiol are not expected until the second half of 2019. As a result, we are not currently generating revenue from our products and do not expect to generate significant revenue from our products over the next several years, and may never generate revenue from the sale or licensing of our products, or otherwise.

**The Continued Development of the Corporation will Require Additional Financing**

There is no guarantee that the Corporation will be able to execute on its strategy. The continued development of the Corporation will require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business strategy or the Corporation ceasing to carry on business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Corporation. If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences, and privileges superior to those of holders of Common Shares. In addition, from time to time, the Corporation may enter into transactions to acquire assets or the shares of other Companies. These transactions may be financed wholly or partially with debt, which may temporarily increase the Corporation's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Corporation to obtain additional capital and to pursue business opportunities, including potential acquisitions. Debt financings may contain provisions, which, if breached, may entitle lenders to accelerate repayment of loans and there is no assurance that the Corporation would be able to repay such loans in such an event or prevent the enforcement of security granted pursuant to such debt financing. The Corporation may require additional financing to fund its operations to the point where it is generating positive cash flows. Negative cash flow may restrict the Corporation's ability to pursue its business objectives.

In the event of bankruptcy, liquidation, or reorganization of Cardiol, holders of its debt and its trade creditors will generally be entitled to payment of their claims from the assets of Cardiol before any assets are made available for distribution to Cardiol or its Shareholders. The Common Shares are effectively subordinated to the debt and other obligations of Cardiol.

**Negative Cash Flow from Operations**

During the 2017 Fiscal Period, the Corporation had negative cash flow from operating activities. Although the Corporation anticipates it will have positive cash flow from operating activities in future periods, to the extent that the Corporation has negative cash flow in any future period, up to $12 million of the net proceeds from the Offering may be used to fund such negative cash flow from operating activities, if any.

**We intend to expend our limited resources to pursue our current product candidates, and may fail to capitalize on other product candidates that may be more profitable or for which there is a greater likelihood of success**

Because we have limited financial and managerial resources, we are focusing on research programs relating to our current product candidates, which concentrates the risk of product failure in the event that our current product candidates prove to be unsafe or ineffective or inadequate for clinical development or commercialization. Our resource allocation decisions may cause us to fail to capitalize on viable commercial products or profitable market opportunities. Our spending on proprietary research and development programs relating to our current product candidates may not yield any commercially viable products.

**We have a history of operating losses and may never achieve or maintain profitability in the future**

Cardiol's net loss for the fiscal period ended December 31, 2017 was $1,660,926 and for the nine months ended September 30, 2018 was $4,573,457. We have not generated any significant revenue to date and it is possible that we will never have sufficient product sales revenue (if any) to achieve profitability. We expect to continue to incur losses for at least the next several years as we or our collaborators and licensees pursue clinical trials and research and development efforts. We take steps to meet the increased compliance requirements associated with our transition to and operation as a public company. To become profitable, we, either alone or with our collaborators and licensees, must successfully market our pharmaceutical cannabidiol and develop, manufacture and market our current product candidates, as well as continue to identify, develop, manufacture and market new product candidates. It is possible that we will never have significant product sales revenue or receive royalties on our licensed product candidates. If funding is insufficient at any time in the future, we may not be able to develop or commercialize our products, take advantage of business opportunities, or respond to competitive pressures.

We currently do not earn any revenues from our drug candidates and are therefore considered to be in the development stage. The continuation of our research and development activities and the commercialization of the targeted therapeutic products are dependent upon our ability to successfully finance and complete our research and development programs through a combination of equity financing and payments from strategic partners. We have no current sources of significant payments from strategic partners.

**We rely on Management and need additional key personnel to grow our business, and the loss of key employees or inability to hire key personnel could harm our business**

The loss of David Elsley, our President and CEO, or other key members of our staff, could harm us. We also depend on our scientific and clinical collaborators and advisors, all of whom have outside commitments that may limit their availability to us. In addition, we believe that our future success will depend in large part upon our ability to attract and retain highly skilled scientific, managerial, medical, clinical, and regulatory personnel, particularly as we expand our activities and seek regulatory approvals for clinical trials. We routinely enter into consulting agreements with our scientific and clinical collaborators and advisors, key opinion leaders, and academic partners in the ordinary course of our business. We also enter into contractual agreements with physicians and institutions who will recruit patients into our clinical trials on our behalf in the ordinary course of our business. Notwithstanding these arrangements, we face significant competition for these types of personnel from other companies, research and academic institutions, government entities, and other organizations. We cannot predict our success in hiring or retaining the personnel we require for continued growth. The loss of the services of any of our executive officers or other key personnel could potentially harm our business, operating results or financial condition.

**Clinical trials for our product candidates are expensive, time consuming, uncertain and susceptible to change, delay or termination**

Clinical trials are expensive, time consuming and difficult to design and implement. Even if the results of our clinical trials are favorable, the clinical trials for a number of our product candidates are expected to continue for several years and may take significantly longer to complete. In addition, we, the FDA, Health Canada or other regulatory authorities, including state and local authorities may suspend, delay or terminate our clinical trials at any time, require us to conduct additional clinical trials, require a particular clinical trial to continue for a longer duration than originally planned, require a change to our development plans such that we conduct clinical trials for a product candidate in a different order, e.g., in a step-wise fashion rather than running two trials of the same product candidate in parallel, or the DEA could suspend or terminate the registrations and quota allotments we require in

order to procure and handle controlled substances, for various reasons. Any of the foregoing could have a material adverse effect on our business, results of operations, and financial condition.

**Our Activities are Subject to Comprehensive Regulation, including under Healthcare Laws and Compliance Requirements**

In the United States, our activities are potentially subject to additional regulation by various federal, state, and local authorities in addition to the FDA, including, among others, the Centers for Medicare and Medicaid Services, other divisions of Health and Human Services, or HHS, (for example, the Office of Inspector General), the Department of Justice, and individual U.S. Attorney offices within the Department of Justice, and state and local governments.

In Canada, our activities are potentially subject to additional regulation by various federal and provincial authorities in addition to Health Canada, including among others, the Ontario Cannabis Store (OCS) and publicly-mandated organizations given a provincial sales license under the Cannabis Act.

Because of the breadth of these laws and the narrowness of available statutory and regulatory exemptions, it is possible that some of our business activities could be subject to challenge under one or more of such laws. If our operations are found to be in violation of any of the federal and state laws described above or any other governmental regulations that apply to us, we may be subject to penalties, including criminal and significant civil monetary penalties, damages, fines, imprisonment, exclusion from participation in government programs, injunctions, recall or seizure of products, total or partial suspension of production, denial or withdrawal of pre-marketing product approvals, private “qui tam” actions brought by individual whistleblowers in the name of the government, or refusal to allow us to enter into supply contracts, including government contracts, and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our results of operations. To the extent that any of our products are sold in a foreign country, we may be subject to similar foreign laws and regulations, which may include, for instance, applicable post-marketing requirements, including safety surveillance, anti-fraud and abuse laws, and implementation of corporate compliance programs and reporting of payments or transfers of value to healthcare professionals.

If clinical trials of our product candidates fail to demonstrate safety and efficacy to the satisfaction of regulatory authorities or do not otherwise **produce** positive results, we would incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our product candidates

Before obtaining marketing approval from regulatory authorities for the sale of our product candidates, we must conduct preclinical studies in animals and extensive clinical trials in humans to demonstrate the safety and efficacy of the product candidates. Clinical testing is expensive and difficult to design and implement, can take many years to complete, and has uncertain outcomes. The outcome of preclinical studies and early clinical trials may not predict the success of later clinical trials and interim results of a clinical trial do not necessarily predict final results.

A number of companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in advanced clinical trials due to lack of efficacy or unacceptable safety profiles, notwithstanding promising results in earlier trials. We do not know whether the clinical trials we may conduct will demonstrate adequate efficacy and safety to result in regulatory approval to market any of our product candidates in any jurisdiction. A product candidate may fail for safety or efficacy reasons at any stage of the testing process. A major risk we face is the possibility that none of our product candidates under development will successfully gain market approval from the FDA, Health Canada, or other regulatory authorities, resulting in us being unable to derive any commercial revenue from them after investing significant amounts of capital in multiple stages of preclinical and clinical testing.

**If we experience delays in clinical testing, we will be delayed in commercializing our product candidates, and our business may be substantially harmed**

We cannot predict whether any clinical trials will begin as planned, will need to be restructured, or will be completed on schedule, or at all. Our product development costs will increase if we experience delays in clinical testing. Significant clinical trial delays could shorten any periods during which we may have the exclusive right to commercialize our product candidates or allow our competitors to bring products to market before us, which would impair our ability to successfully commercialize our product candidates and may harm our financial condition, results of operations, and prospects. The commencement and completion of clinical trials for our products may be delayed for a number of reasons, including delays related, but not limited, to:

- failure by regulatory authorities to grant permission to proceed or placing the clinical trial on hold;
- difficulties obtaining institutional review board or ethics committee approval to conduct a clinical trial at a prospective site;
- import/export and research restrictions for cannabinoid-based pharmaceuticals delaying or preventing clinical trials in various geographical jurisdictions;
- patients failing to enroll or remain in our trials at the rate we expect;
- suspension or termination of clinical trials by regulators for many reasons, including concerns about patient safety or failure of our contract manufacturers to comply with cGMP requirements;
- delays or failure to obtain clinical supply from contract manufacturers of our products necessary to conduct clinical trials;
- product candidates demonstrating a lack of safety or efficacy during clinical trials;
- patients choosing an alternative treatment for the indications for which we are developing any of our product candidates or participating in competing clinical trials and/or scheduling conflicts with participating clinicians;
- patients failing to complete clinical trials due to dissatisfaction with the treatment, side effects or other reasons;
- reports of clinical testing on similar technologies and products raising safety and/or efficacy concerns;
- clinical investigators not performing our clinical trials on their anticipated schedule, dropping out of a trial, or employing methods not consistent with the clinical trial protocol, regulatory requirements or other third parties not performing data collection and analysis in a timely or accurate manner;
- failure of our CROs, to satisfy their contractual duties or meet expected deadlines;
- inspections of clinical trial sites by regulatory authorities or IRB, or ethics committees finding regulatory violations that require us to undertake corrective action, resulting in suspension or termination of one or more sites or the imposition of a clinical hold on the entire study;
- one or more IRB or ethics committees rejecting, suspending or terminating the study at an investigational site, precluding enrollment of additional subjects, or withdrawing its approval of the trial; or
- failure to reach agreement on acceptable terms with prospective clinical trial sites.

In addition, a clinical trial may be suspended or terminated by us, the FDA, IRB, ethics committees, data safety monitoring boards or other foreign regulatory authorities overseeing the clinical trial at issue or other regulatory authorities due to a number of factors, including, among others:

- failure to conduct the clinical trial in accordance with regulatory requirements or our clinical trial protocols;
- inspection of the clinical trial operations or clinical trial sites by the FDA, the DEA, the EMA or other foreign regulatory authorities that reveals deficiencies or violations that require us to undertake corrective action, including the imposition of a clinical hold;
- unforeseen safety issues, including any safety issues that could be identified in our ongoing toxicology studies;
- adverse side effects or lack of effectiveness; and
- changes in government regulations or administrative actions.

Our product development costs will increase if we experience delays in testing or approval or if we need to perform more or larger clinical trials than planned. Additionally, changes in regulatory requirements and policies may occur, and we may need to amend study protocols to reflect these changes. Amendments may require us to resubmit our study protocols to regulatory authorities or IRB or ethics committees for re-examination, which may impact the cost, timing, or successful completion of that trial. Delays or increased product development costs may have a material adverse effect on our business, financial condition, and prospects.

**Negative results from clinical trials or studies of others and adverse safety events involving the targets of our products may have an adverse impact on our future commercialization efforts**

From time to time, studies or clinical trials on various aspects of biopharmaceutical products are conducted by academic researchers, competitors, or others. The results of these studies or trials, when published, may have a significant effect on the market for the biopharmaceutical product that is the subject of the study. The publication of negative results of studies or clinical trials or adverse safety events related to our product candidates, or the therapeutic areas in which our product candidates compete, could adversely affect the price of the Common

Shares and our ability to finance future development of our product candidates, and our business and financial results could be materially and adversely affected.

**We may not achieve our projected development goals in the time frames we announce and expect**

We set goals for, and make public statements regarding, the expected timing of the accomplishment of objectives material to our success, the commencement and completion of clinical trials and the expected costs to develop our product candidates. The actual timing and costs of these events can vary dramatically due to factors within and beyond our control, such as delays or failures in our clinical trials, issues related to the manufacturing of drug supply, uncertainties inherent in the regulatory approval process, market conditions and interest by partners in our product candidates among other things. We may not make regulatory submissions or receive regulatory approvals as planned; our clinical trials may not be completed; or we may not secure partnerships for any of our product candidates. Any failure to achieve one or more of these milestones as planned would have a material adverse effect on our business, financial condition, and results of operations.

**No prior public market for Common Shares or Warrants**

Prior to the Offering, no public market existed for the Common Shares or Warrants. The TSX has not conditionally approved our application to list the Warrants and there is no assurance that it will do so. An active and liquid market for the Common Shares might not develop following the completion of the Offering or, if developed, might not be maintained. If an active public market does not develop or is not maintained, investors might have difficulty selling their Common Shares.

The initial public Offering Price of Common Shares will be determined by negotiations between us and the Underwriters for the Offering and may not be indicative of the price at which the Common Shares will trade following the completion of the Offering. We cannot assure investors that the market price of Common Shares will not materially decline below the initial public Offering Price.

**Additional regulatory burden**

Prior to the Offering, we have not been subject to the continuous and timely disclosure requirements of Canadian securities laws or other rules, regulations and policies of a stock exchange. We are working with our legal, accounting, and financial advisors to identify those areas in which changes should be made to our financial management control systems to manage our obligations as a public company. These areas include corporate governance, corporate controls, disclosure controls and procedures and financial reporting and accounting systems. We have made, and will continue to make, changes in these and other areas, including our ICFR. However, we cannot assure purchasers of Units that these and other measures that we might take will be sufficient to allow us to satisfy our obligations as a public company on a timely basis. In addition, compliance with reporting and other requirements applicable to public companies will create additional costs for us and will require the time and attention of Management. We cannot predict the amount of the additional costs that we might incur, the timing of such costs, or the impact that Management's attention to these matters will have on our business.

**Unpredictable and volatile market price for Common Shares and Warrants**

The market price for Common Shares and Warrants may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond our control, including the following:

- actual or anticipated fluctuations in our quarterly results of operations
- recommendations by securities research analysts
- changes in the economic performance or market valuations of companies in the industry in which we operate
- addition or departure of our executive officers and other key personnel
- release or expiration of lock-up or other transfer restrictions on outstanding Common Shares
- sales or perceived sales of additional Common Shares
- significant acquisitions or business combinations, strategic partnerships, joint ventures, or capital commitments by or involving us or our competitors
- operating and share price performance of other companies that investors deem comparable to us

- fluctuations to the costs of vital production materials and services
- changes in global financial markets and global economies and general market conditions, such as interest rates and pharmaceutical product price volatility
- operating and share price performance of other companies that investors deem comparable to the Corporation or from a lack of market comparable companies
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes, and other related issues in our industry or target markets

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values, or prospects of such companies. Accordingly, the market price of the Common Shares and/or Warrants may decline even if our operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which might result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, our operations could be adversely affected, and the trading price of the Common Shares and/or Warrants might be materially adversely affected.

**Securities or industry analysts may publish inaccurate or unfavorable research reports, stock price and volume could decline**

The trading market for our Common Shares and Warrants will depend in part on the research and reports that securities or industry analysts publish about us or our business. Securities and industry analysts do not currently, and may never, publish research on the Corporation. If no securities or industry analysts commence coverage of the Corporation, the trading price for our Common Shares and Warrants would likely be negatively impacted. In the event securities or industry analysts initiate coverage, if one or more of the analysts who cover us downgrade our Common Shares and Warrants or publish inaccurate or unfavorable research about our business, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our share price and trading volume to decline.

**If we fail to adequately protect or enforce our intellectual property rights or secure rights to patents of others, the value of our intellectual property rights would diminish**

Our success, competitive position, and future revenues will depend in part on our ability and the abilities of our licensors to obtain and maintain patent protection for our products, methods, processes, and other technologies, to preserve our trade secrets, to prevent third parties from infringing on our proprietary rights, and to operate without infringing the proprietary rights of third parties.

To date, we have exclusive rights to certain Canadian, U.S. and other foreign intellectual property. We anticipate filing additional patent applications in Canada, the U.S. and in other countries, as appropriate. However, we cannot predict:

- the degree and range of protection any patents will afford us against competitors, including whether third parties will find ways to invalidate or otherwise circumvent our patents;
- if and when patents will issue;
- whether or not others will obtain patents claiming aspects similar to those covered by our patents and patent applications; or
- whether we will need to initiate litigation or administrative proceedings which may be costly whether we win or lose.

Our success also depends upon the skills, knowledge, and experience of our scientific and technical personnel, our consultants and advisors, as well as our licensors and contractors. To help protect our proprietary know-how and our inventions for which patents may be unobtainable or difficult to obtain, we rely on trade-secret protection and confidentiality agreements. To this end, it is our policy generally to require our employees, consultants, advisors, and contractors to enter into agreements which prohibit the disclosure of confidential information and, where applicable, require disclosure and assignment to us of the ideas, developments, discoveries, and inventions important to our business. These agreements may not provide adequate protection for our trade secrets, know-

how, or other proprietary information in the event of any unauthorized use or disclosure or the lawful development by others of such information. If any of our trade secrets, know-how, or other proprietary information is disclosed, the value of our trade secrets, know-how, and other proprietary rights would be significantly impaired and our business and competitive position would suffer.

Owning a patent does not per se prevent competition. To stop third-party infringement, a patent owner and/or licensee must take steps to enforce the patent through court proceedings. This can be a very lengthy and costly process and the outcome may be uncertain.

**Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment, and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements**

The Canadian Intellectual Property Office ("**CIPO**") and various foreign national or international patent agencies require compliance with a number of procedural, documentary, fee payment, and other similar provisions during the patent application process. Periodic maintenance fees on any issued patent are due to be paid to CIPO and various foreign national or international patent agencies in several stages over the lifetime of the patent. While an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which non-compliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Non-compliance events that could result in abandonment or lapse of patent rights include, but are not limited to, failure to timely file national and regional stage patent applications based on our international patent application, failure to respond to official actions within prescribed time limits, non-payment of fees, and failure to properly legalize and submit formal documents. If we fail to maintain the patents and patent applications covering our product candidates, our competitors might be able to enter the market, which would have a material adverse effect on our business.

While a patent may be granted by a national patent office, there is no guarantee that the granted patent is valid. Options exist to challenge the validity of the patent which, depending upon the jurisdiction, may include re-examination, opposition proceedings before the patent office, and/or invalidation proceedings before the relevant court. Patent validity may also be the subject of a counterclaim to an allegation of patent infringement.

Pending patent applications may be challenged by third parties in protest or similar proceedings. Third parties can typically submit prior art material to patentability for review by the patent examiner. Regarding Patent Cooperation Treaty applications, a positive opinion regarding patentability issued by the International Searching Authority does not guarantee allowance of a national application derived from the Patent Cooperation Treaty application. The coverage claimed in a patent application can be significantly reduced before the patent is issued, and the patent's scope can be modified after issuance. It is also possible that the scope of claims granted may vary from jurisdiction to jurisdiction.

The grant of a patent does not have any bearing on whether the invention described in the patent application would infringe the rights of earlier filed patents. It is possible to both obtain patent protection for an invention and yet still infringe the rights of an earlier granted patent.

**We may become subject to claims by third parties asserting that we or our employees have misappropriated their intellectual property, or claiming ownership of what we regard as our own intellectual property**

Our commercial success depends upon our ability to develop, manufacture, market and sell our product candidates, and to use our related proprietary technologies without violating the intellectual property rights of others. We may become party to, or threatened with, future adversarial proceedings or litigation regarding intellectual property rights with respect to our product candidates, including interference or derivation proceedings before CIPO, USPTO and other applicable patents offices in foreign jurisdictions. Third parties may assert infringement claims against us based on existing patents or patents that may be granted in the future. If we are found to infringe a third party's intellectual property rights, we could be required to obtain a license from such third party to continue commercializing our product candidates. However, we may not be able to obtain any required license on commercially reasonable terms or at all. Under certain circumstances, we could be forced, including by court order, to cease commercializing the applicable product candidate. In addition, in any such proceeding or litigation, we could be found liable for monetary damages. A finding of infringement could prevent us from commercializing our product candidates or force us to cease some of our business operations, which could

materially harm our business. Any claims by third parties that we have misappropriated their confidential information or trade secrets could have a similar negative impact on our business.

**We may not be able to protect our intellectual property rights throughout the world**

Filing, prosecuting, and defending patents on all of our product candidates throughout the world would be prohibitively expensive. Therefore, we have filed applications and/or obtained patents only in key markets, such as the United States, Canada, and certain countries in Europe. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and their products may compete with ours.

**We rely and will continue to rely on third parties to conduct and monitor many of our preclinical studies and our clinical trials, and their failure to perform as required could cause substantial harm to our business**

We rely and will continue to rely on third parties to conduct a significant portion of our preclinical and clinical development activities. Preclinical activities include in vivo studies providing access to specific disease models, pharmacology and toxicology studies, and assay development. Clinical development activities include trial design, regulatory submissions, clinical patient recruitment, clinical trial monitoring, clinical data management and analysis, safety monitoring and project management, contract manufacturing, and quality assurance. If there is any dispute or disruption in our relationship with third parties, or if they are unable to provide quality services in a timely manner and at a feasible cost, our active development programs will face delays. Further, if any of these third parties fails to perform as we expect or if their work fails to meet regulatory requirements, our testing could be delayed, cancelled, or rendered ineffective.

**Our product candidates contain compounds that are classified as "controlled substances" and will be subject to controlled substance laws and regulations; failure to receive necessary approvals may delay the launch of our products and failure to comply with these laws and regulations may adversely affect the results of our business operations**

Our product candidates contain substances related to the cannabis plant and can therefore be classified as "controlled substances" as defined in the CDSA. Controlled substances that are pharmaceutical products are subject to a high degree of regulation under the CDSA, which establishes, among other things, certain registration, manufacturing quotas, security, recordkeeping, reporting, import, export, and other requirements.

In addition, since our product candidates contain controlled substances, their regulatory approval may generate public controversy. Political and social pressures and adverse publicity could lead to delays in approval of, and increased expenses for our product candidates. These pressures could also limit or restrict the introduction and marketing of our product candidates. Adverse publicity from cannabis misuse or adverse side effects from cannabis or other cannabinoid products may adversely affect the commercial success or market penetration achievable for our product candidates. The nature of our business attracts a high level of public and media interest, and in the event of any resultant adverse publicity, our reputation may be harmed. Furthermore, if our product candidates are classified as "controlled substances", they may be subject to import/export and research restrictions that could delay or prevent the development of Cardiol's products in various geographical jurisdictions.

**Our ability to research, develop, and commercialize products is dependent on our ability to obtain and maintain licenses relating to possession and supply of controlled substances**

Our research and manufacturing facilities are located in Canada. In Canada various licenses are required to produce pharmaceutical cannabinoids. Our continued ability to research, develop, and commercialize our product candidates is dependent on our ability to obtain, and subsequently maintain, licenses relating to possession and supply of controlled substances.

**Controlled substance legislation differs between countries and legislation in certain countries may restrict or limit ability to sell products**

Most countries are parties to the Single Convention on Narcotic Drugs 1961, which governs international trade and domestic control of narcotic substances, including cannabis. Countries may interpret/implement their treaty obligations in a way that creates a legal obstacle to our obtaining marketing approval for our product candidates in those countries. These countries may not be willing or able to amend or otherwise modify their laws and

regulations to permit our product candidates to be marketed, or achieving such amendments to the laws and regulations may take a prolonged period of time.

**Changes in laws and regulations**

The Corporation endeavours to comply with all relevant laws, regulations and guidelines. To the Corporation's knowledge, it is in compliance with all such laws, regulations, and guidelines as described elsewhere in this prospectus.

On June 30, 2016, the Government of Canada established the Task Force on Cannabis Legalization and Regulation to seek input on the design of a new system to legalize, strictly regulate, and restrict access to adult-use recreational cannabis. On December 13, 2016, the Task Force completed its review and published a report outlining its recommendations.

On April 13, 2017, the federal government of Canada introduced the Cannabis Act. On June 20, 2018 the Senate approved the Cannabis Act and the Act received Royal Assent on June 21, 2018. The Cannabis Act came into effect on October 17, 2018. The Cannabis Act creates a strict legal framework for controlling the production, distribution, sale and possession of recreational cannabis in Canada. The Cannabis Act lifts the ban on the recreational use of cannabis in Canada dating back to 1923. The impact of any such new legislative system on the medical cannabis industry and the Corporation's business plan and operations is uncertain.

In addition, with the recent coming into effect of the Cannabis Act, there is no guarantee that provincial legislation regulating the distribution and sale of cannabis for recreational purposes will be enacted according to the terms announced by such provinces, or at all, or that any such legislation, if enacted, will create the opportunities for growth anticipated by the Corporation. For example, the Provinces of Ontario (Canada's most populous province), Québec, and New Brunswick have announced sales and distribution models that would create government-controlled monopolies over the legal retail and distribution of cannabis for recreational purposes in such provinces, which could limit the Corporation's opportunities in those provinces. On August 13, 2018, the Ontario government announced that it will consult with various government agencies, community groups, and industry stakeholders in order to structure a private retail model in Ontario for cannabis by April 2019. Until then, the Ontario Cannabis Store (a government run online store) will be the sole source of lawful adult use cannabis in Ontario.

**Tax Consequences**

Prospective investors should be aware that the purchase of any of Cardiol's securities may have tax consequences in Canada and other jurisdictions. Prospective investors should consult with their own independent tax advisor before purchasing any of Cardiol's securities.

**Tax and accounting requirements may change in ways that are unforeseen to the Corporation and the Corporation may face difficulty or be unable to implement and/or comply with any such changes**

The Corporation is subject to numerous tax and accounting requirements, and changes in existing accounting or taxation rules or practices, or varying interpretations of current rules or practices, could have a significant adverse effect on the Corporation's financial results, the manner in which it conducts its business, or the marketability of any of its products. In the future, the geographic scope of the Corporation's business may expand, and such expansion will require the Corporation to comply with the tax laws and regulations of multiple jurisdictions. Requirements as to taxation vary substantially among jurisdictions. Complying with the tax laws of these jurisdictions can be time consuming and expensive and could potentially subject the Corporation to penalties and fees in the future if the Corporation were to inadvertently fail to comply. In the event the Corporation was to inadvertently fail to comply with applicable tax laws, this could have a material adverse effect on the business, results of operations, and financial condition of the Corporation.

**Management may not be able to successfully implement adequate ICFR**

Proper systems of internal controls over financial accounting and disclosure are critical to the operation of a public company. However, the Corporation does not expect that its Disclosure, Controls, and Procedures or ICFR will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered

relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected in a timely manner or at all. If the Corporation cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially adversely affected, which could cause investors to lose confidence in the Corporation's reported financial information, which in turn could result in a reduction in the value of the Common Shares.

**Management has limited experience with the requirements and demands of managing a publicly-traded company**

Management has historically operated the business of the Corporation as a privately-owned company. The individuals who will constitute Cardiol's senior management team have had limited experience in managing a publicly-traded entity. The Corporation will be required to develop control systems and procedures required to operate as a public company, and these systems and procedures could place a significant strain on the Corporation's management systems, infrastructure, and other resources. The Corporation can provide no assurances that its Management's past experience will be sufficient to enable the Corporation to successfully operate as a public company. Although Management has engaged a number of professional service providers to assist the Corporation with complying with its continuous disclosure, filing, and other requirements applicable to public entities, if Management of the Corporation is unable to satisfactorily manage the Corporation as a public entity and ensure that it remains in compliance with all continuous disclosure and other requirements applicable to public entities, a material adverse effect on the Corporation's business, financial condition, and results of operations could occur.

**Medical research of cannabinoids remains in early stages**

Research in Canada, the U.S., and internationally regarding the medical benefits, viability, safety, efficacy, and dosing of cannabinoids remains in early stages. There have been relatively few clinical trials on the benefits of cannabinoids. The statements made in this prospectus concerning the potential medical benefits of cannabinoids are based on published articles and reports with details of research studies and clinical trials, including those shown in the list of third-party studies summarized in this prospectus. As a result, the statements made in this prospectus are subject to the experimental parameters, qualifications, and limitations in the studies that have been completed.

Although the Corporation believes that the articles and reports with details of research studies and clinical trials referenced in this prospectus reasonably support its beliefs regarding the medical benefits, viability, safety, efficacy, and dosing of cannabinoids as set out in this prospectus, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding and perceptions relating to cannabinoids. Given these risks, uncertainties and assumptions, prospective purchasers of Units should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions to those stated in this prospectus or reach negative conclusions regarding the viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to cannabinoids, which could have a material adverse effect on the demand for Corporation's products and therefore materially impact the business, financial condition, and operating results of the Corporation.

**Pharmaceutical cannabinoid and other product candidates, if approved, may be unable to achieve the expected market acceptance and, consequently, limit our ability to generate revenue from new products**

Even when product development is successful and regulatory approval has been obtained, our ability to generate significant revenue depends on the acceptance of our products by physicians and patients. We cannot assure you that our pharmaceutical cannabinoid product candidates will achieve the expected market acceptance and revenue if and when they obtain the requisite regulatory approvals. The market acceptance of any product depends on a number of factors, including the indication statement and warnings approved by regulatory authorities on the product label, continued demonstration of efficacy and safety in commercial use, physicians' willingness to prescribe the product, reimbursement from third-party payers such as government health care systems and insurance companies, the price of the product, the nature of any post-approval risk management plans mandated by regulatory authorities, competition, and marketing and distribution support. Any factors preventing or limiting the market acceptance of our products could have a material adverse effect on our business, results of operations, and financial condition.

**We have not commercialized any products to date**

We have yet to bring a product to market. Even if we obtain regulatory approval for a product, our future success will still depend on our ability to successfully commercialize our products, which depends on a number of factors beyond our control, including the willingness of physicians to prescribe our products to patients, payers' willingness and ability to pay for the drug, the level of pricing achieved, patients' response to our products, the ability of our marketing partners to generate sales and our ability to manufacture products on a cost-effective and efficient basis. If we are not successful in the commercialization of our products, our business, results of operations, and financial condition may be harmed.

**We rely on contract manufacturers over whom we have limited control. If we are subject to quality, cost, or delivery issues with the preclinical and clinical grade materials supplied by contract manufacturers, our business operations could suffer significant harm**

We currently have no manufacturing experience and rely on Dalton and other contract manufacturing organizations ("**CMOs**") to manufacture our product candidates for preclinical studies and clinical trials and on Noramco to supply Dalton with cannabidiol at >99.5% purity and less than 10 ppm THC. We rely on CMOs for manufacturing, filling, packaging, storing, and shipping of drug products in compliance with current good manufacturing practice, or cGMP, regulations applicable to our products. The FDA ensures the quality of drug products by carefully monitoring drug manufacturers' compliance with cGMP regulations. The cGMP regulations for drugs contain minimum requirements for the methods, facilities, and controls used in manufacturing, processing, and packing of a drug product. If our CMOs increase their prices or fail to meet our quality standards, or those of regulatory agencies such as the FDA, and cannot be replaced by other acceptable CMOs, our ability to obtain regulatory approval for and commercialize our product candidates may be materially adversely affected.

**Business disruptions affecting our third-party suppliers, manufacturers, and CROs could harm our future revenues and financial condition and increase our costs and expenses**

We rely on third parties to supply the materials for, and manufacture our APIs for, our preclinical and clinical trials. There are only a limited number of suppliers and manufacturers of our APIs and our ability to obtain these materials could be disrupted if the operations of these manufacturers is affected by earthquakes, power shortages, telecommunications failures, water shortages, floods, hurricanes, typhoons, fires, extreme weather conditions, medical epidemics, and other natural or man-made disasters or business interruptions. We also rely on CROs, clinical data management organizations, and consultants to design, conduct, supervise and monitor preclinical studies of our product candidates and will do the same for our planned clinical trials. If their facilities are unable to operate because of an accident or incident, even for a short period of time, some or all of our research and development programs may be harmed or delayed, and our operations and financial condition could suffer.

**Our existing collaboration agreements and any entered into in the future may not be successful which would have adverse consequences**

We are a party to, and may seek additional, collaboration arrangements with pharmaceutical or biotechnology companies for the development or commercialization of our current and potential product candidates. We may enter into new arrangements on a selective basis depending on the merits of retaining commercialization rights for ourselves as compared to entering into selective collaboration arrangements with leading pharmaceutical or biotechnology companies for each product candidate, both in Canada and internationally. To the extent that we decide to enter into collaboration agreements, we will face significant competition in seeking appropriate collaborators. Moreover, collaboration arrangements are complex and time consuming to negotiate, document, and implement. We may not be successful in our efforts to establish, implement and maintain collaborations or other alternative arrangements if we choose to enter into such arrangements. The terms of any collaboration or other arrangements that we may establish may not be favorable to us.

Any existing or future collaboration that we enter into may not be successful. The success of our collaboration arrangements will depend heavily on the efforts and activities of our collaborators. Collaborators generally have significant discretion in determining the efforts and resources that they will apply to these collaborations.

Disagreements between parties to a collaboration arrangement regarding development, intellectual property, regulatory or commercialization matters, can lead to delays in the development process or commercialization of

the applicable product candidate and, in some cases, termination of the collaboration arrangement. These disagreements can be difficult to resolve if neither of the parties has final decision making authority.

Collaborations with pharmaceutical or biotechnology companies and other third parties often are terminated or allowed to expire by the other party. Any such termination or expiration would adversely affect us financially and could harm our business reputation.

**Product shipment delays would have adverse effect on the business**

The shipment, import, and export of our product candidates require import and export licenses. In the United States, the FDA, U.S. Customs and Border Protection, and the Drug Enforcement Administration, or DEA, and in other countries, similar regulatory authorities regulate the import and export of pharmaceutical products that contain controlled substances, including our other product candidates. Specifically, the import and export process requires the issuance of import and export licenses by the relevant controlled substance authority in both the importing and exporting country. Once we are in the production phase, we may not be granted, or if granted, maintain, such licenses from the authorities in certain countries. Even if we obtain the relevant licenses, shipments of our product candidates may be held up in transit, which could cause significant delays and may lead to product batches being stored outside required temperature ranges. Inappropriate storage may damage the product shipment resulting in a partial or total loss of revenue from one or more shipment of our other product candidates. A partial or total loss of revenue from one or more shipment of our product candidates could have a material adverse effect on our business, results of operations and financial condition.

**Our ability to generate product revenues will be diminished if our pharmaceutical cannabinoid drugs sell for inadequate prices or patients are unable to obtain adequate levels of reimbursement**

Our ability to commercialize our pharmaceutical cannabinoid, alone or with collaborators, will depend in part on the extent to which reimbursement will be available from:

- government and health administration authorities;
- private health maintenance organizations and health insurers; and
- other healthcare payers.

Significant uncertainty exists as to the reimbursement status of newly approved healthcare products. Healthcare payers are challenging the prices charged for medical products and services. Government and other healthcare payers increasingly attempt to contain healthcare costs by limiting both coverage and the level of reimbursement for drugs. Even if our product candidates are approved by the FDA or Health Canada, insurance coverage may not be available, and reimbursement levels may be inadequate, to cover our pharmaceutical cannabinoid. If government and other healthcare payers do not provide adequate coverage and reimbursement levels for our pharmaceutical cannabinoid, once approved, market acceptance of such pharmaceutical cannabinoid could be reduced.

