

*This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.*

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.*

*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 the securities laws of any state of the United States (as such term is defined in Regulation S under the U.S. Securities Act) (the “United States”) and may not be offered, sold or delivered, directly or indirectly, within the United States or to, or for the account or benefit of, persons in the United States or “U.S. persons” (as such term is defined in Regulation S under the U.S. Securities Act (“U.S. Persons”), except as permitted by the Agency Agreement (as defined below) and pursuant to an exemption from registration under the U.S. Securities Act and applicable U.S. state securities laws. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States or to, or for the account or benefit of, persons in the United States or U.S. Persons. See “Plan of Distribution”.*

*Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of the issuer at 2265 Upper Middle Road East, Suite 602, Oakville, Ontario L6H 0G5, tel.: (289) 910-0850, and are also available electronically at [www.sedar.com](http://www.sedar.com).*

## SHORT FORM PROSPECTUS

New Issue

May 26, 2020



CARDIOL THERAPEUTICS INC.

\$15,000,000

6,000,000 Offered Units

This short form prospectus (the “**Prospectus**”) of Cardiol Therapeutics Inc. (the “**Corporation**” or “**Cardiol**” or “**we**”) qualifies the distribution (the “**Offering**”) of 6,000,000 units (the “**Units**”) of the Corporation at a price of \$2.50 per Unit (the “**Offering Price**”) pursuant to an underwriting agreement dated as of May 19, 2020 (the “**Underwriting Agreement**”) between the Corporation and Canaccord Genuity Corp. (the “**Lead Underwriter**”), AltaCorp Capital Inc., Echelon Wealth Partners Inc. and Raymond James Ltd. (collectively, the “**Underwriters**”). Each Unit consists of one Class A common share (a “**Common Share**”) in the capital of the Corporation (each, a “**Unit Share**”) and one-half of one Common Share purchase warrant of the Corporation (each whole warrant, a “**Warrant**”, and together with the Units and Unit Shares, the “**Securities**”). Each Warrant entitles the holder thereof to acquire one Common Share (each, a “**Warrant Share**”) at an exercise price of \$3.25 per Warrant Share until 4:00 p.m. (Eastern time) on the date that is 24 months following the Closing Date (as defined herein), subject to adjustment in certain customary events. The Warrants will be governed by a warrant indenture (the “**Warrant Indenture**”) to be entered into on the Closing Date between the Corporation and Computershare Trust Company of Canada (“**Computershare Trust**”), as warrant agent. The Offered Units will not trade and will separate into Unit Shares and Warrants after issuance. Unless the context otherwise requires, when used herein, all references to “**Offered Units**” include any Additional Units (as defined below). The Offering Price has been determined by negotiation between the Corporation and the Underwriters.

The Corporation is focused on producing pharmaceutical cannabidiol (“**CBD**”) products and developing innovative therapies for heart disease, including acute myocarditis and other causes of heart failure. The Corporation’s lead product, CardiolRx™, is formulated to be the most consistent cannabidiol formulation on the market. CardiolRx is pharmaceutically produced, manufactured under cGMP, and is THC free (<5 ppm). The Corporation also plans to commercialize CardiolRx in the billion-dollar market<sup>1</sup> for medicinal cannabinoids in Canada and is pursuing distribution opportunities in Europe and Latin America.

Pending receipt of regulatory approval, the Corporation intends to fund an international Phase II/III clinical trial investigating the cardio protective properties of its CBD formulation in up to 450 COVID-19 patients; such Phase II/III clinical trial would

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<sup>1</sup> The North American Cannabis Report, September 2019, Prohibition Partners.

be conducted on COVID-19 patients with a prior history of cardiovascular disease (“CVD”) or risk factors for CVD, to assess the efficacy, safety and tolerability of CardiolRx on preventing cardiac complications in patients hospitalized for COVID-19.

**The Issuer has not yet received the required regulatory approval to initiate a Phase II/III clinical trial of its CBD formulation in COVID-19 patients with a history of CVD or risk factors for CVD.**

In heart failure, Cardiol is planning an international clinical study of CardiolRx in acute myocarditis, a condition caused by inflammation in heart tissue, which is the most common cause of sudden cardiac death in people less than 35 years of age. The Corporation is also developing proprietary nanotechnology to uniquely deliver pharmaceutical cannabidiol and other anti-inflammatory drugs directly to sites of inflammation in the heart that are associated with heart failure. Heart failure is the leading cause of death and hospitalization in North America with associated annual healthcare costs in the U.S. alone exceeding US\$30 billion. See “*The Corporation*”.

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**Price: \$2.50 per Offered Unit**

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The outstanding Common Shares are traded on the Toronto Stock Exchange (the “TSX”) under the symbol “CRDL”. The Corporation has applied to list the Unit Shares, the Warrant Shares and the Common Shares issuable upon the exercise, if any, of the Underwriters’ Warrants (as defined herein), on the TSX. Listing will be subject to the Corporation fulfilling all of the requirements of the TSX. On May 15, 2020, the last trading day before the date of this Prospectus, the closing price of the Common Shares on the TSX was \$2.48 per Common Share.

The Offered Units may also be offered for sale within the United States or to, or for the account or benefit of, persons in the United States or U.S. Persons by or through one or more United States registered broker-dealers affiliates of the Underwriters (each, a “U.S. Affiliate”), under certain exemptions from the registration requirements of the U.S. Securities Act and applicable state securities laws. In addition, the Underwriters are entitled to offer the Offered Units outside of Canada and the United States to non-U.S. Persons, provided that the Underwriters shall not take any action in connection with the distribution of the Offered Units that would result in the Corporation being obligated to comply with the prospectus, registration, reporting or other similar requirements of the securities laws of any jurisdiction. See “*Plan of Distribution*”.

	Price to the Public	Underwriters’ Commission <small>(2)(3)(4)</small>	Net Proceeds to the Corporation <sup>(5)</sup>
Per Offered Unit .....	\$2.50 <sup>(1)</sup>	\$0.15	\$2.35
Total .....	\$15,000,000	\$900,000 <sup>(6)</sup>	\$14,100,000

Notes:

- (1) For its purposes, the Corporation intends to allocate \$2.39 of the Offering Price of each Offered Unit as consideration for the issue of each Unit Share and \$0.11 of the Offering Price of each Offered Unit for the one-half of one Warrant comprising part of the Unit.
- (2) Upon closing of the Offering, the Corporation will pay the Underwriters a fee (the “Underwriters’ Commission”) equal to 6% of the aggregate gross proceeds of the Offering, except in respect of the sale of Offered Units made to certain pre-identified purchasers (the “President’s List Purchasers”), in respect of which the Underwriters shall be paid an Underwriters’ Commission equal to 3% of the aggregate gross proceeds of the sale of Offered Units to President’s List Purchasers. The Corporation anticipates that approximately \$8,700,000 will be raised from the sale of Units to President’s List Purchasers (the “Expected President’s List Sales”). If this is the case, then the Underwriters’ Commission would be \$639,000 and the Net Proceeds to the Corporation would be \$14,361,000. The Underwriters’ Commission set forth in this table reflects the Underwriters’ Commission payable in respect of purchasers who are not President’s List Purchasers. The Underwriters’ Commission is payable in cash. See “*Plan of Distribution*”.
- (3) The Corporation has agreed to grant 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 offer and sell such up to an additional 900,000 Units (the “Additional Units”), representing 15% of the Units sold pursuant to the Offering. The Additional Units will be sold on the same terms as set out above to cover the Underwriters’ over-allocation position, if any, and for market stabilization purposes. The Over-Allotment Option may be exercised by the Underwriters: (i) to acquire Additional Units at the Offering Price; (ii) to acquire additional Unit Shares (the “Additional Shares”) at a price of \$2.39 per Additional Share; (iii) to acquire additional Warrants (the “Additional Warrants”) at a price of \$0.22 per Additional Warrant; or (iv) to acquire any combination of Additional Units, Additional Shares or Additional Warrants, so long as the aggregate number of Additional Shares and Additional Warrants that may be issued pursuant to the Over-Allotment Option does not exceed 900,000 Additional Shares and 450,000 Additional Warrants. This Additional Units, Additional Shares and Additional Warrants are collectively referred to as the “Over-Allotment Securities”. If the Over-Allotment Option is exercised in full, the total gross proceeds of the Offering, the Underwriters’ Commission (assuming the

Expected President’s List Sales) and the net proceeds to the Corporation (before deducting expenses of the Offering) will be \$17,250,000, \$774,000 and \$16,476,000, respectively. This Prospectus qualifies the distribution of the Over-Allotment Option and the distribution of the Over-Allotment Securities upon the 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. Where applicable, references to “Offering” and “Offered Units” include the Additional Units issuable upon exercise of the Over-Allotment Option. See “*Plan of Distribution*”.

- (4) As additional consideration for the services rendered in connection with the Offering, the Corporation has agreed to issue to the Underwriters such number of unit purchase warrants (the “**Underwriters’ Warrants**”) as is equal to 6% of the total number of Offered Units sold under the Offering (other than with respect to President’s List Purchasers for which the Underwriters will receive Underwriters’ Warrants equal to 3% of the total number of Offered Units sold to President’s List Purchasers). Each Underwriters’ Warrant will entitle the holder thereof to purchase one Unit (an “**Underwriters’ Unit**”) at the Offering Price until the date that is 24 months following the Closing Date. This Prospectus also qualifies the distribution of the Underwriters’ Warrants. See “*Plan of Distribution*”.
- (5) After deducting the Underwriters’ Commission, but before deducting expenses of the Offering estimated at \$155,000, which will be paid by the Corporation from the proceeds of the Offering.
- (6) Maximum Underwriter’s Commission assuming no exercise of the Over-Allotment Option and no President’s List Purchasers.

