



**CARDIOL THERAPEUTICS INC.**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**THREE AND NINE MONTHS ENDED**  
**SEPTEMBER 30, 2020**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**(UNAUDITED)**

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

|  | As at<br>September 30,<br>2020 | As at<br>December 31,<br>2019 |
|--|--------------------------------|-------------------------------|
| <b>ASSETS</b>                                      |                                |                               |
| <b>Current assets</b>                              |                                |                               |
| Cash and cash equivalents (note 3)                 | \$ 16,546,580                  | \$ 6,956,203                  |
| Interest receivable                                | 7,592                          | 11,666                        |
| Other receivables                                  | 274,901                        | 916,202                       |
| Prepaid expenses (note 13)                         | 608,784                        | 283,666                       |
| Prepaid inventory (note 12(iv))                    | 5,084,199                      | 5,084,199                     |
| Inventory (note 13)                                | 945,149                        | 1,118,748                     |
| <b>Total current assets</b>                        | <b>23,467,205</b>              | <b>14,370,684</b>             |
| <b>Non-current assets</b>                          |                                |                               |
| Property and equipment (note 4)                    | 503,335                        | 584,047                       |
| Intangible assets (note 6)                         | 484,801                        | 548,134                       |
| <b>Total assets</b>                                | <b>\$ 24,455,341</b>           | <b>\$ 15,502,865</b>          |
| <b>EQUITY AND LIABILITIES</b>                      |                                |                               |
| <b>Current liabilities</b>                         |                                |                               |
| Accounts payable and accrued liabilities (note 13) | \$ 1,816,796                   | \$ 640,076                    |
| Current portion of lease liability (note 5)        | 51,915                         | 50,473                        |
| <b>Total current liabilities</b>                   | <b>1,868,711</b>               | <b>690,549</b>                |
| <b>Non-current liabilities</b>                     |                                |                               |
| Lease liability (note 5)                           | 113,827                        | 140,279                       |
| <b>Total liabilities</b>                           | <b>1,982,538</b>               | <b>830,828</b>                |
| <b>Equity (deficiency)</b>                         |                                |                               |
| Share capital (note 8)                             | 51,757,142                     | 39,413,506                    |
| Warrants (note 10)                                 | 5,688,486                      | 1,731,250                     |
| Contributed surplus (note 9)                       | 7,240,267                      | 4,765,965                     |
| Deficit  | (42,213,092)                   | (31,238,684)                  |
| <b>Total equity (deficiency)</b>                   | <b>22,472,803</b>              | <b>14,672,037</b>             |
| <b>Total equity (deficiency) and liabilities</b>   | <b>\$ 24,455,341</b>           | <b>\$ 15,502,865</b>          |

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 10)

**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<br>Ended<br>September 30,<br>2020 | Three Months<br>Ended<br>September 30,<br>2019 | Nine Months<br>Ended<br>September 30,<br>2020 | Nine Months<br>Ended<br>September 30,<br>2019 |
|---|--|--|---|---|
| <b>Operating expenses</b> (note 13)                         |  |  |   |   |
| Administration  | \$ 849,330                                     | \$ 815,102                                     | \$ 2,243,060                                  | \$ 2,227,632                                  |
| Depreciation of property and equipment (note 4)             | 36,236   | 18,404   | 107,816                                       | 37,089  |
| Amortization of intangible assets (note 6)                  | 21,111   | 21,111   | 63,333  | 63,333  |
| Accretion and interest on convertible debentures (note 7)   | -  | -  | -   | 621   |
| Investor relations and promotions                           | 463,418  | 459,473  | 1,127,655                                     | 1,813,501                                     |
| Research and development                                    | 1,900,839                                      | 1,237,727                                      | 3,303,151                                     | 2,498,953                                     |
| Salaries and benefits                                       | 480,459  | 459,037  | 1,640,851                                     | 1,385,959                                     |
| Transfer agent and regulatory                               | 39,113   | 21,152   | 146,721                                       | 132,535                                       |
| Share-based compensation (note 9)                           | 620,277  | 551,977  | 2,439,158                                     | 2,677,541                                     |
| Loss before other income (expenses)                         | (4,410,783)                                    | (3,583,983)                                    | (11,071,745)                                  | (10,837,164)                                  |
| Interest income   | 23,359   | 61,280   | 57,051  | 204,439                                       |
| Gain (loss) on foreign exchange                             | (13,819)                                       | 30,887   | 32,888  | (72,384)                                      |
| Other income  | -  | -  | 7,398   | 79,795  |
| <b>Net loss and comprehensive loss for the period</b>       | <b>\$ (4,401,243)</b>                          | <b>\$ (3,491,816)</b>                          | <b>\$ (10,974,408)</b>                        | <b>\$ (10,625,314)</b>                        |
| <b>Basic and diluted net loss per share</b> (note 11)       | <b>\$ (0.13)</b>                               | <b>\$ (0.13)</b>                               | <b>\$ (0.38)</b>                              | <b>\$ (0.41)</b>                              |
| <b>Weighted average number of common shares outstanding</b> | <b>32,788,663</b>                              | <b>25,877,686</b>                              | <b>28,855,226</b>                             | <b>25,803,584</b>                             |