**We do not have any experience selling, marketing, or distributing products and we have no internal capability to do so**

We currently have no marketing, sales or distribution capabilities. If and when we become reasonably certain that we will be able to commercialize our current or future products, we anticipate allocating resources to the marketing, sales, and distribution of our proposed products in North America. However, we cannot assure that we will be able to market, sell, and distribute our products successfully. Our future success also may depend, in part, on our ability to enter into and maintain collaborative relationships for such capabilities, the collaborator's strategic interest in the products under development, and such collaborator's ability to successfully market and sell any such products. Although we intend to pursue collaborative arrangements regarding the sale and marketing of our products, there can be no assurance that we will be able to establish or maintain our own sales operations or affect collaborative arrangements, or that if we are able to do so, our collaborators will have effective sales forces. There can also be no assurance that we will be able to establish or maintain relationships with third party collaborators or develop in-house sales and distribution capabilities. To the extent that we will in the future depend on third parties for marketing and distribution, any revenues we receive will depend upon the efforts of such third parties, and there can be no assurance that such efforts will be successful. In addition, there can also be no assurance that we will be able to market and sell our products in the United States or overseas.

**Competition**

The Corporation expects to face intense competition from other companies in the sale of cannabidiol, some of which can be expected to have more financial resources and manufacturing and marketing experience than the Corporation. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Corporation.

The sale of cannabinoid products is regulated under the Cannabis Act and various provincial regimes in Canada. With the opening of the cannabinoids market under the Cannabis Act, the Corporation expects to face additional competition from new entrants. If the number of users of medical cannabis in Canada increases, the demand for products will increase and the Corporation expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Corporation will require a continued high level of investment in research and development, marketing, sales, and client support. The Corporation may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition, and operating results of the Corporation.

**Research and development and product obsolescence**

Rapidly changing markets, technology, emerging industry standards and frequent introduction of new products characterize the Corporation's business. The introduction of new products embodying new technologies, including new manufacturing processes, and the emergence of new industry standards may render the Corporation's products obsolete, less competitive or less marketable. The process of developing the Corporation's products is complex and requires significant continuing costs, development efforts, and third-party commitments. The Corporation's failure to develop new technologies and products and the obsolescence of existing technologies could adversely affect the business, financial condition, and operating results of the Corporation. The Corporation may be unable to anticipate changes in its potential customer requirements that could make the Corporation's existing technology obsolete. The Corporation's success will depend, in part, on its ability to continue to enhance its existing technologies, develop new technology that addresses the increasing sophistication and varied needs of the market, and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. The development of the Corporation's proprietary technology entails significant technical and business risks. The Corporation may not be successful in using its new technologies or exploiting its niche markets effectively or adapting its businesses to evolving customer or medical requirements or preferences or emerging industry standards.

**We may be subject to unfavourable publicity or consumer perception**

The Corporation believes the cannabinoid industry is highly dependent upon consumer perception regarding the safety, efficacy, and quality of the cannabinoid produced. Consumer perception of the Corporation's pharmaceutical cannabinoid products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention, and other publicity regarding the consumption of cannabinoids. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the cannabinoid market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention, or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Corporation's pharmaceutical cannabinoids and the business, results of operations, financial condition, and cash flows of the Corporation. The Corporation's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Corporation, the demand for the Corporation's pharmaceutical cannabinoids, and the business, results of operations, financial condition, and cash flows of the Corporation. Further, adverse publicity reports or other media attention regarding the safety, efficacy, and quality of cannabinoid in general, or the Corporation's pharmaceutical cannabinoids specifically, or associating the consumption of cannabinoid with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products legally, appropriately or as directed.

**Product liability once the Corporation begins the production phase**

As a possible manufacturer and distributor of products designed to be ingested by humans, once we are in the production phase, the Corporation faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of cannabis products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur. The Corporation may be subject to various product liability claims, including, among others, that the products produced by the Corporation caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Corporation could result in increased costs, could adversely affect the Corporation's reputation with its clients and consumers generally, and could have a material adverse effect on the business, financial condition and operating results of the Corporation. There can be no assurances that the Corporation will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of products.

**Manufacturers and distributors can be subject to Product recalls**

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products that the Corporation intends to produce are recalled due to an alleged product defect or for any other reason, the Corporation could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Corporation may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant Management attention. Although the Corporation has detailed procedures in place for testing finished products, there can be no assurance that any quality, potency, or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action, or lawsuits. Additionally, if one of the products produced by the Corporation were subject to recall, the image of that product and the Corporation could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for products produced by the Corporation and could have a material adverse effect on the results of operations and financial condition of the Corporation. Additionally, product recalls may lead to increased scrutiny of the operations of the Corporation by Health Canada or other regulatory agencies, requiring further Management attention and potential legal fees and other expenses.

**The presence or absence of one or more large new orders in a specific quarter, ability to process orders, or order cancellation could cause results of operations to fluctuate on a quarterly basis**

Once we are in the production phase, we will supply products to our commercial partners in response to their purchase order schedules. The size of each purchase order may fluctuate. As a result, the presence or absence in a specific quarter of one or more new large orders or delays in our ability to process large orders or the cancellation of previous orders may cause our results of operations to fluctuate on a quarterly basis. These fluctuations may be significant from one quarter to the next. Any demands that require us to quickly increase production may create difficulties for us. In addition, our lack of commercial history and the characteristic of our orders in any quarterly period make it very difficult to accurately predict or forecast our future operating results.

**The U.S. border officials could deny entry into the U.S. to employees of, or investors in, companies with cannabis operations in the United States and Canada**

Since cannabis remains illegal under U.S. federal law, those employed at or investing in legal and licensed Canadian cannabis companies could face detention, denial of entry or lifetime bans from the U.S. for their business associations with U.S. cannabis businesses. Entry happens at the sole discretion of the U.S. Customs and Border Protection officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a foreign national. The Government of Canada has started warning travelers on its website that previous use of cannabis, or any substance prohibited by U.S. federal laws, could mean denial of entry to the U.S. In addition, business or financial involvement in the legal cannabis industry in Canada or in the U.S. could also be reason enough for U.S. border guards to deny entry. On September 21, 2018, U.S. Customs and Border Protection

released a statement outlining its current position with respect to enforcement of the laws of the U.S. It stated that Canada's legalization of cannabis will not change U.S. Customs and Border Protection enforcement of U.S. laws regarding controlled substances and because cannabis continues to be a controlled substance under U.S. law, working in or facilitating the proliferation of the legal marijuana industry in U.S. states where it is deemed legal or in Canada may affect admissibility to the U.S. As a result, U.S. Customs and Border Protection has affirmed that a Canadian citizen working in or facilitating the proliferation of the legal marijuana industry in Canada, coming to the U.S. for reasons unrelated to the marijuana industry, will generally be admissible to the U.S. however, if a traveler is found to be coming to the U.S. for reasons related to the marijuana industry, they may be deemed inadmissible.

**The Corporation may seek to expand its business and operations into jurisdictions outside of Canada, and there are risks associated with doing so**

The Corporation may in the future expand its operations and business into jurisdictions outside of Canada. There can be no assurance that any market for the Corporation's products will develop in any such foreign jurisdiction. The Corporation may face new or unexpected risks or significantly increase its exposure to one or more existing risk factors, including economic instability, changes in laws and regulations and the effects of competition. These factors may limit the Corporation's capability to successfully expand its operations and may have a material adverse effect on the Corporation's business, financial condition and results of operations.

**The Corporation may become subject to liability arising from any fraudulent or illegal activity by its employees, contractors, and consultants**

The Corporation is exposed to the risk that its employees, independent contractors, and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Corporation that violates: (i) government regulations; (ii) manufacturing standards; (iii) federal and provincial healthcare fraud and abuse laws and regulations; or (iv) laws that require the true, complete, and accurate reporting of financial information or data. It is not always possible for the Corporation to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Corporation to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Corporation from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Corporation, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on our business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Corporation's operations, any of which could have a material adverse effect on the Corporation's business, financial condition and results of operations.

**Corporation's business is dependent on key inputs**

The Corporation's business is dependent on a number of key inputs and their related costs including raw materials and supplies related to its growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition, and operating results of the Corporation. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition, and operating results of the Corporation.

**Operating risk and insurance coverage**

The Corporation has insurance to protect its assets, operations, and employees. While the Corporation believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Corporation is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Corporation's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Corporation were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Corporation were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations, and financial condition could be materially adversely affected.

**Management of growth**

The Corporation may be subject to growth-related risks, including capacity constraints and pressure on its internal systems and controls. The ability of the Corporation to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train, and manage its employee base. The inability of the Corporation to deal with this growth may have a material adverse effect on the Corporation's business, financial condition, results of operations, and prospects.

**Conflicts of interest**

The Corporation may be subject to various potential conflicts of interest because of the fact that some of its officers and directors may be engaged in a range of business activities. In addition, the Corporation's executive officers and Directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Corporation. In some cases, the Corporation's executive officers and Directors may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to the Corporation's business and affairs and that could adversely affect the Corporation's operations. These business interests could require significant time and attention of the Corporation's executive officers and Directors. In addition, the Corporation's executive officers and Directors control a large percentage of Common Shares and may have ability to control matters effecting the Corporation.

The Corporation may also become involved in other transactions which conflict with the interests of its Directors and the officers who may from time to time deal with persons, firms, institutions, or Companies with which the Corporation may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the Corporation. In addition, from time to time, these persons may be competing with the Corporation for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, in the event that such a conflict of interest arises at a meeting of the Corporation's Directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the Directors of the Corporation are required to act honestly, in good faith, and in the best interests of the Corporation.

**In certain circumstances, the Corporation's reputation could be damaged**

Damage to the Corporation's reputation could be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. The increased usage of social media and other web-based tools used to generate, publish, and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views in respect to the Corporation and its activities, whether true or not. Although the Corporation believes that it operates in a manner that is respectful to all stakeholders and that it takes care in protecting its image and reputation, the Corporation does not ultimately have direct control over how it is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Corporation's overall ability to advance its projects, thereby having a material adverse impact on financial performance, financial condition, cash flows, and growth prospects.

**Third party reputational risk**

The parties with which the Corporation does business may perceive that they are exposed to reputational risk as a result of the Corporation's medical cannabis business activities. This may impact the Corporation's ability to retain current partners, such as its banking relationship, or source future partners as required for growth or future expansion in Canada or the United States. Failure to establish or maintain business relationships could have a material adverse effect on the Corporation.

**Our relationships with customers and third-party payors will be subject to applicable anti-kickback, fraud and abuse and other healthcare laws and regulations, which could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm, and diminished profits and future earnings**

Healthcare providers, physicians and third-party payors play a primary role in the recommendation and prescription of any product candidates for which we obtain marketing approval. Our future arrangements with third-party payors and customers may expose us to broadly applicable fraud and abuse and other healthcare laws and regulations that may constrain the business or financial arrangements and relationships through which we market, sell and

distribute our products for which we obtain marketing approval. As a pharmaceutical company, even though we do not and will not control referrals of healthcare services or bill directly to Medicare, Medicaid or other third-party payors, certain federal and state healthcare laws and regulations pertaining to fraud and abuse and patients' rights are and will be applicable to our business.

Efforts to ensure that our business arrangements with third parties will comply with applicable healthcare laws and regulations will involve substantial costs. It is possible that governmental authorities will conclude that our business practices may not comply with current or future statutes, regulations, or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our operations are found to be in violation of any of these laws or any other governmental regulations that may apply to us, we may be subject to significant civil, criminal, and administrative penalties, damages, fines, imprisonment, exclusion from government funded healthcare programs, and the curtailment or restructuring of our operations. If any physicians or other healthcare providers or entities with whom we expect to do business are found to not be in compliance with applicable laws, they may be subject to criminal, civil, or administrative sanctions, including exclusions from government funded healthcare programs.

Also, Corruption of Foreign Public Officials Act (Canada) and similar worldwide anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to non-Canadian officials for the purpose of obtaining or retaining business. Our internal control policies and procedures may not protect us from reckless or negligent acts committed by our employees, future distributors, licensees, or agents. Violations of these laws, or allegations of such violations, could result in fines, penalties, or prosecution and have a negative impact on our business, results of operations, and reputation.

**Information systems security threats**

The Corporation has entered into agreements with third parties for hardware, software, telecommunications, and other information technology ("**IT**") services in connection with its operations. The Corporation's operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems, and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, terrorism, fire, power loss, hacking, computer viruses, vandalism, and theft. The Corporation's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Corporation's reputation and results of operations.

The Corporation has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that the Corporation will not incur such losses in the future. The Corporation's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Corporation may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

**No dividends**

Our current policy is to retain earnings to finance the development and enhancement of our products and to otherwise reinvest in the Corporation. Therefore, we do not anticipate paying cash dividends on the Common Shares in the foreseeable future. Our dividend policy will be reviewed from time to time by our Board of Directors in the context of our earnings, financial condition, and other relevant factors. Until the time that we do pay dividends, which we might never do, our Shareholders will not be able to receive a return on their Common Shares unless they sell them. See "Dividend Policy".

**Future sales of Common Shares by existing shareholders**

Sales of a substantial number of Common Shares in the public market could occur at any time before or after the expiration of the lock-up agreements described in "Plan of Distribution". These sales, or the market perception that the holders of a large number of Common Shares intend to sell Common Shares, could reduce the market price of our Common Shares. In addition, the Underwriters might waive the provisions of these lock-up agreements and

allow the subject shareholders to sell their Common Shares at any time. There are no pre-established conditions for the grant of such a waiver by the Underwriters, and any decision by it to waive those conditions may depend on a number of factors, which might include market conditions, the performance of our Common Shares in the market, and our financial condition at that time. If the restrictions in such lock-up agreements are waived, additional Common Shares will be available for sale into the public market, subject to applicable securities laws, which could reduce the market price for Common Shares. Holders of options to purchase Common Shares will have an immediate income inclusion for tax purposes when they exercise their options (that is, tax is not deferred until they sell the underlying Common Shares). As a result, these holders may need to sell Common Shares purchased on the exercise of options in the same year that they exercise their options. This might result in a greater number of Common Shares being sold in the public market, and fewer long-term holds of Common Shares by Management and our employees.

**Use of proceeds**

We cannot specify with certainty the particular uses of the net proceeds we will receive from this Offering. Management will have broad discretion in the application of the net proceeds, including for any of the purposes described in "Use of Proceeds". Accordingly, a purchaser of Units will have to rely upon the judgment of Management with respect to the use of the proceeds, with only limited information concerning Management's specific intentions. Management may spend a portion or all of the net proceeds from this Offering in ways that our Shareholders might not desire, that might not yield a favourable return, and that might not increase the value of a purchaser's investment. The failure by Management to apply these funds effectively could harm our business. Pending use of such funds, we might invest the net proceeds from this Offering in a manner that does not produce income or that loses value.

**Cardiol may be subject to securities litigation which is expensive and could divert Management's attention**

The market price of the Common Shares may be volatile, and in the past companies that have experienced volatility in the market price of their shares have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our Management's attention from other business concerns, which could seriously harm our business.

**Dilution and future sales of Common Shares**

The initial Offering Price of our Units will significantly exceed the net tangible book value per share of our Common Shares. Accordingly, if an investor purchases Units under the Offering, the investor will incur immediate and substantial dilution of its investment. If the outstanding options to purchase our Common Shares are exercised, an investor will incur additional dilution. See "Options to Purchase Common Shares".

In addition, we may issue additional Common Shares in the future, which may dilute a Shareholder's holding in the Corporation. Our articles will permit the issuance of an unlimited number of Common Shares, and Shareholders will have no pre-emptive rights in connection with such further issuances. The Directors of the Corporation have the discretion to determine if an issuance of Common Shares is warranted, the price at which such issuance is effected and the other terms of issue of Common Shares. Also, we may issue additional Common Shares upon the exercise of options to acquire Common Shares under the Option Plan, which will result in further dilution to the Shareholders.

Potential future acquisitions may also divert Management's attention and result in further dilution to the Shareholders.

## LEGAL MATTERS

We are from time to time involved in legal proceedings of a nature considered normal to our business. We believe that none of the litigation in which we are currently involved, or have been involved since the beginning of the most recently completed financial year, individually or in the aggregate, is material to our consolidated financial condition or results of operations.

Certain legal matters relating to the Offering will be passed upon on our behalf by Gowling WLG (Canada) LLP, and on behalf of the Underwriters by Borden Ladner Gervais LLP. The partners and associates of Gowling WLG (Canada) LLP, collectively, beneficially own, directly and indirectly, less than 1% of the issued and outstanding

securities of any class of the Corporation. The partners and associates of Borden Ladner Gervais LLP, collectively, beneficially own, directly and indirectly, less than 1% of the issued and outstanding securities of any class of the Corporation.

## PROMOTER

Mr. David Elsley, Dr. Anthony Bolton and Dr. Eldon Smith may each be considered to be a promoter of the Corporation within the meaning of applicable securities legislation. As of the date hereof: (i) Mr. Elsley owns 3,000,000 Common Shares, representing 19.7% of the outstanding Common Shares of the Corporation; Dr. Bolton owns 1,200,000 Common Shares, representing 7.8% of the outstanding Common Shares of the Corporation; and Dr. Smith owns 1,200,000 Common Shares, representing 7.8% of the outstanding Common Shares of the Corporation.

## AUDITORS, TRANSFER AGENT AND REGISTRAR

Our auditors are BDO Canada LLP, 20 Wellington St E Suite 500, Toronto, ON M5E 1C5**.**

The transfer agent and registrar for the Common Shares is Computershare Investor Services Inc. at its principal offices in Toronto, Ontario.

## MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only contracts entered into by the Corporation since the beginning of the last financial year, or before the beginning of the last financial year that are still in effect, which may be regarded as material, are as follows:

1. the Debenture Indenture (See “Description of Material Indebtedness”),

2. the Meros License Agreement (See “Our Business – Commercialization Relationships – Meros”),

3. the Dalton Services Agreement (See “Our Business – Commercialization Relationships – Dalton”),

4. the Noramco Exclusive Supply Agreement (See “Our Business – Commercialization Relationships – Noramco”),

5. the CARO Development Agreement (See “Our Business – Commercialization Relationships – TecSalud (CARO Development Agreement)”),

6. the 3% Debenture (See “Description of Material Indebtedness”),

7. the Underwriting Agreement (See “Plan of Distribution – General” for details regarding the Underwriting Agreement), and

8. the Warrant Indenture (See “Description of Share Capital –Warrants” for details regarding the Warrant Indenture.

Copies of the material contracts set out above will be available under our profile on SEDAR at http://www.sedar.com.

## EXPERTS

No person or company whose profession or business who is named as having prepared or certified a report, valuation, statement, or opinion described or included in the prospectus, or whose profession or business gives authority to a report, valuation, statement, or opinion described or included in the prospectus, holds any registered or beneficial interest, direct or indirect, in any of our securities or other property of Cardiol or one of our associates or affiliates and no such person or company, or a director, officer or employee of such person or company, is expected to be elected, appointed, or employed as one of our Directors, officers, or employees or as a director, officer, or employee of any of our associates or affiliates and no such person is one of our promoters or the promoter of one of our associates or affiliates.

BDO is independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario.

## ELIGIBILITY FOR INVESTMENT

In the opinion of Gowling WLG (Canada) LLP, counsel to the Corporation, and Borden Ladner Gervais LLP, counsel to the Underwriters, based on the current provisions of the Tax Act and any proposal to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date of this prospectus, each of the Unit Shares, Warrants and Warrant Shares, if issued on the date of this prospectus, would be qualified investments under the Tax Act for a trust governed by a registered retirement savings plan, registered retirement income fund, deferred profit sharing plan, registered education savings plan, registered disability savings plan, or tax free savings account (collectively referred to as a "**Registered Plan**" and each, a "**Registered Plan**"), provided that:

(i) in the case of the Unit Shares and Warrant Shares, the Unit Shares and Warrant Shares are listed on a designated stock exchange for the purposes of the Tax Act (which currently includes the TSX), or the Corporation qualifies as a "public corporation" (as defined in the Tax Act) ; and

(ii) in the case of the Warrants, either the Warrants are listed on a "designated stock exchange" as defined in the Tax Act (which currently includes the TSX) or the Warrant Shares are qualified investments as described in (i) above, and neither the Company, nor any person with whom the Company does not deal at arm's length, is an annuitant, a beneficiary, an employer or a subscriber under or a holder of such Registered Plan.

Notwithstanding the foregoing, if the Unit Shares, Warrants or Warrant Shares are a "prohibited investment" (as defined in the Tax Act) for a particular Registered Plan, the annuitant, subscriber, or holder of the particular Registered Plan, as the case may be, will be subject to a penalty tax as set out in the Tax Act, in respect of such Unit Shares, Warrants or Warrant Shares. Generally, a security of the Corporation will not be a "prohibited investment" for a trust governed by a Registered Plan provided the annuitant, subscriber, or holder of the Registered Plan, as the case may be, deals at arm's length with the Corporation for purposes of the Tax Act and does not have a "significant interest", within the meaning of ss. 207.01(4) of the Tax Act, in the Corporation. In addition, a security of the Corporation will not be a "prohibited investment" if such securities are "excluded property" as defined in the Tax Act for purposes of the prohibited investment rules. Annuitants, subscribers, or holders of Registered Plans should consult their own tax advisors as to whether the Unit Shares, Warrants or Warrant Shares will be a prohibited investment for such Registered Plans in their particular circumstances.

## CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATION

The following is, as of the date hereof, a general summary of the principal Canadian federal income tax considerations under the Tax Act generally applicable to an investor who acquires Units pursuant to the Offering and who, for the purposes of the Tax Act and at all relevant times, (i) deals at arm's length with the Corporation and the Underwriters, (ii) is not affiliated with the Corporation or the Underwriters or a subsequent purchaser of the Unit Shares, Warrants or Warrant Shares, and (iii) acquires and holds the Unit Shares and Warrants, and will hold the Warrant Shares issuable on the exercise of the Warrants, (the Unit Shares and Warrant Shares hereinafter sometimes collectively referred to as "**Shares**") as capital property. A holder who meets all of the foregoing requirements is referred to as a "**Holder**" in this summary, and this summary only addresses such Holders. Generally, the Shares and Warrants will be considered as capital property of a Holder unless the Holder holds or uses the Shares or Warrants in the course of carrying on a business of trading or dealing in securities or has acquired them or is deemed to have acquired them in a transaction or transactions considered to be an adventure or concern in the nature of trade.

This summary does not apply to a Holder (i) that is a "financial institution" for purposes of the mark-to-market rules contained in the Tax Act; (ii) that is a "specified financial institution" as defined in the Tax Act; (iii) an interest in which is, or would constitute a "tax shelter investment" as defined in the Tax Act; (iv) that reports its "Canadian tax results" in a currency other than Canadian currency, all as defined in the Tax Act; (v) that is exempt from tax under the Tax Act; (vi) that has entered into, or will enter into, a "derivative forward agreement" or "synthetic disposition arrangement", as those terms are defined in the Tax Act, with respect to the Shares or Warrants, or (vii) that is a corporation resident in Canada (for the purpose of the Tax Act) or a corporation that does not deal at arm's length (for purposes of the Tax Act) with a corporation resident in Canada and that is, or becomes as part of a transaction

or event or series of transactions or events that includes the acquisition of the Shares or Warrants, controlled by a non-resident corporation for the purposes of the foreign affiliate dumping rules in Section 212.3 of the Tax Act, or (viii) that receives dividends on the Common Shares under or as part of a "dividend rental arrangement", as defined in the Tax Act. Such Holders should consult their own tax advisors with respect to an investment in Units.

This summary is based on the current provisions of the Tax Act in force as of the date hereof, specific proposals to amend the Tax Act which have been announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Tax Proposals**"), the current provisions of the *Canada-United States Income Tax Convention* (1980) (the "**Canada-US Tax Convention**"), and counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the "**CRA**").

This summary assumes that the Tax Proposals will be enacted in the form proposed and does not take into account or anticipate any other changes in law, whether by way of judicial, legislative, or governmental decision or action, nor does it take into account provincial, territorial, or foreign income tax legislation or considerations, which may differ from the Canadian federal income tax considerations discussed herein. No assurances can be given that the Tax Proposals will be enacted as proposed or at all, or that legislative, judicial, or administrative changes will not modify or change the statements expressed herein.

**This summary is not exhaustive of all possible Canadian federal income tax considerations. This summary is of a general nature only and is not intended to be, nor should it be construed as, legal or income tax advice to any particular Holder. Holders should consult their own income tax advisors with respect to the tax consequences applicable to them based on their own particular circumstances.**

**Allocation of Cost**

A Holder who acquires Units pursuant to the Offering will be required to allocate the purchase price paid for each Unit on a reasonable basis between the Unit Share and the one Warrant comprising each Unit in order to determine their respective costs to such Holder for the purposes of the Tax Act.

For its purposes, the Corporation intends to allocate $4.62 of the Offering Price of each Unit as consideration for the issue of each Unit Share and $0.38 of the Offering Price of each Unit for the one Warrant comprising part of the Unit. Although the Corporation believes its allocation is reasonable, it is not binding on the CRA or the Holder. The Holder's adjusted cost base of the Unit Share comprising a part of each Unit acquired pursuant to the Offering will be determined by averaging the cost allocated to the Unit Share with the adjusted cost base to the Holder of all Common Shares (if any) owned by the Holder as capital property immediately prior to such acquisition.

**Exercise of Warrants**

No gain or loss will be realized by a Holder upon the exercise of a Warrant to acquire a Warrant Share. When a Warrant is exercised, the Holder's cost of the Warrant Share acquired thereby will be equal to the aggregate of the Holder's adjusted cost base of such Warrant and the amount paid on the exercise of the Warrant. The Holder's adjusted cost base of the Warrant Share so acquired will be determined by averaging the cost of the Warrant Share with the adjusted cost base to the Holder of all Common Shares (if any) owned by the Holder as capital property immediately prior to the exercise of the Warrant.

**Holders Resident in Canada**

The following portion of this summary is generally applicable to a Holder who, for the purposes of the Tax Act, is resident or deemed to be resident in Canada at all relevant times (each, a "**Resident Holder**"). Certain Resident Holders whose Common Shares might not otherwise qualify as capital property may be entitled to make an irrevocable election pursuant to subsection 39(4) of the Tax Act to have the Shares, and every other "Canadian security" (as defined in the Tax Act) owned by such Resident Holder in the taxation year of the election and in all subsequent taxation years, deemed to be capital property. Resident Holders should consult their own tax advisors for advice as to whether an election under subsection 39(4) of the Tax Act is available or advisable in their particular circumstances. Such election is not available in respect of Warrants.

*Expiry of Warrants*

In the event of the expiry of an unexercised Warrant, a Resident Holder generally will realize a capital loss equal to the Resident Holder's adjusted cost base of such Warrant. The tax treatment of capital gains and capital losses is discussed in greater detail below under the heading "*Taxation of Capital Gains and Capital Losses*".

*Taxation of Dividends on the Shares*

In the case of a Resident Holder who is an individual (including certain trusts), dividends (including deemed dividends) received on the Shares will be included in the Resident Holder's income and be subject to the gross up and dividend tax credit rules applicable to taxable dividends received by an individual from taxable Canadian corporations, including the enhanced gross up and dividend tax credit for "eligible dividends" properly designated as such by the Corporation. Taxable dividends received by such Resident Holder may give rise to minimum tax under the Tax Act. There may be restrictions on the Corporation's ability to designate any dividends as "eligible dividends", and the Corporation has made no commitments in this regard.

In the case of a Resident Holder that is a corporation, dividends (including deemed dividends) received on the Shares will be included in the Resident Holder's income and will normally be deductible in computing such Resident Holder's taxable income for that taxation year. In certain circumstances, subsection 55(2) of the Tax Act will treat a taxable dividend received by a Resident Holder that is a corporation as proceeds of disposition or a capital gain. A Resident Holder that is a "private corporation" (as defined in the Tax Act) and certain other corporations controlled by or for the benefit of an individual (other than a trust) or related group of individuals (other than trusts) generally will be liable to pay a special tax under Part IV of the Tax Act (refundable in certain circumstances) on dividends received or deemed to be received on the Common Shares to the extent such dividends are deductible in computing taxable income. In certain circumstances, subsection 55(2) of the Tax Act will treat a taxable dividend received or deemed to be received by a Resident Holder that is a corporation as proceeds of disposition or a capital gain. Resident Holders that are corporations should consult their own tax advisors in this regard.

*Dispositions of Shares and Warrants*

A Resident Holder who disposes of, or is deemed to have disposed of, a Share (except to the Corporation) or Warrant (other than on the exercise thereof) will realize a capital gain (or incur a capital loss) equal to the amount by which the proceeds of disposition in respect of such security, as applicable, exceed (or are exceeded by) the aggregate of the adjusted cost base to the Resident Holder of such security, as applicable, immediately before the disposition or deemed disposition and any reasonable expenses incurred for the purpose of making the disposition. The adjusted cost base to a Resident Holder of a Share or Warrant will be determined by averaging the cost of that Share or Warrant with the adjusted cost base (determined immediately before the acquisition of the Share or Warrant) of all other Common Shares or Warrants held as capital property at that time by the Resident Holder. The tax treatment of capital gains and capital losses is discussed in greater detail below under the heading "*Taxation of Capital Gains and Losses*".

*Taxation of Capital Gains and Losses*

Generally, one-half of any capital gain (a "**taxable capital gain**") realized by a Resident Holder must be included in the Resident Holder's income for the taxation year in which the disposition occurs. Subject to and in accordance with the provisions of the Tax Act, one-half of any capital loss incurred by a Resident Holder (an "**allowable capital loss**") must generally be deducted from taxable capital gains realized by the Resident Holder in the taxation year in which the disposition occurs. Allowable capital losses in excess of taxable capital gains for the taxation year of disposition generally may be carried back and deducted in the three preceding taxation years or carried forward and deducted in any subsequent year against taxable capital gains realized in such years, in the circumstances and to the extent provided in the Tax Act.

A capital loss realized on the disposition of Shares by a Resident Holder that is a corporation may, in certain circumstances, be reduced by the amount of dividends which have been previously received or deemed to have been received by the Resident Holder on such Shares. Similar rules may apply where a corporation is, directly or indirectly through a trust or partnership, a member of a partnership or a beneficiary of a trust that owns Shares. A Resident Holder to which these rules may be relevant should consult its own tax advisor.

A Resident Holder that is throughout the relevant taxation year a "Canadian-controlled private corporation" (as defined in the Tax Act) may also be liable to pay a special additional tax (refundable in certain circumstances) on its "aggregate investment income" (as defined in the Tax Act) for the year, which includes taxable capital gains.

Capital gains realized by a Resident Holder who is an individual (including certain trusts) may result in the individual paying minimum tax under the Tax Act. Resident Holders should consult their own advisors with respect to the application of the minimum tax.

**Non-Residents of Canada**

The following portion of this summary is generally applicable to a Holder who, for purposes of the Tax Act and at all relevant times, is neither resident nor deemed to be resident in Canada and does not use or hold, and will not be deemed to use or hold, the Shares or Warrants, in a business carried on in Canada (each, a "**Non-Resident Holder**"). This summary does not apply to a Holder that carries on, or is deemed to carry on, an insurance business in Canada and elsewhere or that is an "authorized foreign bank" (as defined in the Tax Act). The term "U.S. Holder", for the purposes of this summary, means a Non-Resident Holder who, for purposes of the Canada-United States Income Tax Convention (1980) (the "**Canada U.S. Tax Convention**"), is at all relevant times a resident of the United States and is a "qualifying person" within the meaning of the Canada-U.S. Tax Convention. In some circumstances, persons deriving amounts through fiscally transparent entities (including limited liability companies) may be entitled to benefits under the Canada-U.S. Tax Convention. U.S. Holders are urged to consult their own tax advisors to determine their entitlement to benefits under the Canada U.S. Tax Convention based on their particular circumstances.

*Expiry of Warrants*

The expiry of a Warrant held by a Non-Resident Holder results in a disposition of such Warrant. The tax treatment of the disposition of Warrants is discussed in greater detail under the heading "Dispositions of Shares and Warrants".

*Taxation of Dividends on the Shares*

Subject to an applicable tax treaty or convention, dividends paid or credited, or deemed to be paid or credited, to a Non-Resident Holder on the Shares acquired pursuant to the Offering will be subject to Canadian withholding tax under the Tax Act at the rate of 25% of the gross amount of the dividend unless such rate is reduced by the terms of an applicable tax treaty. Under the Canada-U.S. Tax Convention the rate of Canadian withholding tax will be reduced to 15% if the beneficial owner of such dividend is a U.S. Holder. The rate of withholding tax is further reduced to 5% if the beneficial owner of such dividend is a U.S. Holder that is a company that owns, directly or indirectly, at least 10% of the voting stock of the Corporation. In addition, under the Canada U.S. Tax Convention, dividends may be exempt from such Canadian withholding tax if paid to certain U.S. Holders that are qualifying religious, scientific, literary, educational, or charitable tax-exempt organizations or qualifying trusts, companies, organizations, or arrangements operated exclusively to administer or provide pension, retirement, or employee benefits or benefits for the self-employed under one or more funds or plans established to provide pension or retirement benefits or other employee benefits that are exempt from tax in the United States and that have complied with specific administrative procedures.

*Dispositions of Shares and Warrants*

A Non-Resident Holder will generally not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Resident Holder on a disposition of Shares or Warrants, nor will a capital loss arising therefrom be recognized under the Tax Act, unless the Shares or Warrants, as the case may be, constitute "taxable Canadian property" (as defined in the Tax Act) of the Non-Resident Holder at the time of the disposition and are not "treaty-protected property" (as defined in the Tax Act) of the Non-Resident Holder at the time of the disposition.

Generally, as long as the Shares are then listed on a "designated stock exchange" as defined in the Tax Act (which currently includes the TSX), the Shares and Warrants will not constitute taxable Canadian property of a Non-Resident Holder, unless at any time during the 60 month period immediately preceding the disposition, the following two conditions are met concurrently: (a) the Non-Resident Holder, persons with which the Non-Resident Holder does not deal at arm's length, partnerships whose members include, either directly or indirectly through one or more partnerships, the Non-Resident Holder or persons which do not deal at arm's length with the Non-

Resident Holder, or any combination of them, owned 25% or more of the issued shares of any class or series of shares of the Corporation, and (b) more than 50% of the fair market value of the Shares was derived directly or indirectly from one or any combination of real or immovable property situated in Canada, "Canadian resource properties", "timber resource properties" (each as defined in the Tax Act), and options in respect of or interests in, or for civil law rights in, any such property (whether or not such property exists). The Tax Act may also deem the Shares to be taxable Canadian property in certain circumstances.

In the case of a U.S. Holder, the Shares and Warrants of such U.S. Holder will generally constitute "treaty-protected property" for purposes of the Tax Act unless the value of the Shares is derived principally from real property situated in Canada. For this purpose, "real property" has the meaning that term has under the laws of Canada and includes any option or similar right in respect thereof and usufruct of real property, rights to explore for or to exploit mineral deposits, sources, and other natural resources, and rights to amounts computed by reference to the amount or value of production from such resources.

