CARDIOL THERAPEUTICS INC.

CONDENSED INTERIM FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2020

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

Cardiol Therapeutics Inc.
Condensed Interim Statements of Financial Position
(Expressed in Canadian Dollars)
Unaudited

		As at March 31, 2020		As at December 31, 2019
ASSETS				
Current assets				
Cash and cash equivalents (note 3)	**$**	**4,497,004**	$	6,956,203
Interest receivable		**2,651**		11,666
Other receivables		**1,090,196**		916,202
Prepaid expenses (note 13)		**417,921**		283,666
Prepaid inventory (note 12(iv))		**5,084,199**		5,084,199
Inventory (note 13)		**1,165,453**		1,118,748
Total current assets		**12,257,424**		14,370,684
Non-current assets				
Property and equipment (note 4)		**566,851**		584,047
Intangible assets (note 6)		**527,023**		548,134
Total assets	**$**	**13,351,298**	$	15,502,865
EQUITY AND LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (note 13)	**$**	**643,476**	$	640,076
Current portion of lease liability (note 5)		**51,338**		50,473
Total current liabilities		**694,814**		690,549
Non-current liabilities				
Lease liability (note 5)		**131,627**		140,279
Total liabilities		**826,441**		830,828
Equity (deficiency)				
Share capital (note 8)		**39,434,248**		39,413,506
Warrants (note 10)		**1,728,138**		1,731,250
Contributed surplus (note 9)		**5,549,802**		4,765,965
Deficit		**(34,187,331)**		(31,238,684)
Total equity (deficiency)		**12,524,857**		14,672,037
Total equity (deficiency) and liabilities	**$**	**13,351,298**	$	15,502,865

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

Commitments (notes 6 and 12)
Subsequent event (note 14)

Approved on behalf of the Board:

"*David Elsley*", Director "*Eldon Smith*", Director

Cardiol Therapeutics Inc.

Condensed Interim Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
Unaudited

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Operating expenses (note 13)		
Administration	**$ 679,545**	$ 598,856
Depreciation of property and equipment (note 4)	**35,243**	2,310
Amortization of intangible assets (note 6)	**21,111**	21,111
Accretion and interest on convertible debentures (note 7)	**-**	621
Investor relations and promotions	**447,372**	665,738
Research and development	**584,253**	512,745
Salaries and benefits	**511,531**	385,434
Transfer agent and regulatory	**49,222**	55,111
Share-based compensation (note 9)	**748,693**	1,257,658
Loss before other income (expenses)	**(3,076,970)**	(3,499,584)
Interest income	**19,788**	76,365
Gain (loss) on foreign exchange	**101,137**	(67,643)
Other income	**7,398**	-
Net loss and comprehensive loss for the period	**$ (2,948,647)**	$ (3,490,862)
Basic and diluted net loss per share (note 11)	**$ (0.11)**	$ (0.14)
Weighted average number of common shares outstanding	**25,877,762**	25,666,347

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

Cardiol Therapeutics Inc.

Condensed Interim Statements of Cash Flows
(Expressed in Canadian Dollars)
Unaudited

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Operating activities		
Net loss and other comprehensive loss for the period	**$ (2,948,647)**	$ (3,490,862)
Adjustments for:		
Depreciation of property and equipment	**35,243**	2,310
Amortization of intangible assets	**21,111**	21,111
Share-based compensation	**748,693**	1,257,658
Accretion on convertible debentures	**-**	621
Accretion on lease liability	**4,327**	-
Shares for services	**20,742**	-
Research and development expenses to be settled through warrant exercise	**32,032**	-
Changes in non-cash working capital items:		
Interest receivable	**9,015**	8,471
Other receivables	**(173,994)**	(182,078)
Prepaid expenses	**(134,255)**	(319,150)
Prepaid inventory	**-**	2,538,210
Inventory	**(46,705)**	(2,726,399)
Accounts payable and accrued liabilities	**3,400**	(1,164,612)
Net cash used in operating activities	**(2,429,038)**	(4,054,720)
Investing activities		
Purchase of property and equipment	**(18,047)**	(8,329)
Net cash used in investing activities	**(18,047)**	(8,329)
Financing activities		
Proceeds from initial public offering, net of commission	**-**	1,626,569
Payment of lease liability	**(12,114)**	-
Net cash provided by (used in) financing activities	**(12,114)**	1,626,569
Net change in cash and cash equivalents	**(2,459,199)**	(2,436,480)
Cash and cash equivalents, beginning of period	**6,956,203**	16,731,500
Cash and cash equivalents, end of period	**$ 4,497,004**	$ 14,295,020

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

Cardiol Therapeutics Inc.