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

**Cardiol Therapeutics Inc.**  
**Condensed Interim Statements of Cash Flows**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

|  | Nine Months<br>Ended<br>September 30,<br>2020 | Nine Months<br>Ended<br>September 30,<br>2019 |
|--|---|---|
| <b>Operating activities</b>  |   |   |
| Net loss and other comprehensive loss for the period                     | \$(10,974,408)                                | \$(10,625,314)                                |
| Adjustments for:   |   |   |
| Depreciation of property and equipment                                   | 107,816                                       | 37,089  |
| Amortization of intangible assets  | 63,333  | 63,333  |
| Share-based compensation   | 2,439,158                                     | 2,677,541                                     |
| Accretion on convertible debentures                                      | -   | 621   |
| Accretion on lease liability   | 12,485  | 6,075   |
| Shares for services  | 20,742  | -   |
| Research and development expenses to be settled through warrant exercise | 63,764  | -   |
| Changes in non-cash working capital items:                               |   |   |
| Interest receivable  | 4,074   | 16,590  |
| Other receivables  | 641,301                                       | (146,111)                                     |
| Prepaid expenses   | (325,118)                                     | 187,120                                       |
| Prepaid inventory  | -   | 1,261,326                                     |
| Inventory  | 173,599                                       | (1,118,983)                                   |
| Accounts payable and accrued liabilities                                 | 1,176,720                                     | (681,479)                                     |
| <b>Net cash used in operating activities</b>                             | <b>(6,596,534)</b>                            | <b>(8,322,192)</b>                            |
| <b>Investing activities</b>  |   |   |
| Purchase of property and equipment                                       | (27,104)                                      | (346,382)                                     |
| <b>Net cash used in investing activities</b>                             | <b>(27,104)</b>                               | <b>(346,382)</b>                              |
| <b>Financing activities</b>  |   |   |
| Issuance of units  | 17,250,000                                    | -   |
| Share issuance costs   | (1,088,190)                                   | -   |
| Proceeds from initial public offering, net of commission                 | -   | 1,667,127                                     |
| Proceeds from warrants exercised   | 89,700  | 382,150                                       |
| Payment of lease liability   | (37,495)                                      | (8,076)                                       |
| <b>Net cash provided by financing activities</b>                         | <b>16,214,015</b>                             | <b>2,041,201</b>                              |
| <b>Net change in cash and cash equivalents</b>                           | <b>9,590,377</b>                              | <b>(6,627,373)</b>                            |
| <b>Cash and cash equivalents, beginning of period</b>                    | <b>6,956,203</b>                              | <b>16,731,500</b>                             |
| <b>Cash and cash equivalents, end of period</b>                          | <b>\$ 16,546,580</b>                          | <b>\$ 10,104,127</b>                          |