The following table sets out particulars in respect of the Over-Allotment Option and the Underwriters’ Warrants to be issued to the Underwriters under the Offering:

	<b>Offering</b>	<b>Exercise Period</b>	<b>Exercise Price</b>
Over-Allotment <sup>(1)</sup> Option	900,000 Additional Units	For a period of 30 days from and including the Closing Date	\$2.50 per Additional Unit
Underwriters’ Warrants <sup>(2)</sup>	255,600 Underwriters’ Warrants	For a period of 24 months from the Closing Date	\$2.50 per Underwriters’ Warrant

Notes:

- (1) This Prospectus qualifies the grant of the Over-Allotment Option and the issuance of the Additional Units, Additional Shares and Additional Warrants on the exercise of the Over-Allotment Option. See “*Plan of Distribution*”.
- (2) Assumes no exercise of the Over-Allotment Option and the Expected President’s List Sales. The Underwriters are to be granted Underwriters’ Warrants in the amount of 6% of the total number of Offered Units sold under the Offering (other than with respect to President’s List Purchasers for which the Underwriters will receive Underwriters’ Warrants equal to 3% of Offered Units sold to President’s List Purchasers).

The Underwriters, as principals, conditionally offer the Offered 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 referred to under “*Plan of Distribution*” and subject to approval of certain legal matters on behalf of the Corporation by Gowling WLG (Canada) LLP and on behalf of the Underwriters by Torsys LLP.

Subscriptions for the Offered Units will be received subject to rejection or allotment in whole or in part and the Underwriters reserve the right to close the subscription books at any time without notice. The Underwriters may decrease the price at which the Offered Units are distributed from the Offering Price. See “*Plan of Distribution*”.

Closing of the Offering is expected to occur on or about June 4, 2020, or such other date as the Corporation and the Underwriters, but in no event later than 42 days following the date of a final receipt for the Prospectus (the “**Closing Date**”).

Subject to certain limited exceptions, registrations and transfers of the Offered Units will be effected electronically through the non-certificated inventory (“**NCI**”) system administered by CDS Clearing and Depository Services Inc. (“**CDS**”). Beneficial owners of Offered Units will not, except in certain limited circumstances, be entitled to receive physical certificates evidencing their ownership of Offered Units. Notwithstanding the foregoing, Offered Units sold pursuant to the exemption from the registration requirements of the U.S. Securities Act provided under Rule 506(b) of Regulation D (“**Regulation D**”) under the U.S. Securities Act to subscribers who are “accredited investors” (as such term is defined in Rule 501(a) of Regulation D (“**U.S. Accredited Investors**”)) will be represented by definitive physical certificates registered in the names of the subscribers thereof. See “*Plan of Distribution*”.

The Corporation has been advised by the Underwriters that, in connection with the Offering, the Underwriters may over-allot or effect transactions that are intended to stabilize or maintain the market price of the Common Shares at levels other than that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. The

Offered Units sold by the Underwriters to the public will initially be offered at the Offering Price. After the Underwriters have made a reasonable effort to sell all of the Offered Units at the Offering Price specified on the cover page, the Underwriters may change the Offering Price and the other selling terms to an amount not greater than the Offering Price set forth on the cover of this Prospectus, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the Offered Units is less than the gross proceeds paid by the Underwriters to the Corporation. See “*Plan of Distribution*”.

**An investment in Offered Units involves a high degree of risk and must be considered speculative due to the nature of the Corporation’s business and the present stage of its development. Prospective investors should carefully consider the risk factors described in and incorporated by reference into this Prospectus. See “*Forward-Looking Information*” and “*Risk Factors*”.**

Prospective purchasers are advised to consult their own tax advisors regarding the application of Canadian federal income tax laws to their particular circumstances, as well as any other provincial, foreign and other tax consequences of acquiring, holding or disposing of Offered Units.

Unless otherwise indicated, all information in this Prospectus assumes no exercise of the Over-Allotment Option.

**Investors should rely only on the information contained in or incorporated by reference into this Prospectus. The Corporation has not authorized anyone to provide investors with different information. Information contained on the Corporation’s website shall not be deemed to be a part of this Prospectus or incorporated by reference herein and should not be relied upon by prospective investors for the purpose of determining whether to invest in the Offered Units. Neither the Corporation nor the Underwriters are making an offer of these securities in any jurisdiction where the offer or sale is not permitted. Investors should not assume that the information contained in this Prospectus is accurate as of any date other than the date on the face page of this Prospectus. The Corporation’s business, operating results, financial condition and prospects may have changed since that date; however, if, after a receipt for the Prospectus is issued but before the completion of the distribution under the Prospectus, a material change (as such term is defined under applicable Canadian securities laws) occurs in the business, operations or capital of the Corporation, the Corporation must file an amendment to the Prospectus as soon as practicable but in any event within ten days after the day the material change occurs.**

Dr. Guillermo Torre-Amione and Colin Stott, directors of the Corporation, and Dr. Anthony Bolton, a promoter of the Corporation, reside outside of Canada. Although Dr. Guillermo Torre-Amione, Colin Stott and Dr. Anthony Bolton have appointed Gowling WLG (Canada) LLP at 50 Queen Street North, #1020, Kitchener, Ontario N2H 6M2 as their agent for service of process in Canada, investors are advised that it may not be possible for investors to enforce judgments obtained in Canadian courts predicated upon civil liability provisions of applicable securities law in Canada.

The registered and head office of the Corporation is located at Suite 602 – 2265 Upper Middle Road East, Oakville, Ontario L6H 0G5.

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## FORWARD-LOOKING INFORMATION

This Prospectus and other publicly available documents, including the documents that are incorporated by reference in this Prospectus and in such publicly available documents, includes certain “forward-looking information” within the meaning of applicable Canadian securities legislation.

Forward looking information can be identified by words such as: “estimate”, “plan”, “anticipate”, “expect”, “intend”, “believe”, “will”, “should”, “could”, “may”, “project”, “strategy” and similar expressions or references to future periods. All information other than historical facts, included in this Prospectus that address activities, events or developments that the Corporation expects or anticipates will or may occur in the future, including such things as future business strategy, competitive strengths, goals, expansion and growth of the Corporation’s business, operations, plans and other such matters is forward looking information.

The Corporation has based the forward-looking information 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. This forward-looking information includes, among other things, statements relating to:

- the successful completion of the Offering;
- our anticipated cash needs, the need for additional financing, and the use of the net proceeds from the Offering;
- our launch, marketing, and sale of a pharmaceutically manufactured pure cannabidiol oil as a *Cannabis Act*, SC 2018, c 16 (“**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 development during the second half of 2020;
- our development of proprietary cannabidiol formulations for near-term commercialization;

- our ability to develop new formulations;
- 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 cannabidiol products that are THC free (<5 ppm);
- 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 dividend 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 information is 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 this forward-looking information. Given these risks, uncertainties, and assumptions, prospective purchasers of Securities should not place undue reliance on this forward-looking information. 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 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 United States, 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;
- management of additional regulatory burdens;
- volatility in the market price for the Securities;
- 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;
- 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;
- 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;
- the issuance of Common Shares in the future causing dilution; and
- the impact of the recent novel coronavirus (“COVID-19”) pandemic on our operations.

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

Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated. The Corporation does not undertake to update forward-looking information if circumstances or management estimates, assumptions or opinions should change, except as required by applicable law. The reader is cautioned not to unduly rely on forward-looking information.

## **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 believes 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 Information*” 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. All other trademarks used in this Prospectus are the property of their respective owners.

## ENFORCEMENT OF JUDGMENTS AGAINST FOREIGN PERSONS

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

<b>Name of Person</b>	<b>Name and Address of Agent</b>
Dr. Guillermo Torre-Amione	Gowling WLG (Canada) LLP, 50 Queen Street North, #1020, Kitchener, Ontario N2H 6M2
Colin Stott	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 Corporation 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](http://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](http://www.sedar.com).

## CURRENCY

All references to “\$” or “dollars” in this Prospectus are to Canadian dollars, unless otherwise indicated.

## DOCUMENTS INCORPORATED BY REFERENCE

**Information has been incorporated by reference in this Prospectus from documents filed with securities commissions or similar authorities in each of the provinces of Canada, other than Québec.** *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of the Corporation at 2265 Upper Middle Road East, Suite 602, Oakville, Ontario L6H 0G5, tel.: (289) 910-0850. These documents are also available through the internet on SEDAR, which can be accessed online at [www.sedar.com](http://www.sedar.com).*

The following documents of the Corporation filed with securities commissions or similar regulatory authorities in Canada are incorporated by reference into this Prospectus:

- (a) the annual information form dated March 30, 2020 (the “**AIF**”) for the year ended December 31, 2019;
- (b) the audited financial statements for the years ended December 31, 2019 and December 31, 2018, respectively, together with its related notes and auditors’ report dated March 26, 2020 (collectively, the “**Annual Financial Statements**”);
- (c) the management’s discussion and analysis for the year ended December 31, 2019 (the “**Annual MD&A**”);

- (d) the interim financial statements for the three months ended March 31, 2020, together with its related notes;
- (e) the management’s discussion and analysis for the quarter ended March 31, 2020;
- (f) the management information circular dated April 14, 2020 for the annual meeting of shareholders of the Corporation to be held on June 1, 2020; and
- (g) the material change report of the Corporation dated May 20, 2020 disclosing the Offering.

Any document of the type required by the National Instrument 44-101 – *Short Form Prospectus Distributions* (excluding confidential material change reports) filed by the Corporation with a securities commission or similar regulatory authority in Canada after the date of this Prospectus and before the closing of the Offering are deemed to be incorporated by reference into this Prospectus.

**Any statement contained in a document incorporated or deemed to be incorporated by reference is deemed to be modified or superseded, for purposes of this Prospectus, to the extent its content is modified or superseded by a statement contained in this Prospectus or in any other subsequently filed document that is also incorporated by reference in this Prospectus. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information contained in the document that it modifies or supersedes. The making of a modifying or superseding statement is not an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded will not, except as so modified or superseded, constitute a part of this Prospectus.**

Reference to the Corporation’s website in any documents that are incorporated by reference into this Prospectus do not incorporate by reference the information on such website into this Prospectus, and the Corporation disclaims any such incorporation by reference.

## THE CORPORATION

The Corporation is focused on producing pharmaceutical cannabidiol (“**CBD**”) products and developing innovative therapies for heart diseases, including acute myocarditis and other causes of heart failure. The Corporation’s lead product, CardiolRx™, is formulated to be the most consistent cannabidiol formulation on the market. CardiolRx is pharmaceutically produced, manufactured under cGMP, and is THC free (<5 ppm). CardiolRx sets the benchmark for the highest quality product with the lowest THC. The Corporation also plans to commercialize CardiolRx in the billion-dollar market for medicinal cannabinoids in Canada and is pursuing distribution opportunities in Europe and Latin America.