Condensed Interim Statements of Changes in Equity (Deficiency)
(Expressed in Canadian Dollars)
Unaudited

	Share capital				Equity portion		
	Number	Amount	Warrants	Contributed surplus	of convertible debenture	Deficit	Total
Balance, December 31, 2018	**22,726,712**	**$ 36,722,454**	**$ 1,593,608**	**$ 1,253,295**	**$ 259,463**	**$ (17,554,661)**	**$ 22,274,159**
Initial public offering - Common shares	374,544	1,730,393	-	-	-	-	1,730,393
Share issuance costs	-	(162,403)	58,579	-	-	-	(103,824)
Convertible debentures conversion	2,700,000	529,300	-	-	(259,463)	-	269,837
Share-based compensation	-	-	-	1,257,658	-	-	1,257,658
Net loss and comprehensive loss for the period	-	-	-	-	-	(3,490,862)	(3,490,862)
Balance, March 31, 2019	**25,801,256**	**$ 38,819,744**	**$ 1,652,187**	**$ 2,510,953**	**$ -**	**$ (21,045,523)**	**$ 21,937,361**
Balance, December 31, 2019	**25,877,686**	**$ 39,413,506**	**$ 1,731,250**	**$ 4,765,965**	**$ -**	**$ (31,238,684)**	**$ 14,672,037**
Fair value of warrants expired	-	-	(35,144)	35,144	-	-	-
Shares for services	6,914	20,742	-	-	-	-	20,742
Share-based compensation	-	-	-	748,693	-	-	748,693
Fair value of warrants earned	-	-	32,032	-	-	-	32,032
Net loss and comprehensive loss for the period	-	-	-	-	-	(2,948,647)	(2,948,647)
Balance, March 31, 2020	**25,884,600**	**$ 39,434,248**	**$ 1,728,138**	**$ 5,549,802**	**$ -**	**$ (34,187,331)**	**$ 12,524,857**

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

1. Nature of operations

Cardiol Therapeutics Inc. (the "Company") was incorporated under the laws of the Province of Ontario on January 19, 2017. The Company's registered and legal office is located at 2265 Upper Middle Rd. E., Suite 602, Oakville, Ontario, L6H 0G5, Canada.

The Company is focused on producing pharmaceutical cannabidiol products and developing innovative therapies for heart disease, including acute myocarditis and other causes of heart failure. The Company plans to commercialize its pharmaceutical cannabidiol in Canada and internationally. The Company 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.

On December 20, 2018, the Company completed its initial public offering (the "IPO") on the Toronto Stock Exchange (the "TSX"). As a result, the Company's common shares commenced trading on that date on the TSX under the symbol "CRDL" and the warrants commenced trading under the symbol "CRDL.WT". On May 30, 2019, the Company also began trading on the OTCQX Best Market under the symbol "CRTPF".

2. Significant accounting policies

Statement of compliance

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”). These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC.

The policies applied in these unaudited condensed interim financial statements are based on IFRSs issued and outstanding as of May 7, 2020, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed interim financial statements as compared with the most recent annual financial statements as at and for the year ended December 31, 2019. Any subsequent changes to IFRS that are given effect in the Company’s annual financial statements for the year ending December 31, 2020, could result in restatement of these unaudited condensed interim financial statements.

Critical accounting judgment

Management applied judgment in determining the Company’s ability to continue as a going concern. The Company has not yet generated revenue and has incurred significant losses since inception. Management determined that a material going concern uncertainty does not exist due to the sufficient working capital to support their planned expenditure levels into 2021.