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     |                      | Warrants            | Contributed surplus | Equity portion of convertible debenture |                       | Total                |
|--|-------------------|----------------------|---------------------|---------------------|---|-----------------------|----------------------|
|  | Number            | Amount               |                     |                     | Deficit                                 |                       |                      |
| <b>Balance, December 31, 2018</b>              | <b>22,726,712</b> | <b>\$ 36,722,454</b> | <b>\$ 1,593,608</b> | <b>\$ 1,253,295</b> | <b>\$ 259,463</b>                       | <b>\$(17,554,661)</b> | <b>\$ 22,274,159</b> |
| Initial public offering - Common shares        | 374,544           | 1,730,393            | -                   | -                   | -                                       | -                     | 1,730,393            |
| Share issuance costs                           | -                 | (121,845)            | 58,579              | -                   | -                                       | -                     | (63,266)             |
| Convertible debentures conversion              | 2,700,000         | 529,300              | -                   | -                   | (259,463)                               | -                     | 269,837              |
| Share-based compensation                       | -                 | -                    | -                   | 2,677,541           | -                                       | -                     | 2,677,541            |
| Warrants exercised                             | 76,430            | 382,150              | -                   | -                   | -                                       | -                     | 382,150              |
| Fair value of warrants exercised               | -                 | 171,054              | (171,054)           | -                   | -                                       | -                     | -                    |
| Net loss and comprehensive loss for the period | -                 | -                    | -                   | -                   | -                                       | (10,625,314)          | (10,625,314)         |
| <b>Balance, September 30, 2019</b>             | <b>25,877,686</b> | <b>\$ 39,413,506</b> | <b>\$ 1,481,133</b> | <b>\$ 3,930,836</b> | <b>\$ -</b>                             | <b>\$(28,179,975)</b> | <b>\$ 16,645,500</b> |
| <b>Balance, December 31, 2019</b>              | <b>25,877,686</b> | <b>\$ 39,413,506</b> | <b>\$ 1,731,250</b> | <b>\$ 4,765,965</b> | <b>\$ -</b>                             | <b>\$(31,238,684)</b> | <b>\$ 14,672,037</b> |
| Issuance of units                              | 6,900,000         | 13,446,249           | 3,803,751           | -                   | -                                       | -                     | 17,250,000           |
| Share issuance costs                           | -                 | (1,243,485)          | 155,295             | -                   | -                                       | -                     | (1,088,190)          |
| Fair value of warrants expired                 | -                 | -                    | (35,144)            | 35,144              | -                                       | -                     | -                    |
| Warrants exercised                             | 27,600            | 89,700               | -                   | -                   | -                                       | -                     | 89,700               |
| Fair value of warrants exercised               | -                 | 30,430               | (30,430)            | -                   | -                                       | -                     | -                    |
| Shares for services                            | 6,914             | 20,742               | -                   | -                   | -                                       | -                     | 20,742               |
| Share-based compensation                       | -                 | -                    | -                   | 2,439,158           | -                                       | -                     | 2,439,158            |
| Fair value of warrants earned                  | -                 | -                    | 63,764              | -                   | -                                       | -                     | 63,764               |
| Net loss and comprehensive loss for the period | -                 | -                    | -                   | -                   | -                                       | (10,974,408)          | (10,974,408)         |
| <b>Balance, September 30, 2020</b>             | <b>32,812,200</b> | <b>\$ 51,757,142</b> | <b>\$ 5,688,486</b> | <b>\$ 7,240,267</b> | <b>\$ -</b>                             | <b>\$(42,213,092)</b> | <b>\$ 22,472,803</b> |

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

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# Cardiol Therapeutics Inc.

Notes to Condensed Interim Financial Statements  
Three and Nine Months Ended September 30, 2020  
(Expressed in Canadian Dollars)  
Unaudited

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## 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 a clinical-stage biotechnology company focused on developing innovative therapies for inflammatory heart disease. The Company recently received approval from the U.S. Food and Drug Administration ("FDA") for its Investigational New Drug (IND) application to commence a Phase II/III, double-blind, placebo-controlled clinical trial investigating the efficacy and safety of its lead product, CardiolRx™, in hospitalized COVID-19 patients with a prior history of, or risk factors for, cardiovascular disease. CardiolRx is an ultra-pure, high concentration cannabidiol oral formulation that is pharmaceutically produced, manufactured under cGMP, and THC free (<10 ppm).

Cardiol is also planning a Phase II international trial of CardiolRx in acute myocarditis, a condition caused by inflammation in heart tissue, which remains the most common cause of sudden cardiac death in people less than 35 years of age and is developing a proprietary subcutaneous cannabidiol formulation for the treatment of inflammation in the heart that is associated with the development and progression of heart failure.