### The CardiolRx™ Advantage: Setting a Higher Product Standard for Patients and Doctors

#### The Purest High-Concentration Cannabidiol



- **Pure** Pharmaceutically produced; long-term stability
- **cGMP** Highest manufacturing standards
- **Repeatable Dosing** Batch-to-batch consistency
- **THC Free\*** Non-intoxicating

\* <5ppm THC

Launch nationally through



In heart failure, the Corporation is planning an international clinical study of CardiolRx in acute myocarditis, a condition caused by inflammation in heart tissue, which is the most common cause of sudden cardiac death in people less than 35 years of age. The Corporation is also planning a clinical trial in hospitalized COVID-19 patients with a prior history of cardiovascular disease (“**CVD**”) and/or risk factors for CVD to determine the efficacy and safety of CardiolRx in preventing cardiovascular complications of the disease. Cardiovascular complications are very common in COVID-19 patients and are often the terminal event (see “*Use of Proceeds*”). The Corporation is also developing proprietary nanotechnology to uniquely deliver pharmaceutical cannabidiol and other anti-inflammatory drugs directly to sites of inflammation in the heart associated with heart failure. Heart failure is the leading cause of death and hospitalization in North America with associated annual healthcare costs in the U.S. alone exceeding US\$30 billion.<sup>2</sup> In light of the Corporation’s development agreement with TecSalud del Tecnológico de Monterrey as described in the AIF pursuant to which nanotechnology-related research is being carried out by TecSalud, the Corporation does not intend to allocate any of the proceeds of the Offering towards the development of proprietary nanotechnology.

Further information regarding the Corporation and its business is set out in the AIF and the materials incorporated by reference herein. See “*Documents Incorporated by Reference*”.

## RECENT DEVELOPMENTS

### *Management Update on COVID-19*

The Corporation has ensured that all of its employees work under conditions that comply with federal and provincial public health recommendations. In addition, the Corporation’s clinical and regulatory activities have not, for the time being, significantly slowed down despite the COVID-19 crisis. These activities are now performed by Cardiol’s employees from their home offices. However, the extent of any delays in the clinical activities will be a result of the ultimate effect that this crisis has on factors such as availability of physicians, clinics and enrolment.

The Corporation’s planned timing of its commercial launch of CardiolRx pharmaceutical CBD has not been impacted by the COVID-19 crisis. The crisis has also not materially impacted the Corporation’s third-party suppliers and manufacturers.

The current COVID-19 pandemic is a rapidly evolving crisis and it is difficult for the Corporation to accurately assess the impact of the current COVID-19 pandemic on the Corporation’s business. Cardiol will continue to actively monitor the situation to assess the impact of the current COVID-19 pandemic on the Corporation’s business and take appropriate measures to diminish such impacts.

### *Filing of New Patent Application*

On May 6, 2020, the Corporation announced it had filed a new patent application in the United States covering the use of CBD to improve the outcome of patients with COVID-19. This new patent application includes the administration of CBD to reduce the severity of disease in COVID-19 patients with pre-existing cardiovascular conditions, and to prevent the development of cardiovascular complications which are frequently terminal events. COVID-19, a disease caused by the severe acute respiratory syndrome coronavirus 2 (SARS CoV-2), is primarily a respiratory disease. However, an increasing number of reports indicate that COVID-19 patients are at higher risk of developing cardiovascular complications. Furthermore, patients with underlying cardiovascular disease, or risk factors for cardiovascular disease (including diabetes, hypertension and obesity), are more likely to develop severe illness from COVID-19 and have a worse prognosis. A recent study published in the Journal of the American Medical Association Cardiology showed that 35% of hospitalized COVID-19 patients had underlying cardiovascular disease (CVD).<sup>3</sup> In this study, patients with underlying CVD and myocardial injury had a significantly higher rate of mortality than patients without these complications.

There is a growing body of experimental evidence that CBD reduces cardiac and vascular inflammation, oxidative stress, and cardiac dysfunction. Pre-clinical research in a model involving cardiac injury demonstrated that Cardiol’s pharmaceutically produced (cGMP) cannabidiol has a cardioprotective effect, resulting in a reduction of fibrosis, cardiac hypertrophy (enlargement of the heart), and the cardiac remodelling marker B-type Natriuretic Peptide.

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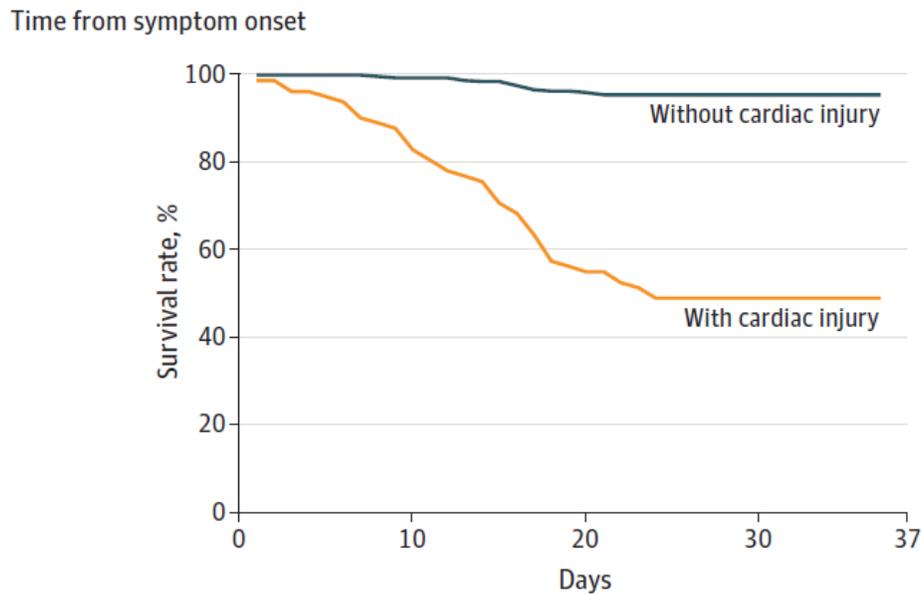
<sup>2</sup> Cook, C., Cole, G., Asaria, P., Jabbour, R. & Francis, D.P. The annual global economic burden of heart failure. *International Journal of Cardiology* 171, 368-376 (2014)

<sup>3</sup> Shaobo Shi et al., ‘Association of Cardiac Injury With Mortality in Hospitalized Patients With COVID-19 in Wuhan, China’, *JAMA Cardiology*, 25 March 2020

### COVID-19 Acute Myocardial Injury, and other Cardiovascular Complications

Acute myocarditis is characterized by inflammation in the heart muscle (myocardium). It has many causes, but the most common is a viral infection. Patients with COVID-19 primarily present with respiratory symptoms which can progress to bilateral pneumonia. COVID-19 patients with pre-existing cardiovascular disease (CVD) – or even risk factors for CVD – have a case fatality rate of 10.5% of confirmed cases of COVID-19, compared to an overall rate of 2.3%.<sup>4</sup> Moreover, these patients are also more likely to develop cardiovascular complications from the COVID-19 infection, which also contribute to the likelihood of a poor outcome. These complications can include myocardial injury, significant acute myocarditis, episodes of acute coronary syndrome (such as myocardial infarction), arrhythmias and even symptomatic heart failure.

A recent JAMA Cardiology publication<sup>5</sup> speaks to the patient mortality in COVID-19 with pre-existing cardiac injury, as reflected by elevated troponin levels. The paper reports the following survival rate of hospitalized patients with laboratory confirmed COVID-19 in Wuhan, China.



These findings from China have been supported in news reports in North America.

- **“Heart Conditions Prove Especially Dangerous for COVID-19 Patients – Doctors surprised by number of coronavirus victims who suffer complications, deaths related to cardiovascular system.”**
  - The Wall Street Journal – April 12<sup>th</sup>, 2020
- **“Mysterious Heart Damage, Not Just Lung Troubles, Befalling COVID-19 Patients – In addition to lung damage, many COVID-19 patients are also developing heart problems and dying of cardiac arrest.”**
  - Scientific American – April 6<sup>th</sup>, 2020
- **“Deaths From Cardiac Arrests Have Surged in New York City – Officials are likely to be underestimating how many may have died from COVID-19.”**
  - The Economist – April 13<sup>th</sup>, 2020

Pre-clinical studies from the scientific literature have demonstrated that CBD significantly decreases cardiac fibrosis, reduces cardiac BNP production, improves left ventricular dysfunction in the heart, reduces cardiac injury associated with elevated troponin T levels and reduces inflammation. CBD also improves arterial vasorelaxation in models of diabetes. Data from Cardiol’s own pre-clinical studies in a model of non-ischemic heart failure support observations that CBD is cardioprotective.

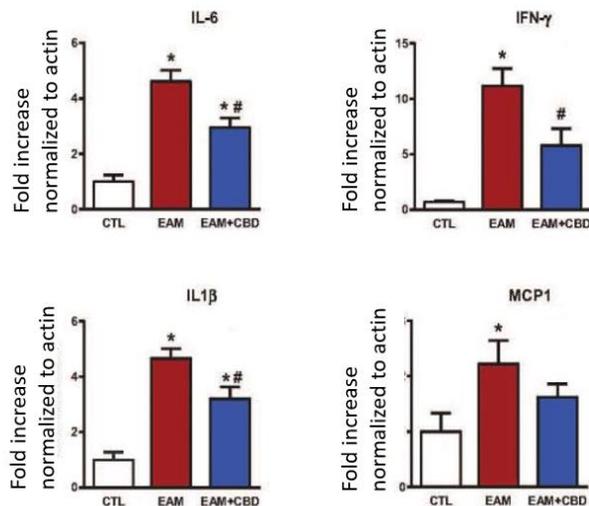
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<sup>4</sup> Wu Z & McGoogan JM. ‘Characteristics of and Important Lessons From the Coronavirus Disease 2019 (COVID-19) Outbreak in China Summary of a Report of 72,314 Cases From the Chinese Center for Disease Control and Prevention’. JAMA 323 (2020) 1239-1242.