If the Shares or Warrants are taxable Canadian property of a Non-Resident Holder and are not treaty-protected property of the Non-Resident Holder at the time of their disposition, the consequences above under "*Holders Resident in Canada – Taxation of Capital Gains and Losses*" will generally apply.

**Non-Resident Holders whose Shares or Warrants are taxable Canadian property should consult their own tax advisors.**

## PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces of Canada, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price, or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

## GLOSSARY OF TERMS

"**2017 Fiscal Period**" means the period from January 19, 2017 (incorporation) to December 31, 2017.

"**2018 Q3 Period**" means the period from January 1, 2018 to September 30, 2018.

"**3% Convertible Debenture**" has the meaning set out under the heading "Description of Material Indebtedness".

"**3% Debenture**" has the meaning set out under the heading "Description of Material Indebtedness".

"**8% Convertible Debentures**" has the meaning set out under the heading "Description of Material Indebtedness".

"**ACMPR**" means the Access to Cannabis for Medical Purposes Regulation (Canada) issued pursuant to the CDSA.

"**Advance Notice By-Law Amendment**" means the amendment of the Corporation's by-laws on August 14, 2018 to adopt by-laws requiring advance notice of director nominees from shareholders.

"**Advance Notice Requirement**" means the requirement under by-law No. 1 of the Corporation regarding the advance notice requirement with respect to the election of Directors.

"**ANDA**" means abbreviated new drug application.

"**APIs**" means active pharmaceutical ingredients.

"**Audit Committee**" means the Corporation's Audit Committee.

"**Audited Financial Statements**" has the meaning set out under the heading "Financial Statement Presentation in this Prospectus".

"**BDO**" means the auditors of the Corporation, BDO Canada LLP, Chartered Professional Accountants, of 20 Wellington St E Suite 500, Toronto, ON M5E 1C5.

"**bioavailability**" means the proportion of a drug or other substance that enters the circulation when introduced into the body and is able to have a native effect.

"**Board of Directors**" or "**Board**" means the board of directors of the Corporation and "**Director**" means each director of the Corporation.

"**By-Law Amendment**" means the By-Law Quorum Amendment together with the Advance Notice By-Law Amendment.

"**By-Law Quorum Amendment**" means the amendment of the Corporation's by-laws on August 14, 2018 to change the number of shares required to be represented at a meeting from a majority of such shares to 10% of such shares.

"**Cannabis Act**" means *Cannabis Act* (Canada), which came into force on October 17, 2018.

"**Cannabis Regulations**" means regulations issued pursuant to the Cannabis Act.

"**CAR**" means chimeric antigen receptor.

"**Cardiol**" or the "**Corporation**" means Cardiol Therapeutics Inc.

"**CARO**" has the meaning set out under the heading "Prospectus Summary – Our Business – Our Research Programs".

"**CARO Compensation Warrants**" has the meaning set out under the heading "Our Business – Commercialization Relationships – TecSalud (CARO Development Agreement)".

"**CARO Development Activities**" has the meaning set out under the heading "Our Business – Commercialization Relationships – TecSalud (CARO Development Agreement)".

"**CARO Development Agreement**" has the meaning set out under the heading "Our Business – Commercialization Relationships – TecSalud (CARO Development Agreement)".

"**CARO Development Plan**" has the meaning set out under the heading "Our Business – Commercialization Relationships – TecSalud (CARO Development Agreement)".

"**CBD**" means cannabidiol.

"**CCA**" has the meaning set out under the heading "Regulatory Overview – Regulatory Overview in Canada – Provincial and Territorial Regulatory Regimes".

"**CCLA**" has the meaning set out under the heading "Regulatory Overview – Regulatory Overview in Canada – Provincial and Territorial Regulatory Regimes".

"**CDN**" means Canadian dollars.

"**CDS**" means CDS Clearing and Depository Services Inc.

"**CDSA**" means the Controlled Drugs and Substances Act, SC 1996, c 19, a Canadian federal act containing restrictions in use of controlled substances.

"**CDS Participants**" has the meaning set out under the heading "Plan of Distribution – Book Entry System".

"**CEO**" means Chief Executive Officer.

"**CFO**" means Chief Financial Officer.

"**CG&C Committee**" means the Corporate Governance and Compensation Committee.

"**cGMP**" means the FDA's Continuing Good Manufacturing Practice regulations.

"**CHMP**" means the Committee for Medicinal Products for Human Use.

"**CIPO**" means the Canadian Intellectual Property Office.

"**CIRT**" means the Cardiovascular Inflammation Reduction Trial.

"**Closing**" means the closing of the Offering.

"**Closing Date**" means the date of the Closing.

"**CMOs**" means contract manufacturing organizations.

"**Code**" means the Corporation's Code of Business Conduct and Ethics.

"**Common Shares**" has the meaning set out on the cover page.

"**Compensation Warrants**" means compensation received by the Underwriters in the form of non-transferable warrants to purchase that number of Units that is equal to 6% of the number of Units sold pursuant to the Offering received by the Underwriters as compensation.

"**Computershare Trust**" means Computershare Trust Company of Canada, the Warrant agent.

"**Conversion Price**" has the meaning set out under the heading "Description of Material Indebtedness".

"**Convertible Debentures**" means collectively, the 3% Convertible Debentures and the 8% Convertible Debentures.

"**CRO**" means contract research organizations.

"**CsA**" means encapsulated Cyclosporine A.

"**CSA**" means the U.S. Controlled Substances Act.

"**CTA**" means clinical trial application.

"**Dalton**" means Dalton Chemical Laboratories, Inc., operating as Dalton Pharma Services.

"**Dalton Services Agreement**" has the meaning set out under the heading "Commercialization Relationships – Dalton".

"**DEA**" means the Drug Enforcement Agency.

"**Debenture Indenture**" means the debenture indenture the Corporation entered into with Alliance Trust Corporation on May 15, 2018.

"**Elsley Employment Agreement**" has the meaning set out in the heading "Employee Agreements and Termination and Change of Control Benefits".

"**EMA**" means European Medicines Agency.

"**EPR**" means enhanced permeability and retention.

"**FDA"** means the U.S Food and Drug Administration.

"**FDA-NDA**" means a new drug application under the FDA.

"**FDCA**" means the U.S. Federal Food, Drug, and Cosmetic Act.

"**Financial Statements**" has the meaning set out under the heading "Financial Statement Presentation in this Prospectus".

"**Firstgold**" means Firstgold Corp.

"**Founders**" means the founders of Cardiol, namely, David Elsley, Dr. Eldon Smith, and Dr. Anthony Bolton.

"**Free Drug**" means an amount or concentration of a drug that is not encapsulated or delivered by a drug delivery system.

"**GBM**" means Glioblastoma Multiforme.

"**GCP**" means Good Clinical Practices.

"**GMP**" means good manufacturing practices.

"**H1, 2019**" has the meaning set out under the heading "Forward-Looking Statements".

"**Health Canada**" means the department of the government of Canada with responsibility for national public health.

"**HF**" means heart failure.

"**ICFR**" means internal controls over financial reporting.

"**IFRS**" means International Financial Reporting Standards.

"**IND**" means an FDA investigational new drug.

"**Interim Financial Statements**" has the meaning set out under the heading "Financial Statement Presentation in this Prospectus".

"**IRB**" means Institutional Review Boards.

"**IT**" means information technology.

"**ITCs**" means Canadian investment tax credits.

"**Lead Underwriter**" means AltaCorp Capital Inc.

"**LCBO**" has the meaning set out under the heading "Regulatory Overview – Regulatory Overview in Canada – Provincial and Territorial Regulatory Regimes".

"**licensed producer**" has the meaning ascribed to that term in the ACMPR.

"**Loan**" has the meaning set out under the heading "Description of Material Indebtedness".

"**MAA**" means marketing authorization application.

"**Management**" means the management of the Corporation.

"**Maturity Date**" has the meaning set out under the heading "Description of Material Indebtedness".

"**MD&A**" means Management's Discussion and Analysis included in this prospectus.

"**Meros**" means Meros Polymers Inc.

"**Meros Escrow Shares**" has the meaning set out under the heading "Commercialization Relationships – Meros".

"**Meros License Agreement**" has the meaning set out under the heading "Commercialization Relationships – Meros".

"**Meros Milestone**" has the meaning set out under the heading "Commercialization Relationships – Meros".

**"Meros Special Warrants** has the meaning set out under the heading "Commercialization Relationships – Meros".

"**MMPR**" means the Marihuana for Medical Purposes Regulations (Canada).

"**Named Executive Officers**" or "**NEOs**" means the Corporation's CEO and CFO and the next two next most highly compensated executive officers of the Corporation who are currently serving as executive officers.

"**nanoparticles**" means particles of nano-scale – i.e., <100 nanometres in size.

"**nanotherapeutics**" means therapeutic drugs encapsulated within nanoparticles – i.e., particles that are <100 nanometres in diameter.

"**NDA**" means non-disclosure and confidentiality agreement.

"**NDS**" means New Drug Submission.

"**NI 52-110**" means National Instrument 52-110 – Audit Committees.

"**NLC**" has the meaning set out under the heading "Regulatory Overview – Regulatory Overview in Canada – Provincial and Territorial Regulatory Regimes".

"**NOC**" means Notice of Noncompliance.

"**NON**" means Notice of Noncompliance.

"**Noramco**" means Noramco, Inc.

"**Noramco Exclusive Supply Agreement**" has the meaning set out under the heading "Commercialization Relationships – Noramco".

"**Nunavut Cannabis Act**" has the meaning set out under the heading "Regulatory Overview – Regulatory Overview in Canada – Provincial and Territorial Regulatory Regimes".

"**OBCA**" means the Business Corporations Act (Ontario).

"**Offering**" means this initial public offering of Units.

"**Offering Price**" means the price of each Unit that will be issued pursuant to the Offering, as indicated on the cover page.

"**Option**" means an option under the Option Plan.

"**Option Plan**" means the stock option plan the Board of Directors has adopted whereby options may be granted to the Corporation's Directors, officers, employees, and consultants.

"**Orphan Indication**" means a disease affecting fewer than 200,000 citizens in the U.S. or 5 per 10,000 citizens in Europe. An orphan-designated therapeutic targeting such an indication benefits from 7 years market exclusivity in the U.S and 10 years market exclusivity in the EU.

"**Over-Allotment Option**" means the option granted by the Corporation to the Underwriters to purchase up to 450,000 additional Units at the Offering Price, exercisable for a period of 30 days from the Closing.

"**Over-Allotment Securities**" has the meaning set out on page ii of this prospectus.

"**Over-Allotment Shares**" has the meaning set out on page ii of this prospectus.

"**Over-Allotment Units**" has the meaning set out on page ii of this prospectus.

"**Over-Allotment Warrants**" has the meaning set out on page ii of this prospectus.

"**PCL**" means polycaprolactone.

"**PEG**" means polyethylene glycol.

"**pharmacokinetics**" or "**PK**" means the fate of a drug once administered, for e.g. duration retained in circulation.

"**ppm**" means parts-per-million.

"**Regulations**" has the meaning ascribed thereto under "Regulatory Overview".

"**Shareholder**" means a shareholder of the Corporation.

"**SQDC**" has the meaning set out under the heading "Regulatory Overview – Regulatory Overview in Canada – Provincial and Territorial Regulatory Regimes".

"**SRED**" means scientific research and experimental development.

"**Task Force**" means the Task Force on Cannabis Legalization and regulation.

"**Tax Act**" means the Income Tax Act (Canada) and the regulations thereunder.

"**TecSalud**" means TecSalud del Tecnológico de Monterrey, Mexico.

"**THC**" means Tetrahydrocannabinol.

"**TMZ**" means temozolomide.

"**Triggering Event**" has the meaning set out under the heading "Description of Material Indebtedness".

"**TSX**" means the Toronto Stock Exchange.

"**Underwriters**" has the meaning set out on the cover page.

"**Underwriters' Fee**" means the commission that the Corporation has agreed to pay the Underwriters.

"**Underwriting Agreement**" means the underwriting agreement dated December ●, 2018 between the Corporation and the Underwriters.

"**Units**" has the meaning set out on the cover page.

"**Unit Shares**" has the meaning set out on the cover page.

"**U.S.**" means the United States of America.

"**USD**" means U.S. dollars.

"**U.S. Securities Act**" means United States Securities Act of 1933, as amended.

"**USPTO**" means the United States Patent and Trademark Office.

"**Waddick Employment Agreement**" has the meaning set out in the heading "Employee Agreements and Termination and Change of Control Benefits".

"**Warrant Indenture**" has the meaning set out on the cover page.

"**Warrant Share**" has the meaning set out on the cover page.

"**Warrants**" has the meaning set out on the cover page.

## FINANCIAL STATEMENTS

The following financial statements are included in this prospectus:

- Audited financial statements of Cardiol Therapeutics Inc. as at December 31, 2017 and for the period from January 19, 2017 (incorporation) to December 31, 2017.

- Condensed interim financial statements of Cardiol Therapeutics Inc. for the three and nine month periods ended September 30, 2018.

# CARDIOL THERAPEUTICS INC.

# FINANCIAL STATEMENTS

# FOR THE PERIOD FROM JANUARY 19, 2017 (INCORPORATION) TO DECEMBER 31, 2017

# (EXPRESSED IN CANADIAN DOLLARS)

To the Directors and Shareholders of
Cardiol Therapeutics Inc.

We have audited the accompanying financial statements of Cardiol Therapeutics Inc., which comprise the statement of financial position as at December 31, 2017 and the statements of loss and comprehensive loss, changes in equity and cash flows for the period from incorporation on January 19, 2017 to December 31, 2017 and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

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

**Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Cardiol Therapeutics Inc. as at December 31, 2017 and its financial performance and cash flows for the period from incorporation on January 19, 2017 to December 31, 2017 in accordance with International Financial Reporting Standards.

●, 2018

Markham, Ontario

# Cardiol Therapeutics Inc.
**Statement of Financial Position**
**(Expressed in Canadian Dollars)**

| | | As at December 31, 2017 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents (note 5) | **$** | **2,356,524** |
| Interest receivable | | **6,118** |
| Commodity tax receivable | | **95,628** |
| Prepaid expenses | | **26,583** |
| **Total current assets** | | **2,484,853** |
| **Non-current assets** | | |
| Equipment (note 6) | | **18,808** |
| Intangible assets (note 7) | | **717,022** |
| **Total assets** | **$** | **3,220,683** |
| **EQUITY AND LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | **$** | **176,714** |
| **Total current liabilities** | | **176,714** |
| **Non-current liabilities** | | |
| Convertible debenture (note 8) | | **190,043** |
| **Total liabilities** | | **366,757** |
| **Equity** | | |
| Share capital (note 9) | | **4,255,389** |
| Equity portion of convertible debentures (note 8) | | **259,463** |
| Deficit | | **(1,660,926)** |
| **Total equity** | | **2,853,926** |
| **Total equity and liabilities** | **$** | **3,220,683** |

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

Commitments (notes 7 and 11)
Subsequent events (note 14)

**Approved on behalf of the Board:**

"David Elsley", Director

"Eldon Smith", Director

# Cardiol Therapeutics Inc.

**Statement of Loss and Comprehensive Loss**
**(Expressed in Canadian Dollars)**

| | Period from January 19, 2017 (incorporation) to December 31, 2017 |
|---|---|
| **Operating expenses** (note 12) | |
| Administration | **$ 680,498** |
| Depreciation of equipment | **3,135** |
| Amortization of intangible assets | **50,206** |
| Accretion and interest on convertible debentures (note 8) | **60,562** |
| Investor relations and promotions | **163,823** |
| Research and development | **441,257** |
| Salaries and benefits | **256,511** |
| Loss before other income (expenses) | **(1,655,992)** |
| Interest income | **6,118** |
| Loss on foreign exchange | **(11,052)** |
| **Net loss and comprehensive loss for the period** | **$ (1,660,926)** |
| **Basic and diluted net loss per share** (note 10) | **$ (0.13)** |
| **Weighted average number of common shares outstanding** | **12,798,362** |

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

# Cardiol Therapeutics Inc.
**Statement of Cash Flows**
**(Expressed in Canadian Dollars)**

| | Period from January 19, 2017 (incorporation) to December 31, 2017 |
|---|---|
| **Operating activities** | |
| Net loss and other comprehensive loss for the period | **$ (1,660,926)** |
| Adjustments for: | |
| Depreciation of equipment | **3,135** |
| Amortization of intangible assets | **50,206** |
| Services through issuance of share capital | **217,500** |
| Accretion on convertible debentures | **49,506** |
| Changes in non-cash working capital items: | |
| Interest receivable | **(6,118)** |
| Commodity tax receivable | **(95,628)** |
| Prepaid expenses | **(26,583)** |
| Accounts payable and accrued liabilities | **176,714** |
| **Net cash used in operating activities** | **(1,292,194)** |
| **Investing activities** | |
| Purchase of equipment | **(21,943)** |
| Purchase of intangible assets | **(7,228)** |
| **Net cash used in investing activities** | **(29,171)** |
| **Financing activities** | |
| Issuance of convertible debentures | **400,000** |
| Issuance of common shares | **3,398,440** |
| Share issuance costs | **(120,551)** |
| **Net cash provided by financing activities** | **3,677,889** |
| **Net change in cash and cash equivalents** | **2,356,524** |
| **Cash and cash equivalents, beginning of period** | **-** |
| **Cash and cash equivalents, end of period** | **$ 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.

**Statement of Changes in Equity**
**(Expressed in Canadian Dollars)**

| | Share capital | | Equity portion of convertible | | |
|---|---|---|---|---|---|
| | Number | Amount | debenture | Deficit | Total |
| **Balance, January 19, 2017** | **-** | **$ -** | **$ -** | **$ -** | **$ -** |
| Purchase of intangible asset | 1,220,000 | 760,000 | - | - | 760,000 |
| Shares for services (note 9) | 435,000 | 217,500 | - | - | 217,500 |
| Common shares issued | 13,337,600 | 3,398,440 | - | - | 3,398,440 |
| Share issuance costs | 120,500 | (120,551) | - | - | (120,551) |
| Convertible debentures | - | - | 259,463 | - | 259,463 |
| Net loss and other 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** |

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. 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.