3. Cash and cash equivalents

Cash and cash equivalents include a cashable Guaranteed Investment Certificate totaling $61,200 earning interest of 0.5% per annum and maturing on December 4, 2020 (December 31, 2019 - cashable Guaranteed Investment Certificate totaling $61,200 earning interest of 0.5% per annum and maturing on December 4, 2020). The Guaranteed Investment Certificate may be redeemed prior to maturity without penalty.

(Expressed in Canadian Dollars)

4. Property and equipment

Cost	Right-of-use asset	Equipment	Leasehold improvements	Office equipment	Computer equipment	Total
Balance, December 31, 2018	$ -	$ -	$ -	$ 3,129	$ 32,605	$ 35,734
Additions	200,319	116,578	234,772	49,788	23,167	624,624
Balance, December 31, 2019	200,319	116,578	234,772	$ 52,917	$ 55,772	$ 660,358
Additions	-	2,058	2,476	10,219	3,294	18,047
Balance, March 31, 2020	$ 200,319	$ 118,636	$ 237,248	$ 63,136	$ 59,066	$ 678,405

Accumulated Depreciation	Right-of-use asset	Equipment	Leasehold improvements	Office equipment	Computer equipment	Total
Balance, December 31, 2018	$ -	$ -	$ -	$ 876	$ 9,307	$ 10,183
Depreciation for the year	23,373	23,996	4,192	2,940	11,627	66,128
Balance, December 31, 2019	$ 23,373	$ 23,996	$ 4,192	$ 3,816	$ 20,934	$ 76,311
Depreciation for the period	10,017	7,098	12,710	2,558	2,860	35,243
Balance, March 31, 2020	$ 33,390	$ 31,094	$ 16,902	$ 6,374	$ 23,794	$ 111,554

Carrying value	Right-of-use asset	Equipment	Leasehold improvements	Office equipment	Computer equipment	Total
Balance, December 31, 2019	$ 176,946	$ 92,582	$ 230,580	$ 49,101	$ 34,838	$ 584,047
Balance, March 31, 2020	$ 166,929	$ 87,542	$ 220,346	$ 56,762	$ 35,272	$ 566,851

5. Lease liability

	Carrying Value
Balance, December 31, 2018	$ -
Additions (i)	200,319
Repayments	(20,189)
Accretion	10,622
Balance, December 31, 2019	$ 190,752
Repayments	(12,114)
Accretion	4,327
Balance, March 31, 2020	$ 182,965
Current portion	51,338
Long-term portion	$ 131,627

(i) When measuring the lease liability for the property lease that was classified as an operating lease, the Company discounted the lease payments using its incremental borrowing rate. The property lease expires on May 31, 2024 and the lease payments were discounted with a 9% interest rate.

(Expressed in Canadian Dollars)

6. Intangible assets

Cost	**Exclusive global license agreement**
Balance, December 31, 2018, December 31, 2019 and March 31, 2020	$ 767,228

Accumulated Amortization	**Exclusive global license agreement**
Balance, December 31, 2018	$ 134,650
Amortization for the year	84,444
Balance, December 31, 2019	$ 219,094
Amortization for the period	21,111
Balance, March 31, 2020	$ 240,205

Carrying Value	**Exclusive global license agreement**
Balance, December 31, 2019	$ 548,134
Balance, March 31, 2020	$ 527,023

Exclusive global agreement ("Meros License Agreement")

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

Under the Meros License Agreement, Cardiol agreed to certain milestones and milestone payments, including the following: (i) payment of $100,000 upon enrolling the first patient in a Phase IIB clinical trial designed to investigate the safety and indications of efficacy of one of the licensed technologies; (ii) payment of $500,000 upon enrolling the first patient in a Pivotal Phase III clinical trial designed to investigate the safety and efficacy of one of the licensed technologies; (iii) $1,000,000 upon receiving regulatory approval from the FDA for any therapeutic and/or prophylactic treatment incorporating the licensed technologies. Cardiol also agreed to pay Meros the following royalties:

(a) 5% of worldwide proceeds of net sales of the licensed technologies containing cannabinoids, excluding non-royalty sub license income in (b) below, that Cardiol receives from human and animal disease indications and derivatives as outlined in the Meros License Agreement;

(b) 7% of any non-royalty sub-license income that Cardiol receives from human and animal disease indications and derivatives for licensed technologies containing cannabinoids as outlined in the Meros License Agreement;

(c) 3.7% of worldwide proceeds of net sales that Cardiol receives from the licensed technology in relation to human and animal cardiovascular and/or cardiopulmonary disease, heart failure, and/or cardiac arrhythmia diagnosis and/or treatments using the drugs, excluding cannabinoids included in (a) above, outlined in the Meros License Agreement; and

6. Intangible assets (continued)

Exclusive global agreement ("Meros License Agreement") (continued)

(d) 5% of any non-royalty sub license income that Cardiol receives in relation to any human and animal heart disease, heart failure and/or arrhythmias indications, excluding cannabinoids included in (b) above, as outlined in the Meros License Agreement.

In addition, as part of the consideration under the Meros License Agreement, Cardiol (i) issued to Meros 1,020,000 common shares; and (ii) issued to Meros 1,020,000 special warrants convertible automatically into common shares for no additional consideration upon the first patient being enrolled in a Phase 1 clinical trial as described in the Meros License Agreement.

7. Convertible debt

On January 31, 2017, the Company issued a convertible debenture with a face value of $400,000. The debenture bore interest at 3% per annum, calculated and payable monthly, and was to mature on January 31, 2020. In January 2019, the debenture was converted into 2,700,000 Class A common shares.

The Company used the residual value method to allocate the principal amount of the convertible debentures between the liability and equity components. The Company valued the debt component of the debentures by calculating the present value of the principal and interest payments, discounted at a rate of 40%, being management’s best estimate of the rate that a non-convertible debenture with similar terms would bear. The equity conversion feature of the debentures comprised the value of the conversion option, being the difference between the face value of the debentures and the liability element calculated above. Based on this calculation, the liability component was $140,537 and the residual equity component was $259,463. Accretion charges attributable to the debentures for the three months ended March 31, 2019 was $621. This amount was added to the liability component on the statements of financial position and was included in accretion and interest on convertible debentures expense on the unaudited condensed interim statements of loss and comprehensive loss.

On conversion of the debenture, the liability and equity components of the debenture were transferred to share capital (see note 8).

8. Share capital

a) Authorized share capital

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

(Expressed in Canadian Dollars)

8. Share capital (continued)

b) Class A common shares issued

	Number of common shares	Amount
Balance, December 31, 2018	22,726,712	$ 36,722,454
Convertible debentures conversion (i)	2,700,000	529,300
Initial public offering - Common shares (ii)	374,544	1,730,393
Share issuance costs (ii)	-	(162,403)
Balance, March 31, 2019	25,801,256	$ 38,819,744
Balance, December 31, 2019	25,877,686	$ 39,413,506
Shares for services (iii)	6,914	20,742
Balance, March 31, 2020	25,884,600	$ 39,434,248

(i) On January 2, 2019, the Company issued 2,700,000 common shares on conversion of a convertible debenture, (see note 7). On the conversion, the liability and equity components of the debenture of $269,837 and $259,463, respectively, were allocated to share capital.

(ii) On January 18, 2019, the Company issued 374,544 common shares at $4.62 per share for gross proceeds of $1,730,393 under the over-allotment option granted to the Underwriters on the IPO.

The Underwriters were paid cash fees of $103,824 and 22,472 compensation warrants. Each compensation warrant entitled the holder to acquire one common share of the Company at $5.00 for a period of 12 months from closing. The grant date fair value of $58,579 was assigned to the compensation warrants issued as estimated by using a fair value market technique incorporating the Black-Scholes option pricing model, using the following assumptions: a risk-free interest rate of 1.90%; an expected volatility factor of 132%; an expected dividend yield of 0%; and an expected life of 1 year.