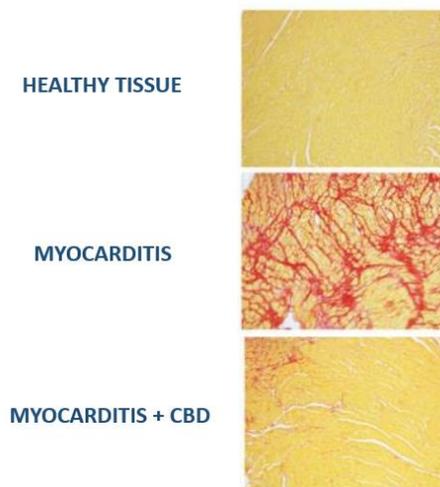
<sup>5</sup> See Reference 5 above.

CBD has also been shown to reduce myocardial fibrosis in a model of the inflammatory heart disease, myocarditis, as seen below<sup>6</sup>:

### Cannabidiol downregulates key markers of inflammation



### Sections of Heart Tissue



Given these data, Cardiol believes that there is a sound rationale for CBD to have a significant beneficial impact on patients in either preventing or ameliorating cardiovascular complications associated with COVID-19 and therefore improving patient outcome. It is Cardiol’s intent, subject to applicable regulatory approval, to initiate a phase II clinical trial in COVID-19 patients with a prior history of CVD or risk factors for CVD to assess the efficacy, safety and tolerability of CardiolRx in preventing cardiovascular complications in patients hospitalized for COVID-19. See “Use of Proceeds”.

### Study Demonstrating Proprietary Nanotechnology Targets Fibrous Tissue in the Heart

On April 14, 2020, the Corporation announced that data describing the Corporation’s nanotechnology approach to drug delivery was submitted by the Corporation’s international research collaborators and accepted for presentation at the American College of Cardiology’s (ACC) 69<sup>th</sup> Annual Scientific Session & Expo together with the World Congress of Cardiology, held virtually from March 28-30, 2020. Results from this study, conducted at the Houston Methodist DeBakey Heart & Vascular Center, showed that there was a greater than 100-fold increase in uptake of Cardiol’s nanoparticles in heart failure hearts compared with control hearts in a pre-clinical model of non-ischemic heart failure. The nanoparticles localized within the diseased hearts, predominantly in areas of fibrosis. Fibrosis is an important component of the pathology of heart failure and is primarily responsible for the stiffening and reduced function of the heart muscle. Moreover, the nanoparticles accumulated within the cytoplasm of the cultured fibroblasts.

### Experimental Model of Heart Failure Houston Methodist DeBakey Heart & Vascular Center

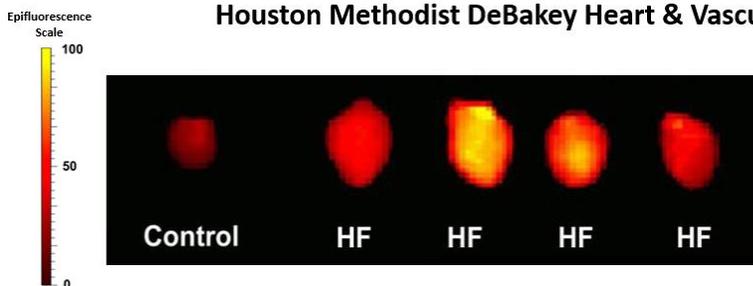


Image of fluorescently-labeled nanoparticles (orange) following administration in a model of heart failure – **showing accumulation of nanoparticles in inflamed hearts**

This evidence of Cardiol’s nanoparticles preferentially accumulating intracellularly in fibroblasts shows potential for the successful delivery of anti-fibrotic drugs, such as cannabidiol, to the diseased region of the heart. Cardiol’s proprietary

<sup>6</sup> Adapted from Lee W-S et al. (2016). Mol. Med. 22, 136-146.

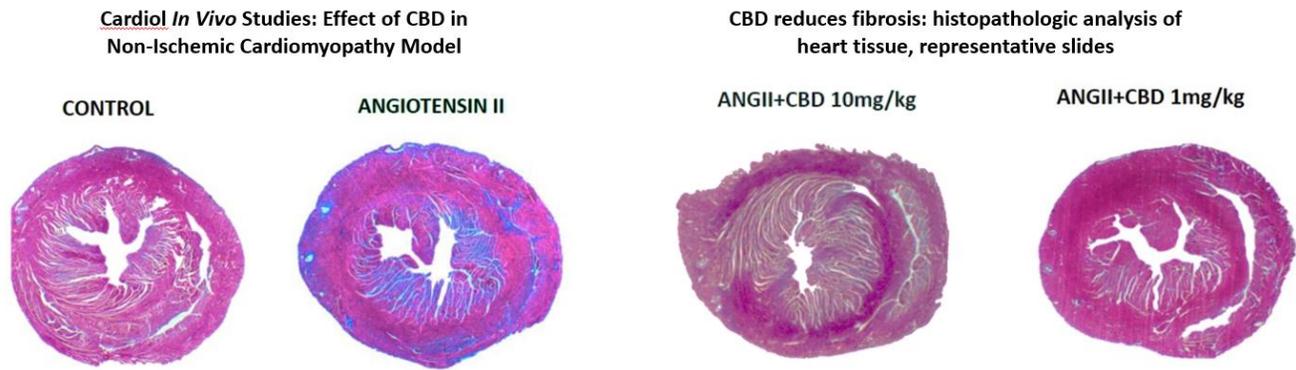
nanotechnology is designed to enable the distribution of water insoluble drugs within the blood (aqueous) circulation, improve pharmacokinetics, and facilitate drug accumulation in the failing heart. Cardiol's nanoparticles are based on a patented family of biocompatible and biodegradable amphiphilic block co-polymers made from polyethylene glycol ("PEG") and polycaprolactone ("PCL"). Both PEG and PCL have a long history of safe use in humans.

*Study Results Confirm the Cardioprotective Role of its Pharmaceutical Cannabidiol Formulation in a Model of Heart Failure*

On April 1, 2020, the Corporation announced that data submitted by its international research collaborators were accepted for presentation at the ACC's 69<sup>th</sup> Annual Scientific Session & Expo together with the World Congress of Cardiology, held virtually from March 28-30.

The effects of Cardiol's pharmaceutically produced cannabidiol formulation were assessed in a model of non-ischemic heart failure. Heart failure was induced by four weeks of infusion of angiotensin II, a substance that produces hypertension, cardiac enlargement, and subsequent heart failure. Two dosages of Cardiol's cannabidiol formulation (or placebo) were administered by subcutaneous injection every three days for four weeks. In addition, the effects of CBD on angiotensin-induced hypertrophy (cell enlargement) and expression of B-type Natriuretic Peptide ("BNP") in a cardiac cell line ("H9c2") were assessed. BNP is a substance released from stretched heart cells which is a widely used clinical indicator of the severity of heart failure.

The study found that Cardiol's cannabidiol formulation significantly reduced hypertrophy and produced a dose-dependent reduction of key inflammation markers, decreases in fibrosis, and lower BNP expression. These findings confirm the anti-inflammatory and anti-fibrotic activity of Cardiol's cannabidiol formulation in a model of heart failure. Moreover, the data show that cannabidiol reduced the amount of BNP released, thereby confirming the role of Cardiol's cannabidiol formulation as a cardioprotective therapy.



Heart sections stained with Masson's Trichrome, showing the effect on fibrosis of Cannabidiol (CBD) at 1 or 10 mg/kg. Fibrotic tissue stains blue, demonstrating CBD reducing fibrosis in this model of non-ischemic cardiomyopathy.

Reference: Omar Lozano et al., 'CARDIOPROTECTIVE EFFECT OF CANNABIDIOL IN A NON ISCHEMIC MODEL OF HEART FAILURE', Journal of the American College of Cardiology 75, no. 11 (March 2020): 705.

## DESCRIPTION OF THE SECURITIES BEING DISTRIBUTED

### Description of Offered Units

The Offering consists of 6,000,000 Offered Units, with each Offered Unit consisting of one Unit Share and one-half of one Warrant. Each Warrant will entitle the holder thereof to acquire one Warrant Share at an exercise price of \$3.25 per Warrant Share, until 4:00 p.m. (Eastern time) on the date that is 24 months following the Closing Date, subject to adjustment in certain customary events. The Offered Units will immediately separate into Unit Shares and Warrants upon issuance. The Offered Units will not be certificated.

### Unit Shares and Warrant Shares

The Unit Shares and Warrant Shares will have all of the characteristics, rights and restrictions of our Common Shares. The authorized capital of the Corporation consists of an unlimited number of Common Shares without par value. As of May 15, 2020, there were 25,884,600 Common Shares issued and outstanding. Holders of Common Shares are entitled to one vote per share at all meetings of the shareholders, and are entitled to receive dividends, as may be declared from time to time by the

Corporation's board of directors. In the event of the voluntary (or involuntary) liquidation, dissolution, winding-up or other distribution of the assets of the Corporation, holders of Common Shares are entitled to receive the remaining property of the Corporation.

## **Warrants**

The Warrants will be issued under and governed by the Warrant Indenture to be entered into on the Closing Date between the Corporation and Computershare Trust, as warrant agent. 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 Toronto, Ontario.

The Unit Shares and the Warrants comprising the Offered 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 \$3.25 until 4:00 p.m. (Eastern time) on the date that is 24 months from the Closing Date (the "**Expiry Date**"), after which time the Warrants will be void and of no value. There is no market through which the Warrants may be sold.

If, at any time prior to the Expiry Date, the daily volume weighted average trading price of the Common Shares on the TSX is greater than \$4.50 per Common Share for the preceding 10 consecutive trading day period, the Corporation may, at its option, accelerate the Expiry Date by providing written notice to Computershare Trust and the registered holders of Warrants (a "**Warrant Acceleration Notice**"), and issuing a press release announcing such acceleration (the "**Acceleration Press Release**"), and, in such case, the Expiry Date shall be deemed to be the 30<sup>th</sup> day following the later of: (i) the date on which the Warrant Acceleration Notice is sent to the registered holders of Warrants, and (ii) the date of issuance of the Acceleration Press Release.

The Warrants will not be exercisable by or on behalf of a person in the United States or a U.S. Person, nor will any certificates representing the Warrant Shares issuable upon exercise of the Warrants be registered or delivered to an address in the United States, unless an exemption from the registration requirements of the U.S. Securities Act and any applicable state securities laws is available and the Corporation has received an opinion of counsel of recognized standing or other evidence to such effect in form and substance reasonably satisfactory to the Corporation.