Cardiol also recently launched commercial product, Cortalex™, the first THC free extra-strength formulation of cannabidiol oil available across Canada exclusively online at *Medical Cannabis by Shoppers™*.

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 November 10, 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.

## 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.

## Cardiol Therapeutics Inc.

Notes to Condensed Interim Financial Statements  
Three and Nine Months Ended September 30, 2020  
(Expressed in Canadian Dollars)  
Unaudited

### 4. Property and equipment

| <b>Cost</b>                 | <b>Right-of-use asset</b> | <b>Equipment</b> | <b>Leasehold improvements</b> | <b>Office equipment</b> | <b>Computer equipment</b> | <b>Total</b> |
|-----------------------------|---------------------------|------------------|-------------------------------|-------------------------|---------------------------|--------------|
| 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                   | -                         | 6,480            | 2,476                         | 9,269                   | 8,879                     | 27,104       |
| Balance, September 30, 2020 | \$ 200,319                | \$ 123,058       | \$ 237,248                    | \$ 62,186               | \$ 64,651                 | \$ 687,462   |

| <b>Accumulated Depreciation</b> | <b>Right-of-use asset</b> | <b>Equipment</b> | <b>Leasehold improvements</b> | <b>Office equipment</b> | <b>Computer equipment</b> | <b>Total</b> |
|---------------------------------|---------------------------|------------------|-------------------------------|-------------------------|---------------------------|--------------|
| 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     | 30,051                    | 21,626           | 38,130                        | 8,733                   | 9,276                     | 107,816      |
| Balance, September 30, 2020     | \$ 53,424                 | \$ 45,622        | \$ 42,322                     | \$ 12,549               | \$ 30,210                 | \$ 184,127   |

| <b>Carrying value</b>       | <b>Right-of-use asset</b> | <b>Equipment</b> | <b>Leasehold improvements</b> | <b>Office equipment</b> | <b>Computer equipment</b> | <b>Total</b> |
|-----------------------------|---------------------------|------------------|-------------------------------|-------------------------|---------------------------|--------------|
| Balance, December 31, 2019  | \$ 176,946                | \$ 92,582        | \$ 230,580                    | \$ 49,101               | \$ 34,838                 | \$ 584,047   |
| Balance, September 30, 2020 | \$ 146,895                | \$ 77,436        | \$ 194,926                    | \$ 49,637               | \$ 34,441                 | \$ 503,335   |

### 5. Lease liability

|                             | <b>Carrying Value</b> |
|-----------------------------|-----------------------|
| Balance, December 31, 2018  | \$ -                  |
| Additions (i)               | 200,319               |
| Repayments                  | (20,189)              |
| Accretion                   | 10,622                |
| Balance, December 31, 2019  | \$ 190,752            |
| Repayments                  | (37,495)              |
| Accretion                   | 12,485                |
| Balance, September 30, 2020 | \$ 165,742            |
| Current portion             | 51,915                |
| Long-term portion           | \$ 113,827            |

(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.

**Cardiol Therapeutics Inc.**  
**Notes to Condensed Interim Financial Statements**  
**Three and Nine Months Ended September 30, 2020**  
**(Expressed in Canadian Dollars)**  
**Unaudited**

**6. Intangible assets**

| <b>Cost</b>   | <b>Exclusive global license agreement</b> |
|---|---|
| Balance, December 31, 2018, December 31, 2019, and September 30, 2020 | \$ 767,228                                |
| <b>Accumulated Amortization</b>                                       | <b>Exclusive global license agreement</b> |
| Balance, December 31, 2018  | \$ 134,650                                |
| Amortization for the year   | 84,444                                    |
| Balance, December 31, 2019  | \$ 219,094                                |
| Amortization for the period   | 63,333                                    |
| Balance, September 30, 2020   | \$ 282,427                                |
| <b>Carrying Value</b>   | <b>Exclusive global license agreement</b> |
| Balance, December 31, 2019  | \$ 548,134                                |
| Balance, September 30, 2020   | \$ 484,801                                |

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



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## **Cardiol Therapeutics Inc.**

**Notes to Condensed Interim Financial Statements  
Three and Nine Months Ended September 30, 2020  
(Expressed in Canadian Dollars)  
Unaudited**

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### **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 using the licensed technologies 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 nine months ended September 30, 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.