(iii) On March 30 2020, the Company issued 6,914 common shares, with a fair value of $20,742, in exchange for $28,140 of services rendered. The valuation was based on the fair value of the shares issued. As a result, the Company recorded other income of $7,398.

9. Stock options

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

(Expressed in Canadian Dollars)

9. Stock options (continued)

	Number of stock options	Weighted average exercise price ($)	
Balance, December 31, 2018	820,000	$	5.00
Issued (i), (ii)	435,000		4.98
Cancelled	(40,000)		5.00
Balance, March 31, 2019	1,215,000	$	4.99
Balance, December 31, 2019	1,760,000	$	4.68
Issued (iii), (iv)	159,300		3.38
Balance, March 31, 2020	1,919,300	$	4.58

(i) On January 3, 2019, the Company granted 150,000 stock options to a certain officer of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of $4.30 and expires on January 2, 2026. The options vested on grant.

(ii) On January 24, 2019, the Company granted 285,000 stock options to certain employees and consultants of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of $5.34. 125,000 stock options expire July 24, 2020 and vest 25% every three months from the grant date. 100,000 stock options expire January 24, 2024 and vest 25% every three months from the grant date. 60,000 stock options expire January 24, 2026 and vest 1/3 each on the first, second and third anniversaries of the grant date.

As the value of services obtained from the consultants could not be estimated reliably, the value of the options to consultants was determined by the fair value of the options granted.

(iii) On February 24, 2020, the Company granted 109,300 stock options to certain employees of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of $3.54. The options vest 50% immediately and 50% 12 months from the grant date.

(iv) On March 10, 2020, the Company granted 50,000 stock options to a consultant of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of $3.04. The options vest 25% immediately and 25% every three months from the grant date.

As the value of services obtained from the consultants could not be estimated reliably, the value of the options to consultants was determined by the fair value of the options granted.

(Expressed in Canadian Dollars)

9. Stock options (continued)

At the grant date, the fair value stock options issued was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Fair value of stock options at grant date	$ 2.26	$ 3.99
Share price	$ 3.38	$ 4.98
Exercise price	$ 3.38	$ 4.98
Risk-free interest rate	1.03 %	1.83 %
Expected volatility	104 %	130 %
Expected life in years	3.74	4.96
Expected dividend yield	Nil	Nil

The following table reflects the actual stock options issued and outstanding as of March 31, 2020:

Expiry date	Exercise price ($)	Weighted average remaining contractual life (years)	Number of options outstanding	Number of options vested (exercisable)
July 24, 2020	5.34	0.32	50,000	50,000
March 9, 2021	3.04	0.94	50,000	12,500
October 29, 2021	3.28	1.58	90,000	22,500
November 24, 2021	3.34	1.65	50,000	25,000
January 24, 2024	5.34	3.82	100,000	100,000
October 15, 2024	3.23	4.55	160,000	-
December 2, 2024	4.08	4.68	60,000	-
December 5, 2024	3.69	4.68	60,000	-
February 23, 2025	3.54	4.90	109,300	54,650
August 16, 2025	5.00	5.38	200,000	200,000
August 30, 2025	5.00	5.42	580,000	206,670
January 2, 2026	4.30	5.76	150,000	150,000
January 24, 2026	5.34	5.82	60,000	20,000
April 1, 2026	5.77	6.01	140,000	-
April 4, 2026	5.42	6.01	60,000	-
	4.58	4.76	1,919,300	841,320

(Expressed in Canadian Dollars)

10. Warrants

	Number of warrants	Amount
Balance, December 31, 2018	4,378,544	$ 1,593,608
Issued (note 8 (ii))	22,472	58,579
Balance, March 31, 2019	4,401,016	$ 1,652,187
Balance, December 31, 2019	4,212,026	$ 1,731,250
Expired	(13,482)	(35,144)
Earned (i)	-	32,032
Balance, March 31, 2020	4,198,544	$ 1,728,138

(i) During the three months ended March 31, 2020, 8,008 warrants with a fair value of $32,032 were earned pursuant to the Caro Development Agreement (see note 12 (iii)).