Warrant Shares issuable upon the exercise of the Warrants and/or the exercise price per Warrant Share upon the occurrence of certain events, including:

- (a) 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);
- (b) the subdivision, redivision or change of the Common Shares into a greater number of shares;
- (c) the reduction, combination or consolidation of the Common Shares into a lesser number of shares;
- (d) 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
- (e) 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: (i) reclassification or redesignation of the Common Shares or a capital reorganization of the Corporation (other than as described in clauses (a) or (b) above), (ii) consolidations, amalgamations, arrangements, mergers or other business combination of the Corporation with or into

another entity, or (iii) 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 Toronto, Ontario is the location at which Warrants may be surrendered for exercise or transfer.

#### **PLAN OF DISTRIBUTION**

Pursuant to the Underwriting Agreement, the Corporation has agreed to sell and the Underwriters have severally agreed to purchase, on the Closing Date, or such other date as may be agreed upon by the Corporation and the Underwriters, but in any event not later than 42 days following the date of a final receipt for this Prospectus from Canadian securities regulatory authorities, 6,000,000 Offered Units at the Offering Price, payable in cash to the Corporation, against delivery. The obligations of the Underwriters under the Underwriting Agreement are several and are not joint, nor joint and several, and may be terminated upon the occurrence of certain stated events as set out in the Underwriting Agreement, including industry standard "disaster out", "regulatory out" and "material change out" clauses provided therein. The Underwriters are, however, obligated to take up and pay for all of the Offered Units (other than the Additional Units) if any of the Offered Units are purchased under the Underwriting Agreement.

The Offering Price has been determined by arm's length negotiation between the Corporation and the Lead Underwriter.

Offered Units sold by the Underwriters to the public will initially be offered at the Offering Price. After the Underwriters have made a reasonable effort to sell all of the Offered Units at the Offering Price specified on the cover page, the Underwriters may change the Offering Price and the other selling terms to an amount not greater than the Offering Price set forth on the cover of this Prospectus, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the Offered Units is less than the gross proceeds paid by the Underwriters to the Corporation. Upon execution of the Underwriting Agreement, the Underwriters will be obligated to purchase the Offered Units offered hereby at the prices and upon the terms stated therein and, as a result, will thereafter bear any risk associated with changing the Offering Price or other selling terms.

In consideration for the Underwriters' services, the Corporation has agreed to pay the Underwriters the Underwriters' Commission equal to 6% of the aggregate gross proceeds of the Offering (or \$0.15 per Offered Unit), except in respect of the sale of Offered Units made to the President's List Purchasers, in respect of which the Underwriters' Commission will be reduced to 3% (or \$0.075 per Offered Unit). The Underwriters' Commission is payable in cash.

As additional consideration for the services rendered in connection with the Offering, the Corporation has agreed to issue to the Underwriters such number of Unit purchase warrants (the “**Underwriters’ Warrants**”) as is equal to 6% of the total number of Offered Units sold under the Offering, except in respect of the sale of Offered Units made to President’s List Purchasers, in respect of which the Underwriters will receive Underwriters’ Warrants equal to 3% of the total number of Offered Units sold to President’s List Purchasers). Each Underwriters’ Warrant will entitle the holder thereof to purchase one Unit (an “**Underwriters’ Unit**”) at the Offering Price. This Prospectus also qualifies the distribution of the Underwriters’ Warrants.

The Corporation has agreed to grant 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 offer and sell such up to an additional 900,000 Units (the “**Additional Units**”), representing 15% of the Units sold pursuant to the Offering. The Additional Units will be sold on the same terms as set out above to cover the Underwriters’ over-allocation position, if any, and for market stabilization purposes. The Over-Allotment Option may be exercised by the Underwriters: (i) to acquire Additional Units at the Offering Price; (ii) to acquire additional Unit Shares (the “**Additional Shares**”) at a price of \$2.39 per Additional Share; (iii) to acquire additional Warrants (the “**Additional Warrants**”) at a price of \$0.11 per Additional Warrant; or (iv) to acquire any combination of Additional Units, Additional Shares or Additional Warrants, so long as the aggregate number of Additional Shares and Additional Warrants that may be issued pursuant to the Over-Allotment Option does not exceed 900,000 Additional Shares and 450,000 Additional Warrants. This Additional Units, Additional Shares and Additional Warrants are collectively referred to as the “**Over-Allotment Securities**”. This Prospectus qualifies the distribution of the Over-Allotment Option and the distribution of the Over-Allotment Securities upon the 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. Where applicable, references to “Offering” and “Offered Units” include the Additional Units issuable upon exercise of the Over-Allotment Option.

The Corporation estimates that the total expenses of the Offering payable by the Corporation, not including the Underwriters’ Commission, will be approximately \$155,000. Pursuant to the Underwriting Agreement, the Corporation has agreed to pay the actual and accountable out-of-pocket expenses of the Underwriters and actual and accountable reasonable fees and disbursements of the Underwriters’ counsel, up to a maximum of \$80,000, excluding taxes.

Subject to certain limited exceptions, the Offering will be conducted under the NCI system. Offered Units registered in the name of CDS or its nominee will be deposited electronically with CDS on an NCI basis at closing. Subject to certain limited exceptions, a subscriber who purchases Offered Units will generally only receive a customer confirmation from the registered dealer from or through whom Offered Units are purchased and who is a CDS participant. Subject to certain limited exceptions, certificates evidencing the Offered Units will not be issued unless a request for a certificate is made to the Corporation. Offered Units sold pursuant to the exemption from the registration requirements of the U.S. Securities Act provided under Rule 506(b) of Regulation D to subscribers who are U.S. Accredited Investors will be represented by definitive physical certificates registered in the names of the subscribers thereof.

The Corporation has agreed that, until the date that is 90 days after the Closing Date, it will not, without the prior written consent of the Lead Underwriter, on behalf of the Underwriters, such consent not to be unreasonably withheld or delayed, issue or agree to issue or announce an intention to issue, any additional Common Shares or securities convertible into or exchangeable for Common Shares or enter into any agreement or arrangement under which the Corporation acquires or transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Shares, or agree to become bound to do so, or disclose to the public any intention to do so, except (i) the grant or exercise of stock options and other similar issuances pursuant to the share incentive plan of the Corporation and other share compensation arrangements, (ii) outstanding warrants, (iii) obligations in respect of existing agreements, and (iv) the issuance of securities in connection with asset or share acquisitions in the normal course of business. The Corporation’s executive officers and directors will also agree, prior to the Closing Date, not to sell, or agree to sell (or announce any intention to do so), subject to customary exceptions, any Common Shares or securities convertible into or exchangeable for Common Shares for a period of 90 days following the Closing Date without the prior written consent of the Lead Underwriter, on behalf of the Underwriters, such consent not to be unreasonably withheld or delayed.

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 by-laws and rules of applicable regulatory authorities and the TSX, 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 Offering is being made concurrently in each of the Qualifying Jurisdictions. The Units, the Unit Shares and the Warrants comprising the Units, and the Warrant Shares issuable upon exercise of the Warrants, have not been and will not be registered under the U.S. Securities Act or any state securities laws, and the Units, the Unit Shares and the Warrants may not be offered, sold or delivered, directly or indirectly, to, or for the account or benefit of, persons in the United States or U.S. Persons, except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. The Underwriters have agreed that, except as permitted by the Underwriting Agreement and as expressly permitted by applicable United States federal and state securities laws, they will not offer or sell any of the Units, the Unit Shares or the Warrants to, or for the account or benefit of, persons in the United States or U.S. Persons. The Underwriting Agreement permits the Underwriters to offer the Units, the Unit Shares and the Warrants outside the United States to non-U.S. Persons in compliance with Regulation S under the U.S. Securities Act. The Underwriting Agreement also permits the Underwriters, through the U.S. Affiliates, to offer and resell the Units, the Unit Shares and the Warrants to, or for the account or benefit of, persons in the United States and U.S. Persons where such persons are “qualified institutional buyers”, as such term is defined in Rule 144A under the U.S. Securities Act (“**Rule 144A**”), in compliance with Rule 144A and applicable state securities laws. The Underwriting Agreement also permits the Underwriters, through the U.S. Affiliates, to offer the Units, the Unit Shares and the Warrants to, or for the account or benefit of, persons in the United States and U.S. Persons to whom the Company will sell such securities directly as substituted purchasers where such persons are U.S. Accredited Investors, in compliance with Rule 506(b) of Regulation D 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 Units, the Unit Shares or the Warrants to, or for the account or benefit of, persons in the United States or U.S. Persons. In addition, until 40 days after the commencement of the Offering, an offer or sale of such securities within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act, unless such offer or sale is made pursuant to an exemption from registration under the U.S. Securities Act.

The Warrants will not be exercisable by or on behalf of a person in the United States or a U.S. Person, nor will certificates representing the Warrant Shares issuable upon exercise of the Warrants be registered or delivered to an address in the United States, unless an exemption from the registration requirements of the U.S. Securities Act and any applicable state securities laws is available and the Corporation has received an opinion of counsel of recognized standing or other evidence to such effect in form and substance reasonably satisfactory to the Corporation; provided, however, that an original purchaser in the U.S. Private Placement, at the time of exercise of the Warrants that purchased Units in the Offering in the United States or to, or for the account or benefit of, persons in the United States or U.S. Persons will not be required to deliver an opinion of counsel or such other evidence in connection with the exercise of Warrants that are a part of those securities.

The Unit Shares, the Warrants and the Warrant Shares issuable upon exercise of the Warrants issued to, or for the account or benefit of, persons in the United States or U.S. Persons will be “restricted securities” within the meaning of Rule 144(a)(3) of the U.S. Securities Act. Certificates representing any securities that are offered, sold or issued to, or for the account or benefit of, persons in the United States or U.S. Persons that are U.S. Accredited Investors purchasing pursuant to the exemption from registration provided by Rule 506(b) of Regulation D under the U.S. Securities Act will bear a legend to the effect that the securities represented thereby are not registered under the U.S. Securities Act or any applicable state securities laws and may only be offered, sold, pledged or otherwise transferred pursuant to certain exemptions from the registration requirements of the U.S. Securities Act and any applicable state securities laws.