## Cardiol Therapeutics Inc.

### Notes to Condensed Interim Financial Statements Three and Nine Months Ended September 30, 2020 (Expressed in Canadian Dollars) Unaudited

#### 8. Share capital (continued)

##### b) Class A common shares issued

|  | Number of<br>common<br>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)                    | -                             | (121,845)            |
| Warrants exercised (note 10)                 | 76,430                        | 382,150              |
| Fair value of warrants exercised (note 10)   | -                             | 171,054              |
| <b>Balance, September 30, 2019</b>           | <b>25,877,686</b>             | <b>\$ 39,413,506</b> |
| Balance, December 31, 2019                   | 25,877,686                    | \$ 39,413,506        |
| Shares for services (iii)                    | 6,914                         | 20,742               |
| Issuance of units (iv)                       | 6,900,000                     | 17,250,000           |
| Fair value of warrants (iv)                  | -                             | (3,803,751)          |
| Share issuance costs (iv)                    | -                             | (1,243,485)          |
| Warrants exercised (note 10)                 | 27,600                        | 89,700               |
| Fair value of warrants exercised (note 10)   | -                             | 30,430               |
| <b>Balance, September 30, 2020</b>           | <b>32,812,200</b>             | <b>\$ 51,757,142</b> |

(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.

(iv) On June 4, 2020, the Company completed its short form prospectus offering by issuing 6,900,000 common share units at \$2.50 per unit for gross proceeds of \$17,250,000. Each unit consisted of one Class A common share and one-half of one common share purchase warrant. Each whole warrant is exercisable into one common share at the price of \$3.25 per share for a period of two years from closing, subject to accelerated expiry if, at any time, the volume weighted average trading price of the common shares is equal to or greater than \$4.50 for any 10 consecutive trading day period.

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## Cardiol Therapeutics Inc.

### Notes to Condensed Interim Financial Statements Three and Nine Months Ended September 30, 2020 (Expressed in Canadian Dollars) Unaudited

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#### 8. Share capital (continued)

##### b) Class A common shares issued (continued)

(iv) (continued) The fair value of \$3,803,751 was assigned to the 3,450,000 warrants issued as part of the units based on 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 0.32%; an expected volatility factor of 85%; an expected dividend yield of 0%; and an expected life of 2 years.

The Underwriters were paid cash fees of \$735,000 and 294,000 compensation warrants. Each compensation warrant entitles the holder to acquire one additional common share unit of the Company at \$2.50 for a period of 24 months from closing. The grant date fair value of \$507,059 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 0.32%; an expected volatility factor of 85%; an expected dividend yield of 0%; and an expected life of 2 years.

#### 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.

|                                       | Number of<br>stock options | Weighted average<br>exercise price (\$) |
|---------------------------------------|----------------------------|---|
| Balance, December 31, 2018            | 820,000                    | \$ 5.00                                 |
| Issued (i), (ii), (iii), (iv)         | 635,000                    | 5.20                                    |
| Expired                               | (37,500)                   | 5.34                                    |
| Cancelled                             | (40,000)                   | 5.00                                    |
| Balance, September 30, 2019           | 1,377,500                  | \$ 5.08                                 |
| Balance, December 31, 2019            | 1,760,000                  | \$ 4.68                                 |
| Issued (v), (vi), (vii), (viii), (ix) | 984,300                    | 2.73                                    |
| Expired                               | (201,500)                  | 4.80                                    |
| Balance, September 30, 2020           | 2,542,800                  | \$ 3.92                                 |

(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.

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## Cardiol Therapeutics Inc.

Notes to Condensed Interim Financial Statements  
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### 9. Stock options (continued)

(iii) On April 2, 2019, the Company granted 140,000 stock options to certain officers of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of \$5.77 and expires on April 1, 2026. The options vest 1/3 each on the first, second, and third anniversaries of the grant date.