The following table reflects the actual warrants issued and outstanding as of March 31, 2020, excluding 1,020,000 special warrants convertible automatically into common shares for no additional consideration in accordance with the original escrow release terms as described in the Meros License Agreement (see note 6):

Expiry date	Exercise price ($)	Remaining contractual life (years)	Warrants exercisable
December 20, 2020	6.50	0.72	3,374,544
August 31, 2022	4.00	2.39	824,000
	6.01	1.05	4,198,544

11. Loss per share

For the three months ended March 31, 2020, basic and diluted loss per share has been calculated based on the loss attributable to common shareholders of $2,948,647 (three months ended March 31, 2019 - $3,490,862) and the weighted average number of common shares outstanding of 25,877,762 (three months ended March 31, 2019 - 25,666,347). Diluted loss per share did not include the effect of stock options and warrants as they are anti-dilutive.

12. Commitments

(i) The Company has leased premises with third parties. The minimum committed lease payments, which include the lease liability payments shown as base rent, are approximately as follows:

	Base rent	Variable rent	Total
2020	$ 38,359	$ 38,885	$ 77,244
2021	51,915	51,846	103,761
2022	53,934	51,846	105,780
2023	55,376	51,846	107,222
2024	23,073	21,603	44,676
	$ 222,657	$ 216,026	$ 438,683

(Expressed in Canadian Dollars)

12. Commitments (continued)

(ii) The Company has signed various agreements with consultants to provide services and to purchase equipment. Under the agreements, the Company has the following remaining commitments.

2020	$ 545,427

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

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

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

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

(iv) Cardiol entered into an exclusive supply agreement (the "Exclusive Supply Agreement”) with Noramco, Inc. (“Noramco”) dated September 28, 2018, as amended on December 7, 2018, December 11, 2018, July 2, 2019 and September 11, 2019, and November 12, 2019 pursuant to which Noramco will be the exclusive supplier of pharmaceutical cannabidiol for Cardiol.

During the period, the Exclusive Supply Agreement was assigned to Purisys, LLC ("Purisys"), an affiliate of Noramco headquartered in Athens, Georgia. This assignment had no impact on Cardiol’s rights under the Exclusive Supply Agreement.

(Expressed in Canadian Dollars)

12. Commitments (continued)

(iv) (continued) Pursuant to the terms of the Exclusive Supply Agreement, Cardiol paid a non-refundable payment of US$3,000,000 (the "Exclusivity Payment"). The Exclusivity Payment represents a prepayment for inventory and is being credited towards purchases.

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

Effective upon entering into a supply agreement with Shoppers Drug Mart on March 17, 2020, the Exclusive Supply Agreement was amended such that Cardiol's exclusive rights for products sold to retail pharmacies in the Territory, such as Shoppers Drug Mart, were no longer conditional upon Cardiol meeting any minimum purchase requirements.

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

(v) Pursuant to the terms of agreements with various other contract research organizations, the Company is committed for contract research services for 2020 at a cost of approximately $75,989.

13. Related party transactions

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

(i) Included in research and development expense is $238,357 for the three months ended March 31, 2020 (three months ended March 31, 2019 - $162,310) paid to a company related to a director. As at March 31, 2020, $107,270 (December 31, 2019 - $76,784) was owed to this company and this amount was included in accounts payable and accrued liabilities, and $65,973 and $35,040 (December 31, 2019 - $65,973 and $35,040) was paid to this company and was included in prepaid expenses and inventory, respectively.

(ii) Included in administration is $nil for the three months ended March 31, 2020 (three months ended March 31, 2019 - $50,000) paid to a company related to a former director. As at March 31, 2020, $nil (December 31, 2019 - $20,000) is included in prepaid expenses.

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Salaries and benefits	**$ 291,375**	$ 291,432
Share-based payments	**222,623**	792,998
	$ 513,998	$ 1,084,430

As at March 31, 2020, $nil (December 31, 2019 - $2,005) was owed to key management personnel and this amount was included in accounts payable and accrued liabilities.

14. Subsequent event

The recent novel coronavirus (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. While we expect this to be temporary, there is uncertainty around its duration and its broader impact.