The Corporation has applied to list the Unit Shares, the Warrant Shares and the Common Shares issuable under the Underwriters’ Warrants and the Warrants issuable under the Underwriters’ Warrants on the TSX. Listing of all such Common Shares will be subject to the Corporation fulfilling all of the requirements of the TSX, within the time period required by the TSX.

Except as contemplated by the Underwriting Agreement, the Corporation has agreed that, subject to certain exceptions, it will not, without the prior written consent of the Lead Underwriter (not to be unreasonably withheld) on behalf of the Underwriters, directly or indirectly issue, any Common Shares or securities or other financial instruments convertible into or having the right to acquire Common Shares or enter into any agreement or arrangement under which the Corporation would acquire or transfer to another, in whole or in part, any of the economic consequences of ownership of Common Shares, whether that agreement or arrangement may be settled by the delivery of Common Shares or other securities or cash, or agree to become bound to do so, or disclose to the public any intention to do so, during the period from the Closing Date and ending 90 days following the Closing Date.

The Corporation has agreed in the Underwriting Agreement to indemnify the Underwriters against certain liabilities, including liabilities under the Canadian securities laws, and, where such indemnification is unavailable, to contribute to payments that the Underwriters may be required to make in respect of such liabilities.

In order to facilitate the Offering, the Underwriters may engage in transactions that stabilize, maintain or otherwise affect the market price of the Common Shares in accordance with applicable securities laws. Specifically, the Underwriters may sell more Common Shares than they are obligated to purchase under the Underwriting Agreement, creating a short position. A short sale is covered if the short position is no greater than the number of Common Shares available for purchase by the Underwriters under the Over-Allotment Option. The Underwriters can close out a covered short sale by exercising the Over-Allotment Option or purchasing Common Shares in the open market. In determining the source of Common Shares to close out a covered short sale, the Underwriters will consider, among other things, the open market price of Common Shares compared to the price available under the Over-Allotment Option. The Underwriters may also sell Common Shares in excess of the Over-Allotment Option, creating a naked short position. 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 after pricing that could adversely affect investors who purchase in the Offering. As an additional means of facilitating the Offering, the Underwriters may bid for, and purchase, Common Shares in the open market to stabilize the price of the Common Shares. These activities may raise or maintain the market price of the Common Shares above independent market levels or prevent or retard a decline in the market price of the Common Shares. The Underwriters are not required to engage in these activities and may end any of these activities at any time.

Pursuant to the policies of certain Canadian securities regulators, the Underwriters may not, throughout the period of distribution under this Prospectus, bid for or purchase Common Shares. The foregoing restriction is subject to certain exceptions, including: (a) a bid or purchase permitted under the bylaws and rules of applicable regulatory authorities and stock exchanges, including the Universal Market Integrity Rules for Canadian Marketplaces administered by the Investment Industry Regulatory Organization of Canada, relating to market stabilization and passive market-making activities; (b) a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution; (c) a bid or purchase to cover a short position entered into prior to the distribution; and (d) transactions in compliance with U.S. federal securities laws. Any such trades are permitted only on the condition that the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in or raising the price of the Common Shares.

#### USE OF PROCEEDS

The net proceeds to the Corporation of the Offering, after deducting the Underwriters' Commission of \$639,000 (assuming no exercise of the Over-Allotment Option and the Underwriters' Commission assuming the Expected President's List Sales and estimated expenses of the Offering of \$155,000, are estimated to be approximately \$14,206,000. The Corporation intends on using the net proceeds from the Offering as follows:

Principal Purposes	Approximate Use of Net Proceeds
Clinical Trials (Phase I and Phase II/III) <sup>(1)</sup>	\$6,400,000
Pre-clinical studies <sup>(2)</sup>	\$900,000
Product Development <sup>(3)</sup>	\$1,100,000
Marketing & Business Development <sup>(4)</sup>	\$900,000
General and administrative expenses, working capital and other general corporate expenses <sup>(5)</sup>	\$4,906,000
<b>TOTAL:</b>	<b>\$14,206,000</b>

Notes:

- (1) Approximately \$1.2 million in the aggregate to fund a Phase I pharmacokinetic study of CardiolRx in up to 60 healthy volunteers. Approximately \$5.2 million in the aggregate has been allocated to fund an international Phase II/III clinical trial investigating the cardio protective properties of our CBD formulation in up to 450 COVID-19 patients. Subject to applicable regulatory approval, Cardiol expects to initiate a Phase II/III clinical trial in COVID-19 patients with a prior history of CVD or risk factors for CVD, to assess the efficacy, safety and tolerability of CardiolRx on preventing cardiac complications in patients hospitalized for COVID-19. **The Issuer has not yet received the required regulatory approval to initiate a Phase II/III clinical trial of its CBD formulation in COVID-19 patients with a history of CVD or risk factors for CVD.** The expected primary efficacy endpoint will be the difference between

the active and placebo groups in the percent of patients who develop a composite end-point consisting of several common cardiovascular complications in this patient group. The Corporation expects that, subject to applicable regulatory approval, the Phase I trial would be completed in H2 2020 and the Phase II/III clinical trial in COVID-19 patients would be initiated in H2 2020 with completion to occur in H2 2021. The Corporation, subject to regulatory approval and the COVID-19 pandemic, intends to prioritize its planned Phase II/III clinical trial in COVID-19 patients. As a result, the expected H2 2020 initiation of the Corporation's previously disclosed Phase 2 clinical program in acute myocarditis may be delayed until H1 2021. This timeline could be further impacted by the current COVID-19 pandemic. Funds from the Offering have not been allocated to the Phase 2 clinical program in acute myocarditis and are expected to be obtained from current working capital and revenue from its near term planned commercial launch of CardiolRx pharmaceutical CBD. Additional funding (whether generated from the sale of our pharmaceutical cannabidiol or obtained externally) will be required in order to achieve the Corporation's business objectives of completing clinical development, obtaining regulatory approvals, and marketing our current and future products for specific disease indications. The Corporation expects the completion of its currently planned clinical development program, if undertaken, to take at least until 2023 and may involve a commercial partner from the pharmaceutical industry, with research, development and commercialization costs potentially being shared with its commercial partner. We rely on contract research organizations ("CROs"), clinical data management organizations, and consultants to assist with the design, conduct, supervise, and monitor preclinical studies of Cardiol's product candidates and will do the same for our planned clinical trials.

- (2) Pre-clinical studies investigating the effects of CardiolRx on models of heart failure, neuroinflammation and chemo-therapy induced cardiotoxicity.
- (3) Develop additional product forms of cannabidiol delivery for the treatment of chronic heart failure.
- (4) To fund the market introduction and additional marketing of CardiolRx for a period of approximately 18 to 24 months. Including approximately \$450,000 in the aggregate for direct-to-consumer marketing expenditure, including creative development, search marketing, social & traditional media, advertorials, and patient stakeholder outreach; and approximately \$450,000 in the aggregate for health care professional marketing expenditure, including creative development, enrollment kit development and distribution, fax notifications, medical journal advertising, traditional and digital advertising, advisory boards, and continuing health education programs.
- (5) Includes salary and benefits, professional fees including legal, auditing and tax, costs associated with public listing, regulatory, investor relations and public relations, business and corporate development, travel expenses, office rent, operating and information technology costs, director compensation, and director's and officer's insurance premiums. The Corporation expects that this amount will be used to fund these expenses for a period of approximately 18 to 24 months. The Corporation expects to incur additional expenses of this nature over this period which it anticipates that it will fund from existing working capital and anticipated revenues from its near term planned commercial launch of CardiolRx pharmaceutical CBD.

**Although the Corporation intends on expending the net proceeds from the Offering as set forth above, there may be circumstances where, for sound business reasons, a reallocation of funds may be prudent or necessary, and may vary materially from that set forth above.** If the Corporation does not receive regulatory approval to initiate a Phase II/III clinical trial of its COVID-19 patients, the Corporation intends to allocate funds to the Phase 2 clinical program for acute myocarditis and/or potentially other clinical trials designed to answer the questions the intended Phase II/III study would have addressed had regulatory approval been granted.

For more information on the Use of Proceeds, see the "Summary Description of the Business" and the AIF.

### Negative Cash Flow from Operations

For the three months ended March 31, 2020 and the year ended December 31, 2019, 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, current working capital may be used to fund such negative cash flow from operating activities, if any.

### CONSOLIDATED CAPITALIZATION

The following table sets forth the capitalization of the Corporation as at March 31, 2020, both before and after giving effect to the Offering. Other than as described below, there has not been any material change in the share capital of the Corporation since March 31, 2020.

Designation	Authorized	As at March 31, 2020 (unaudited)	As at March 31, 2020 (unaudited, pro forma after giving effect to the Offering) <sup>(1)</sup>
Cash and cash equivalents		\$4,497,004	\$18,703,004
Share capital	Unlimited	\$39,434,248	\$53,640,248

Designation	Authorized	As at March 31, 2020 (unaudited)	As at March 31, 2020 (unaudited, pro forma after giving effect to the Offering) <sup>(1)</sup>
Warrants		\$1,728,138	\$1,728,138 <sup>(2)</sup>
Contributed surplus		\$5,549,802	\$5,549,802
Deficit		(\$34,187,331)	(\$34,187,331)
Number of common shares outstanding		25,884,600	31,884,600

Notes:

- (1) After deducting the Underwriters' Commission of \$639,000 (\$774,000 if the Over-Allotment Option is fully exercised) and other expenses of the Offering totalling \$155,000). This amount assumes the Expected President's List Sales.
- (2) This amount does not include the amount representing the Underwriters' Warrants to be issued by the Corporation upon completion of the Offering.

### PRICE RANGE AND TRADING VOLUME

#### Common Shares

The Common Shares are listed for trading on the TSX under the trading symbol "CRDL". The Common Shares commenced trading on the TSX on December 20, 2018. On May 25, 2020, the last trading day before the date of this Prospectus, the closing price of the Common Shares on the TSX was \$2.50 per Common Share.

The following table sets forth the price range and total monthly trading volumes of the Common Shares as reported by the TSX for the periods indicated.