(iv) On April 5, 2019, the Company granted 60,000 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 \$5.42 and expires on April 4, 2026. The options vest 1/3 each on the first, second, and third anniversaries of the grant date.

(v) 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.

(vi) 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.

(vii) On June 23, 2020, the Company granted 500,000 stock options to consultants of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of \$2.58. The options vested immediately. 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.

(viii) On August 20, 2020, the Company granted 225,000 stock options to consultants of the Company. 100,000 stock options allow the holder to acquire one common share of the Company at an exercise price of \$2.12 and vest 1/3 each on the first, second, and third anniversaries of the grant date. 50,000 stock options allow the holder to acquire one common share of the Company at an exercise price of \$2.58 and vest 50% immediately and 50% January 22, 2021. 75,000 stock options allow the holder to acquire one common share of the Company at an exercise price of \$2.50 and vest 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.

(ix) On September 9, 2020, the Company granted 100,000 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 \$3.25. The options vested immediately. 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.

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**Cardiol Therapeutics Inc.**

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**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:

|   | Nine Months<br>Ended<br>September 30,<br>2020 | Nine Months<br>Ended<br>September 30,<br>2019 |
|---|---|---|
| Fair value of stock options at grant date | \$ 1.38                                       | \$ 4.37                                       |
| Share price                               | \$ 2.66                                       | \$ 5.20                                       |
| Exercise price                            | \$ 2.73                                       | \$ 5.20                                       |
| Risk-free interest rate                   | 0.48 %  | 1.75 %  |
| Expected volatility                       | 91 %  | 130 %   |
| Expected life in years                    | 2.59  | 5.60  |
| Expected dividend yield                   | Nil   | Nil   |

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The following table reflects the actual stock options issued and outstanding as of September 30, 2020:

| Expiry date       | Exercise<br>price (\$) | Weighted average<br>remaining<br>contractual<br>life (years) | Number of<br>options<br>outstanding | Number of<br>options<br>vested<br>(exercisable) |
|-------------------|------------------------|--|-------------------------------------|---|
| March 9, 2021     | 3.04                   | 0.44   | 50,000                              | 37,500  |
| October 29, 2021  | 3.28                   | 1.08   | 90,000                              | 67,500  |
| November 24, 2021 | 3.34                   | 1.15   | 50,000                              | 50,000  |
| June 22, 2022     | 2.58                   | 1.73   | 500,000                             | 500,000   |
| August 19, 2022   | 2.58                   | 1.88   | 50,000                              | 25,000  |
| August 19, 2022   | 2.50                   | 1.88   | 75,000                              | -   |
| September 8, 2022 | 3.25                   | 1.94   | 100,000                             | 100,000   |
| October 15, 2024  | 3.23                   | 4.04   | 110,000                             | -   |
| December 2, 2024  | 4.08                   | 4.18   | 60,000                              | -   |
| December 5, 2024  | 3.69                   | 4.18   | 60,000                              | 15,000  |
| February 23, 2025 | 3.54                   | 4.40   | 107,800                             | 54,650  |
| August 16, 2025   | 5.00                   | 4.88   | 200,000                             | 200,000   |
| August 19, 2025   | 2.12                   | 4.89   | 100,000                             | -   |
| August 30, 2025   | 5.00                   | 4.92   | 580,000                             | 393,330   |
| January 2, 2026   | 4.30                   | 5.26   | 150,000                             | 150,000   |
| January 24, 2026  | 5.34                   | 5.32   | 60,000                              | 20,000  |
| April 1, 2026     | 5.77                   | 5.50   | 140,000                             | 46,667  |
| April 4, 2026     | 5.42                   | 5.51   | 60,000                              | 20,000  |
|                   | 3.92                   | 3.70   | 2,542,800                           | 1,679,647                                       |

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## Cardiol Therapeutics Inc.