## 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").

(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"). The policies applied in these financial statements are based on IFRS issued and outstanding as of December ●, 2018, the date the Board of Directors approved the statements.

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 is currently assessing the impact of this standard.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars. 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.

## 2. Significant accounting policies (continued)

(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.

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.

## 2. Significant accounting policies (continued)

(d) Financial instruments (continued)

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 depreciated at a rate of 30% and 20%, respectively, per annum.

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 statement 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.

**2. Significant accounting policies (continued)**

(h) Income taxes and deferred 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 future 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 paragraphs describe 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.

(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.

## 2. Significant accounting policies (continued)

(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) 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 valuation of the liability component of convertible debt;
- 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; and
- management's assessment of no indicators of impairment exist for intangible assets, based on the facts and circumstances that existed during the period.

## 3. Capital risk management

The Company manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- to maximize shareholder return through enhancing the share value.

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, equity portion of convertible debenture, and deficit, which at December 31, 2017 totaled $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 mineral properties. Selected information is provided to the Board of Directors of the Company. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body.

## 4. Financial risk management

Financial risk

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.

(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.

(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 risk management (continued)

(ii) Liquidity risk (continued)

The following table presents the contractual maturities of the financial liabilities as of December 31, 2017:

| | | Contractual cash flows | | |
|---|---|---|---|---|
| **As at December 31, 2017** | **Carrying amount** | **Payable within 1 year** | **2-3 years** | **Total** |
| Accounts payable and accrued liabilities | $ 176,714 | $ 176,714 | $ - | $ 176,714 |
| Convertible debenture | 190,043 | - | 400,000 | 400,000 |
| | $ 366,757 | $ 176,714 | $ 400,000 | $ 576,714 |

(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 $4,500.

## 5. Cash and cash equivalents

Cash and cash equivalents include two Guaranteed Investment Certificates totaling $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. 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 |

| Accumulated Amortization | 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 |

| Carrying value | Office equipment | Computer equipment | Total |
|---|---|---|---|
| Balance, December 31, 2017 | $ 2,816 | $ 15,992 | $ 18,808 |

## 7. Intangible assets

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

| Accumulated Amortization | Exclusive global license agreement |
|---|---|
| Balance, January 19, 2017 | $ - |
| Amortization for the period | 50,206 |
| Balance, December 31, 2017 | $ 50,206 |

| Carrying Value | Exclusive global license agreement |
|---|---|
| Balance, December 31, 2017 | $ 717,022 |

## 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 (see note 14 (ix) below).

## 8. Convertible debenture

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 period ended December 31, 2017 was $49,506. These amounts were added to the liability component on the statements of financial position and is included in accretion and interest expense on the statements of loss and comprehensive loss.

**(Expressed in Canadian Dollars)**

## 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.

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 costs (ii), (iii) | 120,500 | (120,551) |
| Balance, December 31, 2017 | 15,113,100 | $ 4,255,389 |

(i) 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) 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 throughout the year. The Company issued 120,500 Class A common shares in the amount of $69,250 for finders' fees.

(iii) The Company issued 13,337,600 Class A common shares for cash consideration of $3,398,440 less share issue costs of $120,551.

The issued common shares exclude 1,020,000 Class A common shares placed in escrow in connection with the Meros License Agreement (see note 14 (ix) below).

## 10. Loss per share

For the period ended December 31, 2017, basic and diluted loss per share has been calculated based on the loss attributable to common shareholders of $1,660,926 and the weighted average number of common shares outstanding of 12,798,362. Diluted loss per share did not include the effect of convertible debentures as they are anti-dilutive.

## 11. Commitments

The Company has leased premises with third parties. The minimum annual lease payments are approximately as follows:

| | |
|---|---|
| 2018 | $ 24,000. |

**(Expressed in Canadian Dollars)**

## 12. Related party transactions

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

(i) Included in research and development expense is $211,680 paid to a company related to a director.

(ii) Included in administration is $278,600 paid to a company controlled by a director. As well, included in share capital is $34,000 of finders' fees paid to this company.

(iii) Included in administration is $64,800 paid to a company controlled by the Chief Financial Officer of the Company. As at 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:

| | Period from January 19, 2017 (incorporation) to December 31, 2017 $ |
|---|---|
| Salaries and benefits | 182,924 |

## 13. Income taxes

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

| | Period from January 19, 2017 (incorporation) to December 31, 2017 |
|---|---|
| Loss before income taxes | $ (1,660,926) |
| Statutory income tax rate | 26.50% |
| Expected income tax recovery | (440,145) |
| Non-taxable income or non-deductible expenses | 16,155 |
| Tax rate differential and other | 2,508 |
| Unapplied non-capital losses | 421,482 |
| | $ - |

**(Expressed in Canadian Dollars)**

## 13. Income taxes (continued)

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 $1,590,499 available to apply against the future taxable income, expiring has follows.

| | |
|---|---|
| 2037 | **$ 1,590,499** |

## 14. Subsequent events

(i) On May 24, 2018, the Company closed on a brokered private placement of unsecured convertible debentures with a face value of $10,531,000. The debentures bear interest at 8% per annum, calculated and payable semi-annually, and mature on May 31, 2019. The debentures are 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, subject to the Loan Option (as defined below). The debentures will be automatically converted upon a Triggering Event, or if the Loan Option (as defined below) has not been exercised, on the maturity date, whichever is earlier.

The Triggering Event means a transaction or series of transactions that result in an initial public offering of the Company's securities resulting in the Company's securities being listed for trading on a stock exchange; an amalgamation, arrangement, merger, reverse takeover, reorganization or other similar transaction of the Company; a sale or conveyance of all or substantially all of the property and assets or shares of the Company to any other person for securities of an issuer other than the Company.

Holders shall have the option to convert the outstanding debentures plus accrued and unpaid interest into a loan (the "Loan") on the maturity date (the "Loan Option"). The Loan shall be payable in equal quarterly payments in arrears over a five year period. Interest of 12% per annum shall compound, accrue, and be payable quarterly in arrears on the outstanding balance of the Loan. From time to time, the Company may prepay any or all of the principal owing on the Loan without a prepayment penalty. The Loan will be a subordinated and unsecured obligation of the Company and will rank equally with one another and to all other existing and future unsecured subordinated indebtedness of the Company to the extent subordinated on the same terms. The Loan will not restrict the Company or its subsidiaries from incurring additional indebtedness or from mortgaging, pledging or charging its properties to secure any indebtedness or liabilities, which may rank ahead of the Loan.

(ii) On August 1, 2018, the Company closed on a brokered private placement of 8% unsecured convertible debentures in the amount of $2,400,000. The debentures have the same terms as the May 24, 2018 debentures (see note 14(i)). The debentures will mature on May 31, 2019 and the proceeds are expected to be used to advance the Company's drug pipeline into Phase I/II clinical development and for other general corporate purposes.

**14. Subsequent events (continued)**

(iii) 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 Cdn$4 per share; 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 on or before November 30, 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 for the Development Activities shall be considered to have been earned notwithstanding the termination.

(iv) Subsequent to December 31, 2017, 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.

(v) 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.

(vi) Subsequent to December 31, 2017, the Company granted 100,000 common shares under an employment agreement.

(vii) Subsequent to December 31, 2017, the Company granted 820,000 stock options, exercisable at $5.00 per share with 200,000 expiring on August 16, 2025 and 620,000 expiring on August 30, 2025.

14. Subsequent events (continued)

(viii) 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, 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 will pay Noramco a non-recoupable payment of US$3,000,000 by December 21, 2018 (the "Exclusivity Payment"). The Exclusivity Payment will be credited towards purchases during 2018 and 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.

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.

(ix) In October 2018, the Corporation and Meros cancelled and returned to treasury 1,020,000 Common Shares held in escrow pursuant to the Meros Licence Agreement. In exchange, the Corporation 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.

# CARDIOL THERAPEUTICS INC.

# CONDENSED INTERIM FINANCIAL STATEMENTS

# THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018

# (EXPRESSED IN CANADIAN DOLLARS)

# (UNAUDITED)

# Cardiol Therapeutics Inc.

**Condensed Interim Statements of Financial Position**
**(Expressed in Canadian Dollars)**
**Unaudited**

| | As at September 30, 2018 | As at December 31, 2017 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents (note 3) | **$ 11,664,844** | $ 2,356,524 |
| Interest receivable | **42,343** | 6,118 |
| Commodity tax receivable | **283,971** | 95,628 |
| Prepaid expenses | **200,639** | 26,583 |
| **Total current assets** | **12,191,797** | 2,484,853 |
| **Non-current assets** | | |
| Equipment (note 4) | **22,844** | 18,808 |
| Intangible assets (note 5) | **653,689** | 717,022 |
| **Total assets** | **$ 12,868,330** | $ 3,220,683 |
| **EQUITY AND LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | **$ 1,252,725** | $ 176,714 |
| **Total current liabilities** | **1,252,725** | 176,714 |
| **Non-current liabilities** | | |
| Convertible debentures (note 6) | **12,577,801** | 190,043 |
| **Total liabilities** | **13,830,526** | 366,757 |
| **Equity (deficiency)** | | |
| Share capital (note 7) | **4,655,389** | 4,255,389 |
| Equity portion of convertible debentures (note 6(i)) | **259,463** | 259,463 |
| Contributed surplus (note 8) | **357,335** | - |
| Deficit | **(6,234,383)** | (1,660,926) |
| **Total equity (deficiency)** | **(962,196)** | 2,853,926 |
| **Total equity (deficiency) and liabilities** | **$ 12,868,330** | $ 3,220,683 |

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

Commitments (notes 5 and 11)
Subsequent event (note 13)

**Approved on behalf of the Board:**

"*David Elsley*", Director

"*Eldon Smith*", Director

# Cardiol Therapeutics Inc.

**Condensed Interim Statements of Loss and Comprehensive Loss**
**(Expressed in Canadian Dollars)**
**Unaudited**

| | Three Months Ended September 30, 2018 | Three Months Ended September 30, 2017 | Nine Months Ended September 30, 2018 | Period from January 19, 2017 (incorporation) to September 30, 2017 |
|---|---|---|---|---|
| **Operating expenses** (note 12) | | | | |
| Administration | **$ 716,192** | $ 294,361 | **$ 1,203,651** | $ 460,575 |
| Depreciation of equipment | **1,995** | 1,400 | **4,675** | 2,988 |
| Amortization of intangible assets | **21,111** | 14,568 | **63,333** | 28,735 |
| Accretion and interest on convertible debentures (note 6) | **267,727** | 22,021 | **394,473** | 42,119 |
| Investor relations and promotions | **81,187** | 55,032 | **152,550** | 89,747 |
| Research and development | **447,023** | 110,315 | **1,251,508** | 324,164 |
| Salaries and benefits | **410,912** | 31,695 | **787,032** | 117,996 |
| Share-based compensation (note 8) | **757,285** | - | **757,285** | - |
| Loss before other income (expenses) | **(2,703,432)** | (529,392) | **(4,614,507)** | (1,066,324) |
| Interest income | **39,888** | - | **43,535** | - |
| Loss on foreign exchange | **-** | (6,342) | **(2,485)** | (6,342) |
| **Net loss and comprehensive loss for the period** | **$ (2,663,544)** | $ (535,734) | **$ (4,573,457)** | $ (1,072,666) |
| **Basic and diluted net loss per share** (note 10) | **$ (0.18)** | $ (0.04) | **$ (0.30)** | $ (0.10) |
| **Weighted average number of common shares outstanding** | **15,146,796** | 13,655,412 | **15,124,455** | 10,447,215 |

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

# Cardiol Therapeutics Inc.

**Condensed Interim Statements of Cash Flows**
**(Expressed in Canadian Dollars)**
**Unaudited**

| | Nine Months Ended September 30, 2018 | Period from January 19, 2017 (incorporation) to September 30, 2017 |
|---|---|---|
| **Operating activities** | | |
| Net loss and other comprehensive loss for the period | **$ (4,573,457)** | $ (1,072,666) |
| Adjustments for: | | |
| Depreciation of equipment | **4,675** | 2,988 |
| Amortization of intangible assets | **63,333** | 28,735 |
| Share-based compensation | **757,285** | - |
| Accretion on convertible debentures | **56,156** | 34,063 |
| Financing costs | **262,794** | - |
| Services through issuance of share capital | **-** | 207,500 |
| Changes in non-cash working capital items: | | |
| Interest receivable | **(36,225)** | - |
| Commodity tax receivable | **(188,343)** | (43,388) |
| Prepaid expenses | **(174,056)** | (49,859) |
| Accounts payable and accrued liabilities | **1,076,011** | (9,563) |
| **Net cash used in operating activities** | **(2,751,827)** | (902,190) |
| **Investing activities** | | |
| Purchase of equipment | **(8,711)** | (19,163) |
| **Net cash used in investing activities** | **(8,711)** | (19,163) |
| **Financing activities** | | |
| Issuance of convertible debentures, net of issuance costs | **12,068,808** | 400,000 |
| Issuance of common shares | **-** | 3,298,440 |
| Share issuance costs | **-** | (99,500) |
| Proceeds from stock options exercised | **50** | - |
| **Net cash provided by financing activities** | **12,068,858** | 3,598,940 |
| **Net change in cash and cash equivalents** | **9,308,320** | 2,677,587 |
| **Cash and cash equivalents, beginning of period** | **2,356,524** | - |
| **Cash and cash equivalents, end of period** | **$ 11,664,844** | $ 2,677,587 |
| **Supplemental information** | | |
| Purchase of intangible assets | **$ -** | $ 510,000 |
| Finders' fees paid in shares | **$ -** | $ 54,250 |

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

# Cardiol Therapeutics Inc.

**Condensed Interim Statements of Changes in Equity (Deficiency)**
**(Expressed in Canadian Dollars)**
**Unaudited**

| | Share capital | | Contributed | Equity portion of convertible | | |
|---|---|---|---|---|---|---|
| | Number | Amount | surplus | debenture | Deficit | Total |
| **Balance, January 19, 2017** | **-** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |
| Purchase intangible asset | 1,020,000 | 510,000 | - | - | - | 510,000 |
| Shares for services | 415,000 | 207,500 | - | - | - | 207,500 |
| Common shares issued | 13,257,600 | 3,298,440 | - | - | - | 3,298,440 |
| Share issuance cost | 108,500 | (99,500) | - | - | - | (99,500) |
| Convertible debentures | - | - | - | 259,463 | - | 259,463 |
| Net loss for the period | - | - | - | - | (1,072,666) | (1,072,666) |
| **Balance, September 30, 2017** | **14,801,100** | **$ 3,916,440** | **$ -** | **$ 259,463** | **$ (1,072,666)** | **$ 3,103,237** |
| | | | | | | |
| **Balance, December 31, 2017** | **15,113,100** | **$ 4,255,389** | **$ -** | **$ 259,463** | **$ (1,660,926)** | **$ 2,853,926** |
| Share-based compensation | - | - | 757,285 | - | - | 757,285 |
| Stock options exercised | 100,000 | 400,000 | (399,950) | - | - | 50 |
| Net loss for the period | - | - | - | - | (4,460,957) | (4,460,957) |
| **Balance, September 30, 2018** | **15,213,100** | **$ 4,655,389** | **$ 357,335** | **$ 259,463** | **$ (6,121,883)** | **$ (962,196)** |

The accompanying notes to the unaudited condensed interim 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. 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.

## 2. Significant accounting policies

*Statement of compliance*

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"). These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC.

The policies applied in these unaudited condensed interim financial statements are based on IFRSs issued and outstanding as of December ●, 2018, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed interim financial statements as compared with the most recent annual financial statements as at and for the year ended December 31, 2017. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2018 could result in restatement of these unaudited condensed interim financial statements.

## 3. 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. (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)**

## 4. 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 | - | 8,711 | 8,711 |
| Balance, September 30, 2018 | $ 3,129 | $ 27,525 | $ 30,654 |

| Accumulated Amortization | 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 | 423 | 4,252 | 4,675 |
| Balance, September 30, 2018 | $ 736 | $ 7,074 | $ 7,810 |

| Carrying value | Office equipment | Computer equipment | Total |
|---|---|---|---|
| Balance, December 31, 2017 | $ 2,816 | $ 15,992 | $ 18,808 |
| Balance, September 30, 2018 | $ 2,393 | $ 20,451 | $ 22,844 |

## 5. Intangible assets

| Cost | Exclusive global license agreement |
|---|---|
| Balance, January 19, 2017 | $ - |
| Additions (note 7(i)) | 767,228 |
| Balance, December 31, 2017 and September 30, 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 | 63,333 |
| Balance, September 30, 2018 | $ 113,539 |

| Carrying Value | Exclusive global license agreement |
|---|---|
| Balance, December 31, 2017 | $ 717,022 |
| Balance, September 30, 2018 | $ 653,689 |

## 5. 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 (see note 13(i)).

## 6. 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 nine months ended September 30, 2018 was $56,158 (nine months ended September 30, 2017 - $34,064). 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.

**6. Convertible debt (continued)**

(ii) On May 24, 2018, the Company closed on a brokered private placement unsecured convertible debentures with a face value of $10,531,000. The debentures bear interest at 8% per annum, calculated and payable semi-annually, and mature on May 31, 2019. The debentures are 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, subject to the Loan Option (as defined below). The debentures will be automatically converted upon a Triggering Event, or if the Loan Option (as defined below) has not been exercised, on the maturity date, whichever is earlier.

The Triggering Event means a transaction or series of transactions that result in an initial public offering of the Company's securities resulting in the Company's securities being listed for trading on a stock exchange; an amalgamation, arrangement, merger, reverse takeover, reorganization or other similar transaction of the Company; a sale or conveyance of all or substantially all of the property and assets or shares of the Company to any other person for securities of an issuer other than the Company.