Month	High (\$)	Low (\$)	Trading Volume
May 1 - 25, 2020	3.50	2.36	1,708,338
April 2020	3.25	2.32	1,639,880
March 2020	3.69	1.87	1,427,500
February 2020	4.35	2.70	535,262
January 2020	5.00	3.80	966,253
December 2019	4.76	3.69	570,142
November 2019	4.17	2.30	848,485
October 2019	4.40	2.21	1,195,849
September 2019	4.70	3.01	770,107
August 2019	5.04	3.90	598,086
July 2019	5.40	3.99	1,137,020
June 2019	6.05	3.57	1,673,302
May 2019	5.70	3.70	1,469,046

## PRIOR SALES

During the twelve-month period before the date of this Prospectus, the Corporation issued the following securities:

<u>Date of Issuance</u>	<u>Number of Common Shares</u>	<u>Issuance Prices (CAN\$)</u>
March 30, 2020	6,914 <sup>(1)</sup>	\$4.07
<b>TOTAL</b> .....	6,914	N/A

Note:

- (1) Common Shares issued for services provided. The value of the work was determined based on arm's length negotiations and these Common Shares were issued following completion of the work.

During the 12 months preceding the date of this Prospectus, the Corporation has issued the following securities convertible into Common Shares at the following prices:

<u>Date of Issuance</u>	<u>Type of convertible security</u>	<u>Number of convertible securities Issued</u>	<u>(CAN\$)</u>
October 16, 2019 .....	Options	160,000 <sup>(1)</sup>	\$3.23
October 30, 2019 .....	Options	90,000 <sup>(1)</sup>	\$3.28
November 25, 2019 .....	Options	50,000 <sup>(1)</sup>	\$3.34
December 3, 2019 .....	Options	60,000 <sup>(1)</sup>	\$4.08
December 6, 2019 .....	Options	60,000 <sup>(1)</sup>	\$3.69
February 24, 2020 .....	Options	109,300 <sup>(1)</sup>	\$3.54
March 10, 2020 .....	Options	50,000 <sup>(1)</sup>	\$3.04
<b>TOTAL</b> .....		<b>579,000</b>	N/A

Note:

- (1) Stock options issued pursuant to the Corporation's stock option plan. Each option is exercisable for one Common Share.

## RISK FACTORS

An investment in Offered Units is subject to a number of risks that should be carefully considered by a prospective purchaser. Before deciding whether to invest in Offered Units, prospective investors should carefully consider, in light of their own financial circumstances, the risks described below and those incorporated by reference into this Prospectus, including in the AIF under "Risk Factors". See "Documents Incorporated by Reference".

### *COVID-19 pandemic*

In December 2019, COVID-19 emerged in Wuhan, China. Since then, it has spread to most other countries and infections have been reported around the world. Canada confirmed its first case of COVID-19 on January 25, 2020 and its first death related to COVID-19 on March 9, 2020. On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. In response to the outbreak, governmental authorities in Canada and internationally have introduced various recommendations and measures to try to limit the pandemic, including travel restrictions, border closures, non-essential business closures, quarantines, self-isolations, shelters-in-place and social distancing. The COVID-19 outbreak and the response of governmental authorities to try to limit it are having a significant impact on the private sector and individuals, including unprecedented business, employment and economic disruptions.

The COVID-19 pandemic has impacted and could further impact our expected timelines, operations and the operations of our third-party suppliers, manufacturers, and CROs as a result of quarantines, facility closures, travel and logistics restrictions and other limitations in connection with the outbreak. The COVID-19 pandemic could also impact the progress and completion of the clinical trials and other items as noted in the "Use of Proceeds" in this Prospectus.

What further impact, if any, the COVID-19 pandemic may have on the Corporation is unpredictable. The continued spread of COVID-19 nationally and globally could also lead to a deterioration of general economic conditions including a possible national or global recession. Due to the speed with which the COVID-19 situation is developing and the uncertainty of its magnitude, outcome and duration, it is not possible to estimate its impact on our business, operations or financial results; however, the impact could be material.

### *Common Shares are Subject to Market Price Volatility*

The market price of Common Shares may be adversely affected by a variety of factors relating to the Corporation's business, including fluctuations in the Corporation's operating and financial results, the results of any public announcements made by the Corporation and its failure to meet analysts' expectations. In addition, from time to time, the stock market experiences significant price and volume volatility that may affect the market price of Common Shares for reasons unrelated to the Corporation's performance. Additionally, the value of Common Shares is subject to market value fluctuations based upon factors that influence the Corporation's operations, such as legislative or regulatory developments, competition, technological change, global capital market activity and changes in interest and currency rates. There can be no assurance that the market price of Common Shares will not experience significant fluctuations in the future, including fluctuations that are unrelated to the Corporation's performance.

The AIF and the Annual MD&A are incorporated by reference in this Prospectus and discuss, among other things, known material trends and events and risks or uncertainties that are reasonably expected to have a material effect on the Corporation's business, financial condition or results of operations.

The market value of Common Shares may also be affected by the Corporation's financial results and political, economic, financial and other factors that can affect the capital markets generally, the stock exchanges on which Common Shares are traded and the market segments in which the Corporation is a part.

### *Potential Dilution*

The Corporation's articles of incorporation and by-laws allow it to issue an unlimited number of Common Shares for such consideration and on such terms and conditions as established by the Corporation's board of directors, in many cases, without shareholder approval. The Corporation may issue additional Common Shares in future offerings (including through the sale of securities convertible into or exchangeable for Common Shares) and on the exercise of stock options or other securities exercisable for Common Shares. The Corporation cannot predict the size of future issuances of Common Shares or the effect that future issuances and sales of Common Shares will have on the market price of Common Shares. Issuances of a substantial number of additional Common Shares, or the perception that such issuances could occur, may adversely affect prevailing market prices for Common Shares. With any additional issuance of Common Shares, investors will suffer dilution to their voting power and may experience dilution in its earnings per share.

### *Forward-Looking Information May Prove to be Inaccurate*

Investors should not place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, of both general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. Additional information on the risks, assumptions and uncertainties can be found in this Prospectus under the heading "*Forward-Looking Information*".

### *The Corporation May Use the Proceeds of the Offering for Purposes Other Than Those Set Out in this Prospectus*

The Corporation currently intends on allocating the net proceeds received from any Offerings as described under the heading "*Use of Proceeds*" in this Prospectus. However, the Corporation's management will have discretion in the actual application of the proceeds, and may elect to allocate proceeds differently from that described under the heading "*Use of Proceeds*" if it believes that it would be in the best interests of the Corporation to do so if circumstances change. The failure by management to apply these funds effectively could have a material adverse effect on the Corporation's business.

### *Negative Operating Cash Flow*

The Corporation is currently incurring expenditures related to its operating activities that have generated negative operating cash flows. Operating cash flows may decline in certain circumstances, many of which are beyond the Corporation's control. There is no assurance that sufficient revenues will be generated in the near future and the Corporation may continue to incur negative operating cash flow.

### *There is an absence of a public market for the Warrants*

There is no public market for the Warrants to be issued in the Offering and the Corporation does not intend to apply for listing of the Warrants on any securities exchanges.

## CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following is, as of the date hereof, a general summary of the principal Canadian federal income tax considerations under the *Income Tax Act* (Canada) (the “**Tax Act**”) and the regulations thereunder (the “**Regulations**”) generally applicable to a holder who acquires Unit Shares and Warrants comprising the Offered Units pursuant to the Offering, and Warrant Shares upon exercise of the Warrants, as beneficial owner pursuant to this Prospectus and who, at all relevant times, for the purposes of the Tax Act, deals at arm’s length with the Corporation and the Underwriters, is not affiliated with the Corporation or the Underwriters, and will acquire and hold Unit Shares, Warrants, and Warrant Shares acquired on the exercise of Warrants (collectively with the Unit Shares referred to as the “**Shares**”) as capital property (each, a “**Holder**”), all within the meaning of the Tax Act. The Unit Shares and Warrants will generally be considered to be capital property to a Holder unless the Holder holds or uses the Unit Shares or Warrants, or is deemed to hold or use the Unit Shares or Warrants, in the course of carrying on a business of trading or dealing in securities or has acquired them or deemed to have acquired them in a transaction or transactions considered to be an adventure in the nature of trade.

This summary does not apply to a Holder (a) that is a “financial institution” for purposes of the mark-to-market rules contained in the Tax Act; (b) an interest in which is or would constitute a “tax shelter investment” as defined in the Tax Act; (c) that is a “specified financial institution” as defined in the Tax Act; (d) 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 Offered Units, controlled by a non-resident person or a group of non-resident persons not dealing with each other at arm’s length for the purposes of the foreign affiliate dumping rules in Section 212.3 of the Tax Act; (e) that reports its “Canadian tax results” in a currency other than Canadian currency, all as defined in the Tax Act; (f) that is exempt from tax under the Tax Act; (g) that has entered into, or will enter into, a “synthetic disposition arrangement” or a “derivative forward agreement” with respect to the Unit Shares or the Warrants, as those terms are defined in the Tax Act; or (h) that receives dividends on the Unit 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 Offered Units.

This summary does not address the deductibility of interest by a Holder who has borrowed money or otherwise incurred debt in connection with the acquisition of Offered Units.

This summary is based upon the current provisions of the Tax Act and the Regulations in force as of the date hereof, specific proposals to amend the Tax Act and the Regulations (the “**Tax Proposals**”) which have been announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof, the current provisions of the *Canada-United States Income Tax Convention* (1980) (the “**Canada-U.S. 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 applicable to an investment in Offered Units. This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal, business, 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.**

### Amounts Determined in Canadian Dollars

For purposes of the Tax Act, all amounts relating to the Unit Shares or Warrants must be expressed in Canadian dollars, including cost, adjusted cost base, proceeds of disposition and dividends, and amounts denominated in U.S. dollars must be converted to Canadian dollars using the daily exchange rate published by the Bank of Canada on the particular date the particular amount arose or such other rate of exchange as may be accepted by the CRA. Holders may therefore realize additional income or gain by virtue of changes in foreign exchange rates, and are advised to consult with their own tax advisors in this regard. Currency tax issues are not discussed further in this summary.

### **Allocation of Purchase Price of Units**

The total purchase price of an Offered Unit to a Holder must be allocated on a reasonable basis between the Unit Share and the one-half of one Warrant which comprise that Offered Unit to determine the cost of each to the Holder for purposes of the Tax Act.