Notes to Condensed Interim Financial Statements  
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### 10. Warrants

|                             | Number of warrants | Amount       |
|-----------------------------|--------------------|--------------|
| Balance, December 31, 2018  | 4,378,544          | \$ 1,593,608 |
| Issued (note 8 (ii))        | 22,472             | 58,579       |
| Exercised                   | (76,430)           | (171,054)    |
| Balance, September 30, 2019 | 4,324,586          | \$ 1,481,133 |
| Balance, December 31, 2019  | 4,212,026          | \$ 1,731,250 |
| Issued (note 8 (iv))        | 3,744,000          | 3,959,046    |
| Expired                     | (13,482)           | (35,144)     |
| Exercised                   | (27,600)           | (30,430)     |
| Earned (i)                  | -                  | 63,764       |
| Balance, September 30, 2020 | 7,914,944          | \$ 5,688,486 |

(i) During the nine months ended September 30, 2020, 15,941 warrants with a fair value of \$63,764 were earned pursuant to the Caro Development Agreement (see note 12 (iii)).

The following table reflects the actual warrants issued and outstanding as of September 30, 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                | 0.22                               | 3,374,544            |
| June 4, 2022                                 | 3.25                | 1.68                               | 3,422,400            |
| June 4, 2022 <sup>(1)</sup> , <sup>(2)</sup> | 2.50                | 1.68                               | 294,000              |
| August 31, 2022                              | 4.00                | 1.89                               | 824,000              |
|  | 4.69                | 1.08                               | 7,914,944            |

(1) Exercisable into one Class A common share and one-half of one common share purchase warrant. Each additional whole warrant is exercisable into one common share at the price of \$3.25 per share until June 4, 2022.

(2) Subsequent to September 30, 2020, 37,591 warrants were exercised for gross proceeds of \$93,978. As a result, an additional 18,795 warrants, exercisable into one common share at the price of \$3.25 per share until June 4, 2022, were granted.

### 11. Loss per share

For the three and nine months ended September 30, 2020, basic and diluted loss per share has been calculated based on the loss attributable to common shareholders of \$4,401,243 and \$10,974,408, respectively (three and nine months ended September 30, 2019 - \$3,491,816 and \$10,625,314, respectively) and the weighted average number of common shares outstanding of 32,788,663 and 28,855,226, respectively (three and nine months ended September 30, 2019 - 25,877,686 and 25,803,584, respectively). Diluted loss per share did not include the effect of stock options and warrants as they are anti-dilutive.

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## Cardiol Therapeutics Inc.

Notes to Condensed Interim Financial Statements  
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### 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 | \$ 12,978  | \$ 12,962     | \$ 25,940  |
| 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     |
|      | \$ 197,276 | \$ 190,103    | \$ 387,379 |

(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 | \$ 736,680 |
|------|------------|

(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.

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## **Cardiol Therapeutics Inc.**

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### **12. Commitments (continued)**

(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.

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 and 2021 at a cost of approximately \$974,398.

### **13. Related party transactions**

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

(i) Included in research and development expense is \$589,370 and \$1,009,490 for the three and nine months ended September 30, 2020 (three and nine months ended September 30, 2019 - \$673,658 and \$1,037,621) paid to a company related to a director. As at September 30, 2020, \$618,214 (December 31, 2019 - \$76,784) was owed to this company and this amount was included in accounts payable and accrued liabilities, and \$nil 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 and nine months ended September 30, 2020 (three and nine months ended September 30, 2019 - \$60,000 and \$170,000) paid to a company related to a former director. As at September 30, 2020, \$nil (December 31, 2019 - \$20,000) is included in prepaid expenses.



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## Cardiol Therapeutics Inc.

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### 13. Related party transactions (continued)

(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<br>Ended<br>September 30,<br>2020 | Three Months<br>Ended<br>September 30,<br>2019 | Nine Months<br>Ended<br>September 30,<br>2020 | Nine Months<br>Ended<br>September 30,<br>2019 |
|-----------------------|--|--|---|---|
| Salaries and benefits | \$ 339,369                                     | \$ 281,375                                     | \$ 1,141,957                                  | \$ 854,209                                    |
| Share-based payments  | 135,559  | 245,501  | 504,760                                       | 1,323,603                                     |
|                       | <b>\$ 474,928</b>                              | <b>\$ 526,876</b>                              | <b>\$ 1,646,717</b>                           | <b>\$ 2,177,812</b>                           |

As at September 30, 2020, \$122,500 (December 31, 2019 - \$2,005) was owed to key management personnel and this amount was included in accounts payable and accrued liabilities.

### 14. Uncertainty due to COVID-19

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.