Holders shall have the option to convert the outstanding debentures plus accrued and unpaid interest into a loan (the "Loan") on the maturity date (the "Loan Option"). The Loan shall be payable in equal quarterly payments in arrears over a five year period. Interest of 12% per annum shall compound, accrue, and be payable quarterly in arrears on the outstanding balance of the Loan. From time to time, the Company may prepay any or all of the principal owing on the Loan without a prepayment penalty. The Loan will be a subordinated and unsecured obligation of the Company and will rank equally with one another and to all other existing and future unsecured subordinated indebtedness of the Company to the extent subordinated on the same terms. The Loan will not restrict the Company or its subsidiaries from incurring additional indebtedness or from mortgaging, pledging or charging its properties to secure any indebtedness or liabilities, which may rank ahead of the Loan.

As a result of the conversion price of the debentures not being fixed, the conversion feature is considered a derivative liability and is revalued at each period end. The fair value of the derivative liability of the debenture at issuance and at September 30, 2018 was estimated to be $nil.

The Company incurred $774,023 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 will be amortized over the remaining term of the debentures using the effective interest method. During the three and nine months ended September 30, 2018, $176,821 and $246,251 of deferred financing fees were expensed, respectively.

(iii) On August 1, 2018, the Company closed on a brokered private placement of 8% unsecured convertible debentures in the amount of $2,400,000. The debentures have the same terms as the May 24, 2018 debentures (see note 6(ii)). The debentures will mature on May 31, 2019.

As a result of the conversion price of the debentures not being fixed, the conversion feature is considered a derivative liability and is revalued at each period end. The fair value of the derivative liability of the debenture at issuance and at September 30, 2018 was estimated to be $nil.

The Company incurred $88,171 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 will be amortized over the remaining term of the debentures using the effective interest method. During the three and nine months ended September 30, 2018, $16,542 of deferred financing fees were expensed

**(Expressed in Canadian Dollars)**

## 7. 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 (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.

b) Class A common shares issued

| | Number of common shares | | Amount |
|---|---|---|---|
| Balance, January 19, 2017 | - | $ | - |
| Purchase of intangible asset (i) | 1,020,000 | | 510,000 |
| Shares for services (ii) | 415,000 | | 207,500 |
| Common shares issued (iii) | 13,257,600 | | 3,298,440 |
| Share issuance cost (ii), (iii) | 108,500 | | (99,500) |
| Balance, September 30, 2017 | 14,801,100 | $ | 3,916,440 |
| Balance, December 31, 2017 | 15,113,100 | $ | 4,255,389 |
| Options exercised (note 8) | 100,000 | | 400,000 |
| Balance, September 30, 2018 | 15,213,100 | $ | 4,655,389 |

(i) During the nine months ended September 30, 2017, the Company issued 1,020,000 Class A common shares in the amount of $510,000 in connection with the Meros License Agreement (see note 5).

(ii) During the nine months ended September 30, 2017, the Company issued 400,000 Class A common shares in the amount of $200,000 for research and development and 15,000 Class A common shares in the amount of $7,500 for marketing services. The Company issued 108,500 Class A common shares in the amount of $54,250 for finders' fees.

(iii) During the nine months ended September 30, 2017, the Company issued 13,257,600 Class A common shares for cash consideration of $3,298,440 less share issue costs of $99,500.

The issued common shares exclude 1,020,000 Class A common shares placed in escrow in connection with the Meros License Agreement (see note 13(i)).

**(Expressed in Canadian Dollars)**

## 8. 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, September 30, 2017 and December 31, 2017 | - |
| Issued (i)(ii)(iii) | 920,000 |
| Exercised | (100,000) |
| Balance, September 30, 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 an exercise price of $0.0005. A grant date fair value of $400,000 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 exercise price of $2.875 (see note 13(ii)) 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 three and nine months ended September 30, 2018, $256,202 was included in share-based compensation.

(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 exercise price equal to $2.875 (see note 13(ii)) 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 three and nine months ended September 30, 2018, $101,133 was included in share-based compensation.

**(Expressed in Canadian Dollars)**

## 8. Stock options (continued)

The following table reflects the actual stock options issued and outstanding as of September 30, 2018:

| Expiry date | Exercise price ($) | Weighted average remaining contractual life (years) | Number of options outstanding | Number of options vested (exercisable) |
|---|---|---|---|---|
| August 16, 2025 | 2.875[(i)] | 6.88 | 200,000 | - |
| August 30, 2025 | 2.875[(i)] | 6.92 | 620,000 | - |
| | 2.875 | 6.90 | 820,000 | - |

(i) See note 13(ii)

## 9. Warrants

| | Number of warrants | Amount |
|---|---|---|
| Balance, January 19, 2017, September 30, 2017 and December 31, 2017 | - | $ - |
| Issued (note 11 (ii) | 824,000 | - |
| Balance, September 30, 2018 | 824,000 | $ - |

The following table reflects the actual warrants issued and outstanding as of September 30, 2018:

| Expiry date | Exercise price ($) | Remaining contractual life (years) | Warrants exercisable |
|---|---|---|---|
| August 31, 2022 | 4.00 | 3.92 | 824,000 |

## 10. Loss per share

For the three and nine months ended September 30, 2018, basic and diluted loss per share has been calculated based on the loss attributable to common shareholders of $2,663,544 and $4,573,457, respectively (three and nine months ended September 30, 2017 - $535,734 and $1,072,666, respectively) and the weighted average number of common shares outstanding of 15,146,796 and 15,124,455, respectively (three and nine months ended September 30, 2017 - 13,655,412 and 10,447,215, respectively). Diluted loss per share did not include the effect of stock options and warrants as they are anti-dilutive.

## 11. Commitments

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

| | |
|---|---|
| 2018 | $ 20,370 |

**11. 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; 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 on or before November 30, 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 for the Development Activities shall be considered to have been earned notwithstanding the 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, 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 will pay Noramco a non-recoupable payment of US$3,000,000 by December 21, 2018 (the "Exclusivity Payment"). The Exclusivity Payment will be credited towards purchases during 2018 and 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.

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.

**(Expressed in Canadian Dollars)**

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

## 12. Related party transactions

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

(i) Included in research and development expense is $141,100 and $178,100, respectively, for the three and nine months ended September 30, 2018 (three and nine months ended September 30, 2017 - $10,415 and $211,680, respectively) paid to a company related to a director. As at September 30, 2018, $21,753 (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 $40,000 and $105,000 for the three and nine months ended September 30, 2018 (three and nine months ended September 30, 2017 - $187,000 and $243,100, respectively) paid to a company controlled by a director. As well, included in share capital is $nil (three and nine months ended September 30, 2017 $nil and $34,000) of finders' fees paid to this company.

(iii) Included in administration is $50,238 and $130,238 (three and nine months ended September 30, 2017 - $18,420 and $24,820, respectively) paid to a company controlled by the former Chief Financial Officer of the Company. As at September 30, 2018, $nil (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:

| | Three Months Ended September 30, 2018 | Three Months Ended September 30, 2017 | Nine Months Ended September 30, 2018 | Period from January 19, 2017 (incorporation) to September 30, 2017 |
|---|---|---|---|---|
| Salaries and benefits | **$ 232,509** | $ 75,000 | **$ 546,176** | $ 159,480 |
| Share-based payments | **695,300** | - | **695,300** | - |
| | **$ 927,809** | $ 75,000 | **$ 1,241,476** | $ 159,480 |

As at September 30, 2018, $118,836 (December 31, 2017 - $nil) was owed to key management personnel and this amount was included in accounts payable and accrued liabilities.

## 13. Subsequent event

(i) In October 2018, the Corporation and Meros cancelled and returned to treasury 1,020,000 Common Shares held in escrow pursuant to the Meros Licence Agreement. In exchange, the Corporation 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.

(ii) Concurrent with the Offering, the Company agreed to reprice the 820,000 outstanding stock options to the Offering price.

**APPENDIX A**
**CARDIOL THERAPEUTICS INC.**
(the "**Corporation**")

**MANDATE OF THE BOARD OF DIRECTORS**

## 1. PURPOSE

The primary function of the directors (individually, a "**Director**" and, collectively, the "**Board**") of the Corporation is to supervise the management of the business and affairs of the Corporation. Management is responsible for the day-to-day conduct of the business of the Corporation. The fundamental objectives of the Board are to enhance and preserve long-term shareholder value and to ensure that the Corporation conducts business in an ethical and safe manner. In performing its functions, the Board should consider the legitimate interests that stakeholders, such as employees, customers, and communities, may have in the Corporation. In carrying out its stewardship responsibility, the Board, through the Corporation's Chief Executive Officer (the "**CEO**"), should set the standards of conduct for the Corporation.

## 2. PROCEDURE AND ORGANIZATION

The Board operates by delegating certain responsibilities and duties set out below to management or committees of the Board and by reserving certain responsibilities and duties for the Board. The Board retains the responsibility for managing its affairs, including selecting its chair (the "**Chair of the Board**") and constituting committees of the Board. A majority of the members of the Board shall be independent within the meaning of National Instrument 58-101 – Disclosure of Corporate Governance Practices and the rules of any stock exchange or market on which the Corporation's shares are listed or posted for trading (collectively, "**Applicable Governance Rules**"). If the Board selects a non-independent Director to serve as the Chair of the Board, it shall also select an independent Director to serves as the independent lead Director. In this mandate, the term "independent" includes the meanings given to similar terms by Applicable Governance Rules, including the terms "non-executive", "outside" and "unrelated" to the extent such terms are applicable under Applicable Governance Rules. The Board shall assess, on an annual basis, the adequacy of this mandate.

## 3. RESPONSIBILITIES AND DUTIES

The principal responsibilities and duties of the Board fall into a number of categories, which are summarized below.

A. <u>Legal Requirements</u>

(i) The Board has the overall responsibility to ensure that applicable legal requirements are complied with and documents and records have been properly prepared, approved, and maintained.

(ii) The Board has the statutory responsibility to, among other things:

(A) manage, or supervise the management of, the business and affairs of the Corporation;

(B) act honestly and in good faith with a view to the best interests of the Corporation;

(C) declare conflicts of interest, whether real or perceived;

(D) exercise the care, diligence, and skill that a reasonably prudent individual would exercise in comparable circumstances; and

(E) act in accordance with the obligations contained in the Ontario Business Corporations Act (the "**OBCA**"), the regulations under the OBCA, the articles of the Corporation, applicable securities laws and policies, applicable stock exchange rules, and other applicable legislation and regulations.

(iii) The Board has the responsibility for considering the following matters as a Board, which may not be delegated to management or to a committee of the Board:

(A) any submission to the shareholders of any question or matter requiring the approval of the shareholders;

(B) the filling of a vacancy among the directors or in the office of auditor and the appointment or removal of any of the CEO, the Chief Financial Officer, the Chair of the Board, or the President of the Corporation;

(C) the issue of securities except in the manner and on the terms authorized by the Board;

(D) declaring of dividends;

(E) the purchase, redemption, or any other form of acquisition of shares issued by the Corporation;

(F) the payment of a commission to any person in consideration of the person purchasing or agreeing to purchase shares of the Corporation from the Corporation or from any other person, or procuring or agreeing to procure purchasers for any such shares except as authorized by the Board;

(G) the approval of a management information circular;

(H) the approval of a take-over bid circular, directors' circular, or issuer bid circular;

(I) the approval of annual financial statements of the Corporation;

(J) the approval of an amalgamation of the Corporation;

(K) the approval of an amendment to the articles of the Corporation; and

(L) the adoption, amendment, or repeal of by-laws.

In addition to those matters which at law cannot be delegated, the Board must consider and approve all major decisions affecting the Corporation, including all material acquisitions and dispositions, material capital expenditures, material debt financings, issue of shares, and granting of options.

B. Strategy Development

The Board has the responsibility to ensure that there are long-term goals and a strategic planning process in place for the Corporation and to participate with management directly or through committees in developing and approving the strategy by which the Corporation proposes to achieve these goals (taking into account, among other things, the opportunities and risks of the business of the Corporation).

C. Risk Management

The Board has the responsibility to safeguard the assets and business of the Corporation, identify and understand the principal risks of the business of the Corporation, and to ensure that there are appropriate systems in place which effectively monitor and manage those risks with a view to the long-term viability of the Corporation.

D. Appointment, Training, and Monitoring Senior Management

The Board has the responsibility to:

(i) appoint the CEO, and together with the CEO, to develop a position description for the CEO;

(ii) with the advice of the Corporation's Compensation Committee (the "**Compensation Committee**"), develop corporate goals and objectives that the CEO is responsible for meeting and to monitor and assess the performance of the CEO in light of those corporate goals and objectives and to determine the compensation of the CEO;

(iii) provide advice and counsel to the CEO in the execution of the duties of the CEO;

(iv) develop, to the extent considered appropriate, position descriptions for the Chair of the Board and the chair of each committee of the Board;

(v) approve the appointment of all corporate officers;

(vi) consider, and if considered appropriate, approve, upon the recommendation of the Compensation Committee and the CEO, the remuneration of all corporate officers;

(vii) consider, and if considered appropriate, approve, upon the recommendation of the Compensation Committee, incentive-compensation plans and equity-based plans of the Corporation; and

(viii) ensure that adequate provision has been made to train and develop management and members of the Board and for the orderly succession of management, including the CEO.

E. Ensuring Integrity of Management

The Board has the responsibility, to the extent considered appropriate, to satisfy itself as to the integrity of the CEO and other officers of the Corporation and to ensure that the CEO and such other officers are creating a culture of integrity throughout the Corporation.

F. Policies, Procedures and Compliance

The Board is responsible for the oversight and review of the following matters and may rely on management of the Corporation to the extent appropriate in connection with addressing such matters:

(i) ensuring that the Corporation operates at all times within applicable laws and regulations and to appropriate ethical and moral standards;

(ii) approving and monitoring compliance with significant policies and procedures by which the business of the Corporation is conducted;

(iii) ensuring that the Corporation sets appropriate environmental standards for its operations and operates in material compliance with environmental laws and legislation;

(iv) ensuring that the Corporation has a high regard for the health and safety of its employees in the workplace and has in place appropriate programs and policies relating to workplace health and safety;

(v) developing the approach of the Corporation to corporate governance, including to the extent appropriate developing a set of governance principles and guidelines that are specifically applicable to the Corporation; and

(vi) examining the corporate governance practices within the Corporation and altering such practices when circumstances warrant.

G. Reporting and Communication

The Board is responsible for the oversight and review of the following matters and may rely on management of the Corporation to the extent appropriate in connection with addressing such matters:

(i) ensuring that the Corporation has in place policies and programs to enable the Corporation to communicate effectively with management, shareholders, other stakeholders, and the public generally;

(ii) ensuring that the financial results of the Corporation are adequately reported to shareholders, other security holders, and regulators on a timely and regular basis;

(iii) ensuring that the financial results are reported fairly and in accordance with applicable generally accepted accounting standards;

(iv) ensuring the timely and accurate reporting of any developments that could have a significant and material impact on the value of the Corporation; and

(v) reporting annually to the shareholders of the Corporation on the affairs of the Corporation for the preceding year.

H. Monitoring and Acting

The Board is responsible for the oversight and review of the following matters and may rely on management of the Corporation to the extent appropriate in connection with addressing such matters:

(i) monitoring the Corporation's progress in achieving its goals and objectives and, if necessary, revising and altering, through management, the direction of the Corporation in response to changing circumstances;

(ii) considering taking action when performance falls short of the goals and objectives of the Corporation or when other special circumstances warrant;

(iii) reviewing and approving material transactions involving the Corporation;

(iv) ensuring that the Corporation has implemented adequate internal control and management information systems;

(v) assessing the individual performance of each Director and the collective performance of the Board; and

(vi) overseeing the size and composition of the Board as a whole to facilitate more effective decision-making by the Corporation.

## 4. BOARD'S EXPECTATIONS OF MANAGEMENT

The Board expects each member of management to perform such duties, as may be reasonably assigned by the Board from time to time, faithfully, diligently, to the best of his or her ability and in the best interests of the Corporation. Each member of management is expected to devote substantially all of his or her business time and efforts to the performance of such duties. Management is expected to act in compliance with and to ensure that the Corporation is in compliance with all laws, rules and regulations applicable to the Corporation.

## 5. RESPONSIBILITIES AND EXPECTATIONS OF DIRECTORS

The responsibilities and expectations of each Director are as follows:

A. Commitment and Attendance

All Directors should make every effort to attend all meetings of the Board and meetings of committees of which they are members. Members may attend by telephone.

B. Participation in Meetings

Each Director should be sufficiently familiar with the business of the Corporation, including its financial position and capital structure and the risks and competition it faces, to actively and effectively participate in the deliberations of the Board and of each committee on which he or she is a member. Upon request, management should make appropriate personnel available to answer any questions a Director may have about any aspect of the business of the Corporation. Directors should also review the materials provided by management and the Corporation's advisors in advance of meetings of the Board and committees and should arrive prepared to discuss the matters presented.

C. Code of Business Conduct and Ethics

The Corporation has adopted a Code of Business Conduct and Ethics to deal with the business conduct of Directors and officers of the Corporation. Directors should be familiar with the provisions of the Code of Business Conduct and Ethics. Each Director should also strive to perform his or her duties in keeping with current and emerging corporate governance best practices for directors of publicly-traded corporation.

D. Other Directorships

The Corporation values the experience Directors bring from other boards on which they serve, but recognizes that those boards may also present demands on a Director's time and availability, and may also present conflicts issues. Directors should advise the chair of the Corporate Governance Committee before accepting any new membership on other boards of directors or any other affiliation with other businesses or governmental bodies which involve a significant commitment by the Director.

E. Contact with Management

All Directors may contact the CEO at any time to discuss any aspect of the business of the Corporation. Directors also have complete access to other members of management. The Board expects that there will be frequent opportunities for Directors to meet with the CEO and other members of management in Board and committee meetings and in other formal or informal settings.