For its purposes, the Corporation intends to allocate \$2.39 of the Offering Price of each Offered Unit as consideration for the issue of each Unit Share and \$0.11 of the Offering Price of each Offered Unit for the one-half of one Warrant comprising part of the Offered Unit. Although the Corporation believes that 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 Offered Unit will be determined by averaging the cost allocated to the Offered Share with the adjusted cost base to the Holder of all Common Shares of the Corporation 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 the aggregate of the Holder's adjusted cost base of such Warrant and the exercise price paid for the Warrant Share. The Holder's adjusted cost base of the Warrant Share so acquired will be determined by averaging such cost with the adjusted cost base to the Holder of all Common Shares of the Corporation owned by the Holder as capital property immediately prior to such acquisition.

### **Residents of 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 Unit 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 Unit Shares, and every other "Canadian security" (as defined by 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. This election does not apply to Warrants. 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.

#### *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 subheading "Taxation of Capital Gains and Losses".

#### *Taxation of Dividends Received by Resident Holders*

In the case of a Resident Holder who is an individual (including certain trusts), dividends (including deemed dividends) received on the Unit 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.

In the case of a Resident Holder that is a corporation, such dividends (including deemed dividends) received on the Unit Shares will be included in the Resident Holder's income and will normally be deductible in computing such Resident Holder's taxable income. 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. Resident Holders that are corporations should consult their own tax advisors having regard to their own circumstances.

A Resident Holder that is a "private corporation" or "subject corporation" (as such terms are defined in the Tax Act) may be liable to pay a refundable tax under Part IV of the Tax Act on dividends received or deemed to be received on the Unit Shares to the extent that such dividends are deductible in computing the Resident Holder's taxable income for the year.

#### *Disposition of Shares and Warrants*

A Resident Holder who disposes of, or is deemed to have disposed of, a Share (other than to the Corporation, unless purchased by the Corporation in the open market in the manner in which shares are normally purchased by any member of the public in

the open market) or a 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 Share or Warrant, as applicable, exceed (or are exceeded by) the aggregate of the adjusted cost base to the Resident Holder of such Share or Warrant, 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 will be determined by averaging the cost of that Share with the adjusted cost base (determined immediately before the acquisition of the Share) of all other Common Shares 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 subheading “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 a Share 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 the Share. 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 is urged to consult its own tax advisor.

Capital gains realized by an individual (including certain trusts) may result in the individual paying minimum tax under the Tax Act.

A Resident Holder that is throughout the relevant taxation year a “Canadian-controlled private corporation” (as defined in the Tax Act) may be liable to pay an additional refundable tax on its “aggregate investment income” (as defined in the Tax Act) for the year, which is defined to include an amount in respect of taxable capital gains.

#### **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, Shares or Warrants in a business carried on in Canada (each, a “**Non-Resident Holder**”). The term “**U.S. Holder**,” for the purposes of this summary, means a Non-Resident Holder who, for purposes of 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.

Special considerations, which are not discussed in this summary, may apply to a Non-Resident Holder that is an insurer that carries on an insurance business in Canada and elsewhere or an authorized foreign bank (as defined in the Tax Act). Such Non-Resident Holders should consult their own advisors.

#### *Taxation of Dividends*

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 Unit Shares will be subject to Canadian withholding tax under the Tax Act at the rate of 25% of the gross amount of the dividend. Such rate is generally reduced under the Canada-U.S. Tax Convention 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.

#### *Disposition of Unit Shares and Warrants*

A Non-Resident Holder will 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 Unit Shares or Warrants, unless the Unit Shares or Warrants 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 Unit Shares are then listed on a designated stock exchange (which currently includes the TSX), the Unit 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 capital stock of the Corporation, and (b) more than 50% of the fair market value of the Unit 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 Unit Shares to be taxable Canadian property in certain circumstances.

In the case of a U.S. Holder, the Unit Shares of such U.S. Holder will generally constitute “treaty-protected property” for purposes of the Tax Act unless the value of the Unit 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 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 “Residents of 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 advisors.**

#### **DIVIDEND POLICY**

We have not declared any dividends or distributions on the Common Shares since our incorporation. We intend to retain our earnings, if any, to finance the growth and development of our operations and do not presently anticipate paying any dividends or distributions in the foreseeable future. Our board of directors may, however, declare from time to time such cash dividends or distributions out of the monies legally available for dividends or distributions as the board of directors considers advisable. Any future determination to pay dividends or make distributions will be at the discretion of the board of directors and will depend on our capital requirements, results of operations and such other factors as the board of directors considers relevant.

#### **INTERESTS OF EXPERTS**

Certain legal matters relating to the Offering will be passed upon on the Corporation’s behalf by Gowling WLG (Canada) LLP, and on behalf of the Underwriters by Torys LLP. As at the date of this Prospectus, the partners and associates of Gowling WLG (Canada) LLP and Torys LLP beneficially owned, directly or indirectly, less than 1% of the outstanding Common Shares.

BDO Canada LLP, the external auditor of the Corporation, provided an auditors’ report on the audited consolidated financial statements of the Corporation for the years ended December 31, 2019 and 2018.

#### **PROMOTERS**

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 2,719,500 Common Shares, representing 10.5% of the outstanding Common Shares; Dr. Bolton owns 1,200,000 Common Shares, representing 4.6% of

the outstanding Common Shares; and Dr. Smith owns 1,244,000 Common Shares, representing 4.8% of the outstanding Common Shares.

### **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for Common Shares is Computershare Investor Services Inc., 100 University Avenue, 9<sup>th</sup> Floor, North Tower, Toronto, Ontario M5J 2Y1.

### **INDEPENDENT AUDITOR**

Our auditors, BDO Canada LLP, Chartered Professional Accountants, of Montreal, Quebec, report that they are independent from us within the meaning of the Rules of Professional Conduct of L'Ordre des Comptables Agréés du Québec.

### **ELIGIBILITY FOR INVESTMENT**

Based on the current provisions of the Tax Act and the Regulations, if the Common Shares were issued on the date hereof and listed on a “designated stock exchange” as defined in the Tax Act (which includes the TSX), then the Unit Shares and Warrants would, at that time, be a “qualified investment” under the Tax Act and the Regulations for a trust governed by a “registered retirement savings plan” (“RRSP”), “registered retirement income fund” (“RRIF”), “tax-free savings account” (“TFSA”), “registered education savings plan” (“RESP”), “deferred profit sharing plan” or “registered disability savings plan” (“RDSP”), as those terms are defined in the Tax Act (collectively but not including a “deferred profit sharing plan”, the “Registered Plans”), provided that, in the case of the Warrants, the Corporation deals at arm’s length with each person who is an annuitant, a beneficiary, an employer, or a subscriber under, or a holder of, such Registered Plan. The Warrants, if issued on the date hereof and listed on a “designated stock exchange”, would also at that time be a “qualified investment” for a trust governed by a Registered Plan or a “deferred profit sharing plan”.

Notwithstanding that an Offered Share, Warrant, or Warrant Share may be a qualified investment for a Registered Plan, if the Offered Share, Warrant or Warrant Share is a “prohibited investment” within the meaning of the Tax Act for a Registered Plan, the holder, annuitant or subscriber of the Registered Plan, as the case may be, will be subject to penalty taxes as set out in the Tax Act. The Offered Shares, Warrants or Warrant Shares will generally be a “prohibited investment” for a Registered Plan if the holder, annuitant or subscriber, as the case may be, does not deal at arm’s length with the Corporation for the purposes of the Tax Act or has a “significant interest” (as defined in the Tax Act) in the Corporation. However, the Offered Shares and Warrant Shares will not be a prohibited investment if the Offered Shares and Warrant Shares are “excluded property” within the meaning of the Tax Act for the Registered Plan.

**Holders and annuitants of Registered Plans should consult their own tax advisors with respect to whether Offered Shares, Warrants or Warrant Shares would be prohibited investments having regard to their particular circumstances.**

### **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 thereto. In several of the provinces of Canada, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the Prospectus and any amendment thereto contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province. Purchasers who are President’s List Purchasers will have the same rights for rescission and/or damages against the Company and the Underwriters, as the case may be, as purchasers who acquired Units through the Underwriters. 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.

In an offering of convertible, exchangeable or exercisable securities, investors are cautioned that the statutory right of action for damages for a misrepresentation contained in the Prospectus is limited, in securities legislation of certain provinces, to the price at which the convertible, exchangeable or exercisable securities is offered to the public under an Offering. This means that, under the securities legislation of certain provinces, if the purchaser pays additional amounts upon conversion, exchange or exercise of the security, those amounts may not be recoverable under the statutory right of action for damages that applies in those provinces. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province for the particulars of this right of action for damages or consult with a legal adviser.

**CERTIFICATE OF THE CORPORATION**

Dated: May 26, 2020

This Prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities legislation in all of the provinces of Canada except Québec.

**CARDIOL THERAPEUTICS INC.**

By: (signed) "David Elsley"  
David Elsley  
Chief Executive Officer

By: (signed) "Chris Waddick"  
Chris Waddick  
Chief Financial Officer

On behalf of the Board of Directors:

By: (signed) "Eldon Smith"  
Eldon Smith  
Director

By: (signed) "Deborah Brown"  
Deborah Brown  
Director

**CERTIFICATE OF PROMOTER**

Dated: May 26, 2020

This Prospectus constitutes full, true, and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities legislation of each of the provinces of Canada, except Québec.

(Signed) "David Elsley" \_\_\_\_\_  
David Elsley  
Promoter

(Signed) "Anthony Bolton" \_\_\_\_\_  
Anthony Bolton  
Promoter

(Signed) "Eldon Smith" \_\_\_\_\_  
Eldon Smith  
Promoter

**CERTIFICATE OF THE UNDERWRITERS**

Dated: May 26, 2020

To the best of our knowledge, information and belief, this Prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities legislation in all of the provinces of Canada except Québec.

**CANACCORD GENUITY CORP.**

By: (signed) "Jason Sleeth"  
Jason Sleeth  
Managing Director

**ALTACORP CAPITAL  
INC.**

By: (signed) "Adam  
Carlson"  
Adam Carlson  
Managing Director,  
Investment Banking

**ECHELON WEALTH PARTNERS INC.**

By: (signed) "Michael Lorimer"  
Michael Lorimer  
Managing Director

**RAYMOND JAMES LTD.**

By: (signed) "Marwan  
Kubursi"  
Marwan Kubursi  
Managing Director