**APPENDIX B**
**CARDIOL THERAPEUTICS INC.**
**(THE "CORPORATION")**

**AUDIT COMMITTEE CHARTER**

## 1. POLICY STATEMENT

It is the policy of the Corporation to establish and maintain an Audit Committee (the "**Committee**") to assist the directors (individually a "**Director**" and collectively the "**Board**") of the Corporation in carrying out the Board's oversight responsibility for the accounting, internal controls, financial reporting, audits of financial statements, and risk management processes of the Corporation.

The Committee shall be provided with resources commensurate with the duties and responsibilities assigned to it by the Board including appropriate administrative support. Without limiting the generality of the foregoing, the Corporation shall provide for appropriate funding, as determined by the Committee in its capacity as a committee of the Board, for payment of: (a) compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation; (b) compensation to any advisors engaged by the Committee under Section 4(c)(iii) of this charter; and (c) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

If determined appropriate by the Committee, it shall have the discretion to institute investigations of improprieties, or suspected improprieties, within the scope of its responsibilities, including the standing authority to retain special counsel or other experts. The Committee shall have unrestricted access to the Corporation's External Auditors, is authorized to seek any information that it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

## 2. COMPOSITION OF COMMITTEE

(a) The Committee shall be established by a resolution of the Board. The Committee shall consist of a minimum of three Directors. The Board shall appoint the members of the Committee and may seek the advice and assistance of the Corporate Governance Committee in identifying qualified candidates. The Board shall appoint one member of the Committee to be the chair of the Committee (the "**Chair**"). A description of the duties and responsibilities of the Chair are included in Schedule A.

(b) All of the members of the Committee shall be Directors who are independent within the meaning of National Instrument 52-110 – Audit Committees ("**NI 52-110**"), and the rules of any stock exchange or market on which the Corporation's shares are listed or posted for trading (collectively, "**Applicable Governance Rules**"). In this charter, the term "independent" includes the meanings given to similar terms by Applicable Governance Rules, including the terms "non-executive", "outside" and "unrelated" to the extent such terms are applicable under Applicable Governance Rules. No member of the Committee shall have participated in the preparation of the financial statements of the Corporation or any current subsidiary of the Corporation at any time during the past three years.

(c) All members of the Committee must be able to read and understand fundamental financial statements (including a balance sheet, income statement and cash flow statement) and read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and level of complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

(d) A Director appointed by the Board to the Committee shall be a member of the Committee until replaced by the Board or until his or her resignation.

## 3. MEETINGS OF THE COMMITTEE

(a) The Committee shall convene a minimum of four times each year at such times and places as may be determined by the Chair of the Committee and whenever a meeting is requested by the

Board, a member of the Committee, the auditors or senior management of the Corporation. Scheduled meetings of the Committee shall correspond with the review of the quarterly and year-end financial statements and management discussion and analysis.

(b) Notice of each meeting of the Committee shall be given to each member of the Committee.

(c) Notice of a meeting of the Committee shall:

(i) be in writing, which includes electronic communication facilities;

(ii) state the nature of the business to be transacted at the meeting in reasonable detail;

(iii) to the extent practicable, be accompanied by a copy of any documentation to be considered at the meeting; and

(iv) be given at least two business days prior to the time stipulated for the meeting or such shorter period as the members of the Committee may permit.

(d) A quorum for the transaction of business at a meeting of the Committee shall consist of a majority of the members of the Committee. However, it shall be the practice of the Committee to require review, and, if necessary, approval of important matters by all members of the Committee.

(e) A member or members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic, or other communication facilities as permits all persons participating in the meeting to communicate with each other. A member participating in such a meeting by any such means is deemed to be present at the meeting.

(f) In the absence of the Chair of the Committee, the members of the Committee shall choose one of the members present to chair the meeting. In addition, the members of the Committee shall choose one of the persons present to be the secretary of the meeting.

(g) The Committee may invite such persons to attend meetings of the Committee as the Committee considers appropriate, except to the extent exclusion of certain persons is required pursuant to this charter or by applicable laws.

(h) The Committee may invite the External Auditors to be present at any meeting of the Committee and to comment on any financial statements, or on any of the financial aspects, of the Corporation.

(i) The Committee (A) shall meet with the External Auditors separately from individuals other than the Committee, and (B) may meet separately with management of the Corporation.

(j) Minutes shall be kept of all meetings of the Committee and shall be signed by the chair and the secretary of the meeting. The Chair of the Committee shall circulate the minutes of the meetings of the Committee to all members of the Board.

## 4. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

(a) The Committee, in its capacity as a committee of the Board, is directly responsible for recommending to the Board the public accounting firm to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation (the "**External Auditor**") as well as the compensation of the External Auditor. The Committee shall also be directly responsible for the oversight of the work of the External Auditor (including resolution of disagreements between management and the auditor regarding financial reporting) and each such External Auditor must report directly to the Committee.

(b) The other primary duties and responsibilities of the Committee are to:

(i) identify and monitor the management of the principal risks that could impact the financial reporting of the Corporation;

(ii) monitor the integrity of the Corporation's financial reporting process and system of internal controls regarding financial reporting and accounting compliance;

(iii) monitor the independence, objectivity, and performance of the External Auditors, including, without limitation: (A) ensuring the Committee's receipt from the External Auditors at least annually of a formal written statement delineating all relationships between the External Auditors and the Corporation; (B) actively engaging in dialogue with the External Auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the External Auditor; and (C) taking, or recommending that the Board take, appropriate action to oversee the independence of the External Auditors;

(iv) evaluate the performance of the External Auditors at least annually; deal directly with the External Auditors to approve external audit plans, other services (if any), and fees;

(v) directly oversee the external audit process and results (in addition to items described in Section 4(e) below);

(vi) provide an avenue of communication between the External Auditors, management, and the Board;

(vii) review annually with management of the Corporation the anti-fraud, anti-bribery, anti-corruption, and risk assessment programs of the Corporation;

(viii) carry out a review designed to ensure that an effective "whistle blowing" procedure exists to permit stakeholders to express any concerns regarding accounting or financial matters to an appropriately independent individual; and

(ix) oversee all pension and retirement benefit plans if and when established.

(c) The Committee shall have the authority to:

(i) inspect any and all of the books and records of the Corporation and its subsidiaries;

(ii) discuss with the management of the Corporation and its subsidiaries, any affected party and the External Auditors, such accounts, records, and other matters as any member of the Committee considers appropriate;

(iii) engage independent counsel and other advisors as it determines necessary to carry out its duties; and

(iv) set and pay the compensation for any advisors engaged by the Committee.

**Relationship with the Board**

(d) The Committee shall, at the earliest opportunity after each meeting, report to the Board the results of its activities and any reviews undertaken and make recommendations to the Board as considered appropriate.

**Relationship with External Auditors**

(e) The Committee shall:

(i) review the audit plan with the External Auditors and with management;

(ii) review with the External Auditors the critical accounting policies and practices used by the Corporation, all alternative treatments of financial information within IFRS that the External Auditors have discussed with management, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the External Auditors;

(iii) discuss with management and the External Auditors any proposed changes in major accounting policies or principles, the presentation and impact of material risks and uncertainties and key estimates and judgments of management that may be material to financial reporting;

(iv) review with management and with the External Auditors material financial reporting issues arising during the most recent financial period and the resolution or proposed resolution of such issues;

(v) review any problems experienced or concerns expressed by the External Auditors in performing any audit, including any restrictions imposed by management or any material accounting issues on which there was a disagreement with management;

(vi) review with the External Auditors any accounting adjustments that were noted or proposed by the independent auditor but that were "passed" (as immaterial or otherwise), any communications between the audit team and the External Auditor's national office respecting auditing or accounting issues presented by the engagement, any "management" or "internal control" letter or schedule of unadjusted differences issued, or proposed to be issued, by the External Auditors to the Corporation, or any other material written communication provided by the External Auditors to the Corporation's management;

(vii) review with senior management the process of identifying, monitoring and reporting the principal risks affecting financial reporting;

(viii) review and discuss with management and the External Auditors any off-balance sheet transactions or structures and their effect on the Corporation's financial results and operations, as well as the disclosure regarding such transactions and structures in the Corporation's public filings;

(ix) review the audited annual financial statements (including management discussion and analysis) and related documents in conjunction with the report of the External Auditors and obtain an explanation from management of all material variances between comparative reporting periods;

(x) consider and review with management the internal control memorandum or management letter containing the recommendations of the External Auditors and management's response, if any, including an evaluation of the adequacy and effectiveness of the internal financial controls and procedures for financial reporting of the Corporation and subsequent follow-up to any identified weaknesses;

(xi) review with financial management and the External Auditors the quarterly unaudited financial statements and management discussion and analysis before release to the public;

(xii) periodically meet separately with management and the External Auditors;

(xiii) oversee the financial affairs of the Corporation and its subsidiaries and, if deemed appropriate, make recommendations to the Board, External Auditors, or management;

(xiv) discuss with management and the External Auditors any correspondence with regulatory or governmental agencies that raise material issues regarding the Corporation's financial statements or accounting policies;

(xv) consider the recommendations of management in respect of the appointment and terms of engagement of the External Auditor;

(xvi) pre-approve all audit and non-audit services to be provided to the Corporation or its subsidiaries by its External Auditors, or the External Auditors of subsidiaries of the

Corporation, subject to the overriding principle that the External Auditors not be permitted to be retained by the Corporation to perform internal audit outsourcing services or financial information systems services; provided that notwithstanding the above, the foregoing pre-approval of non-audit services may be delegated to a member of the Committee, with any decisions of the member with the delegated authority reporting to the Committee at the next scheduled meeting;

(xvii) approve the engagement letter for non-audit services to be provided by the External Auditors or affiliates of External Auditors, together with estimated fees, and consider the potential impact of such services on the independence of the External Auditors;

(xviii) when there is to be a change of External Auditors, review all issues and provide documentation related to the change, including the information to be included in the notice of change of auditors and documentation required pursuant to the then current legislation, rules, policies and instruments of applicable regulatory authorities and the planned steps for an orderly transition period; and

(xix) review all reportable events, including disagreements, unresolved issues and consultations, as defined by applicable laws, on a routine basis, whether or not there is to be a change of the External Auditors.

(f) In connection with the public disclosure of financial information and other public disclosure, the Committee shall:

(i) review the Corporation's financial statements, management discussion and analysis, and annual and interim profit or loss press releases before the Corporation publicly discloses this information;

(ii) review with management its evaluation of the Corporation's procedures and controls designed to assure that information required to be disclosed in the Corporation's periodic public reports is recorded, processed, summarized, and reported in such reports within the time periods specified by applicable securities laws for the filing of such reports ("**Disclosure Controls**") and consider whether any changes are appropriate in light of management's evaluation of the effectiveness of such Disclosure Controls;

(iii) establish a policy, which may include delegation to an appropriate member or members of management, for release of earnings press releases, as well as for the release of financial information and earnings guidance provided to analysts and rating agencies;

(iv) satisfy itself that adequate procedures are in place for the review of the Corporation's public information extracted from the Corporation's financial statements, other than the public information reviewed in accordance with Section 4(f)(i), and periodically assess the adequacy of those procedures;

(v) to the extent deemed appropriate, review and supervise the preparation by management of:

(A) the annual information forms, management information circulars, and annual and interim financial statements of the Corporation and any other information of the Corporation filed by the Corporation with the applicable securities regulators;

(B) press releases of the Corporation containing financial information, earnings guidance, forward- looking statements, information about operations, or any other material information;

(C) correspondence broadly disseminated to shareholders of the Corporation; and

(D) other relevant written and oral communications or presentations;

(vi) before release, review and if appropriate, recommend for approval by the Board, all public disclosure documents containing audited or unaudited financial information, including any prospectuses, annual reports, annual information forms, management discussion and analysis, and press releases, focusing particularly on:

(A) any changes in accounting policies and practices;

(B) any important areas where judgment must be exercised;

(C) significant adjustments resulting from the audit;

(D) the going concern assumption, if any;

(E) compliance with accounting standards; and

(F) compliance with stock exchange and legal requirements.

(g) The Committee shall enquire into and determine the appropriate resolution of any conflict of interest in respect of audit or financial matters which are directed to the Committee by any member of the Board, a shareholder of the Corporation, the External Auditors, or senior management.

(h) The Committee shall periodically review with management the need for an internal audit function.

(i) The Committee shall review the accounting and reporting of costs, liabilities, and contingencies of the Corporation.

(j) The Committee shall periodically discuss with management the Corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures.

(k) The Committee shall establish, monitor, and review policies and procedures for internal accounting, financial control, and management information.

(l) The Committee shall periodically discuss with management the Corporation's process for performing its quarterly certifications pursuant to Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings.

(m) The Committee shall review with the Chief Executive Officer and Chief Financial Officer of the Corporation any report on significant deficiencies in the design or operation of the internal controls that could adversely affect the Corporation's ability to record, process, summarize, or report financial data, any material weaknesses in internal controls identified to the auditors, and any fraud, whether or not material, that involves management or other employees who have a significant role in the Corporation's internal controls.

(n) The Committee shall establish and maintain procedures for:

(i) the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters;

(ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters; and

(iii) reviewing arrangements by which staff of the Corporation may, in confidence, raise concerns about possible improprieties in matters of financial reporting and ensuring that arrangements are in place for proportionate and independent investigation and follow-up action.

(o) At each meeting of the Committee, the Committee shall review any complaints or concerns of employees of the Corporation regarding accounting, internal accounting controls, or auditing matters relating to the Corporation and violations of the Code of Business Conduct and Ethics of the Corporation and of any applicable law, rule, or regulation and shall follow the procedures

established under the Corporation's Whistleblower Policy regarding such concerns and complaints.

(p) The Committee shall review all related-party transactions and discuss the business rationale for these transactions and determine whether appropriate disclosures have been made. For this purpose, the term "related-party transactions" includes any "material transaction" required to be disclosed under Item 13 of Form 51-102F2 under National Instrument 51-102 – Continuous Disclosure Obligations.

(q) The Committee shall review the Corporation's compliance and ethics programs, including consideration of legal and regulatory requirements, and shall review with management its periodic evaluation of the effectiveness of such programs.

(r) The Committee shall, in consultation with the Corporate Governance Committee, review the Code of Business Conduct and Ethics and programs that management has established to monitor compliance with such code, and periodically, after consultation with the Corporate Governance Committee, make recommendations to the Board regarding the Code of Business Conduct and Ethics that the Committee shall deem appropriate.

(s) The Committee shall review and approve the Corporation's hiring policies regarding partners, employees, and former partners and employees of the present and former External Auditors.

(t) The Committee shall receive any reports from legal counsel of evidence of a material violation of securities laws or breaches of fiduciary duty by the Corporation.

(u) The Committee shall review with the Corporation's legal counsel, on no less than an annual basis, any legal matter that could have a material impact on the Corporation's financial statements and any enquiries received from regulators or government agencies.

(v) The Committee shall assess, on an annual basis, the adequacy of this charter and the performance of the Committee.

## SCHEDULE A

## (DUTIES AND RESPONSIBILITIES OF THE CHAIR)

In addition to any duties and responsibilities set out in the mandate of the Board and this charter, the Chair will have the following duties and responsibilities:

(a) chair meetings of the Committee;

(b) in consultation with the Board Chair and the Corporate Secretary, determine the frequency, dates and locations of meetings of the Committee;

(c) in consultation with the CEO, the CFO, the Corporate Secretary and others as required, review the annual work plan and the meeting agendas so as to bring all required business before the Committee;

(d) in consultation with the Board Chair, ensure that all items requiring the Committee's approval are appropriately tabled;

(e) report to the Board on the matters reviewed by, and on any decisions or recommendations of, the Committee at the next meeting of the Board following any meeting of the Committee; and

(f) carry out any other or special assignments or any functions as may be requested by the Board.

## CERTIFICATE OF CARDIOL THERAPEUTICS INC.

Dated December 10, 2018

This third amended and restated preliminary prospectus constitutes full, true, and plain disclosure of all material facts relating to the securities offered by this third amended and restated preliminary prospectus as required by the securities legislation of each of the provinces of Canada, except Québec.

(Signed) DAVID ELSLEY
President and Chief Executive Officer

(Signed) CHRIS WADDICK
Chief Financial Officer and Corporate Secretary

**On behalf of the Board of Directors**

(Signed) ELDON SMITH
Director

(Signed) TERRY LYNCH
Director

## CERTIFICATE OF PROMOTER

Dated December 10, 2018

This third amended and restated preliminary prospectus constitutes full, true, and plain disclosure of all material facts relating to the securities offered by this third amended and restated preliminary prospectus as required by the securities legislation of each of the provinces of Canada, except Québec.

(Signed) DAVID ELSLEY
Promoter

(Signed) ANTHONY BOLTON
Promoter

(Signed) ELDON SMITH
Promoter

## CERTIFICATE OF THE UNDERWRITERS

Dated December 10, 2018

To the best of our knowledge, information and belief, this third amended and restated preliminary prospectus constitutes full, true, and plain disclosure of all material facts relating to the securities offered by this third amended and restated preliminary prospectus as required by the securities legislation of each of the provinces of Canada, except Québec.

**ALTACORP CAPITAL INC.**

(Signed) JEFFREY FALLOWS_____
JEFFREY FALLOWS
Managing Director

**RAYMOND JAMES LTD.**

(Signed) MARWAN KUBURSI_____
MARWAN KUBURSI
Managing Director

**MACKIE RESEARCH CAPITAL CORPORATION**

(Signed) JEFF REYMER_____
JEFF REYMER
Managing Director

**ECHELON WEALTH PARTNERS INC**.

(Signed) MICHAEL M. LORIMER_____
MICHAEL M. LORIMER
Managing Director

**PARADIGM CAPITAL INC.**

(Signed) JASON MATHESON_____
JASON MATHESON
Managing Director