

TETRA BIO-PHARMA INC.
CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS

Three months and six months ended May 31, 2018

Management's Responsibility for the condensed consolidated interim financial statements

The accompanying condensed consolidated interim financial statements of Tetra Bio-Pharma Inc. (the "Company") are the responsibility of management and the Board of Directors.

The condensed consolidated interim financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the financial position date. In the opinion of management, the condensed consolidated interim financial statements have been prepared within acceptable limits of materiality and are materially in compliance with all applicable International Financial Reporting Standards.

Management has established processes, which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the condensed consolidated interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the condensed consolidated interim financial statements and (ii) the condensed consolidated interim financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the condensed consolidated interim financial statements.

The Board of Directors is responsible for reviewing and approving the condensed consolidated interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the condensed consolidated interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

(signed)
Bernard Lessard, CPA, CMA, MBA
CFO

(signed)
Guy Chamberland
CSO and interim CEO

Ottawa, Canada
July 26, 2018

Tetra Bio-Pharma Inc.

Condensed Consolidated Interim Statements of Financial Position
(Expressed in Canadian dollars)

As at	May 31, 2018	November 30, 2017
	\$	\$
ASSETS		
Current assets		
Cash	10,636,702	2,193,114
Sales tax receivable	362,510	194,157
Prepaid expenses	206,628	60,957
Inventory	224,492	44,542
Total current assets	11,430,332	2,492,770
Non-current assets		
Intangible assets (Note 7)	8,642,290	8,645,890
Total assets	20,072,622	11,138,660
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	869,793	499,053
Deposit earned in advance on GrowPros MMP's transaction (note 19)	350,000	-
	1,219,793	499,053
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	24,251,663	9,193,852
Warrants (Note 9)	17,708,352	7,793,431
Contributed surplus	3,141,374	2,303,257
Accumulated deficit	(26,248,560)	(8,128,179)
Equity attributable to equity holders of the Company	18,852,829	11,162,361
Equity attributable to non controlling interest (Note 11)	-	(522,754)
Total equity	18,852,829	10,639,607
Total liabilities and shareholders' equity	20,072,622	11,138,660

Commitments and contingencies (Note 19)

Going concern (Note 2)

Approved on behalf of the Board of Directors

(signed) "Bernard Lessard"
Bernard Lessard, CFO

(signed) "Guy Chamberland"
Guy Chamberland, Interim CEO and Director

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

Tetra Bio-Pharma Inc.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

	Three months ended May 31, 2018	Three months ended May 31, 2017	Six months ended May 31, 2018	Six months ended May 31, 2017
	\$	\$	\$	\$
Expenses				
Research and development	1,572,106	1,444,289	2,423,258	1,727,534
Stock based compensation (Note 10)	306,085	-	955,544	480,000
General and administrative expense (Note 12)	1,135,167	559,534	1,748,533	880,262
Loss before other items	3,013,358	2,003,823	5,127,335	3,087,796
Other items				
Interest and other income	(28,897)	(12)	(28,909)	(12)
Foreign exchange loss	58,847	949	74,112	11,933
Total other items	29,950	937	45,203	11,921
Net loss and total comprehensive loss	3,043,308	2,004,760	5,172,538	3,099,717
Attributable to:				
Equity holders of the Parent Company	2,954,139	1,715,902	4,893,549	2,754,210
Non controlling interest	89,169	288,858	278,989	345,507
	3,043,308	2,004,760	5,172,538	3,099,717
Basic and diluted loss per common share (Note 13)	(0.02)	(0.02)	(0.04)	(0.03)
Basic and diluted weighted average number of common shares outstanding	149,257,039	113,507,676	137,402,114	105,372,162

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

Tetra Bio-Pharma Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(Expressed in Canadian dollars)

	Share Capital		Warrants	Contributed Surplus	Accumulated Deficit	Equity to equity of the Company	Non controlling interest (Note 11)	Total
	# of shares	\$	\$	\$	\$	\$	\$	\$
Balance, November 30, 2016	85,013,856	2,511,021	503,195	337,922	(1,902,885)	1,449,253	(52,709)	1,396,544
Shares issued as part of a private placement	7,395,500	1,479,100	-	-	-	1,479,100	-	1,479,100
Shares issued as part of warrants exercised	19,515,732	3,467,999	(693,210)	-	-	2,774,789	-	2,774,789
Shares issued as part of options exercised	4,000,000	304,145	-	(104,145)	-	200,000	-	200,000
Shares issued for services	250,000	172,500	-	-	-	172,500	-	172,500
Shares issued for settlement of debt	501,800	321,152	-	-	-	321,152	-	321,152
Warrants issued as part of a private placement	-	(524,000)	524,000	-	-	-	-	-
Warrants issued for services	-	-	74,000	-	-	74,000	-	74,000
Expiry of warrants	-	-	(416)	416	-	-	-	-
Share issue costs	-	(6,800)	-	-	-	(6,800)	-	(6,800)
Issuance of stock options	-	-	-	480,000	-	480,000	-	480,000
Transactions with owners	31,663,032	5,214,096	(95,626)	376,271	-	5,494,741	-	5,494,741
Net loss	-	-	-	-	(2,754,210)	(2,754,210)	(345,507)	(3,099,717)
Balance, May 31, 2017	116,676,888	7,725,117	407,569	714,193	(4,657,095)	4,189,784	(398,216)	3,791,568
Shares issued as part of warrants exercised	6,176,871	1,299,403	(227,004)	-	-	1,072,399	-	1,072,399
Shares issued as part of options exercised	900,000	169,332	-	(72,332)	-	97,000	-	97,000
Warrants issued for intangible assets	-	-	7,613,090	-	-	7,613,090	-	7,613,090
Expiry of warrants	-	-	(224)	224	-	-	-	-
Issuance of stock options	-	-	-	1,661,172	-	1,661,172	-	1,661,172
Transactions with owners	7,076,871	1,468,735	7,385,862	1,589,064	-	10,443,661	-	10,443,661
Net loss	-	-	-	-	(3,471,084)	(3,471,084)	(124,538)	(3,595,622)
Balance, November 30, 2017	123,753,759	9,193,852	7,793,431	2,303,257	(8,128,179)	11,162,361	(522,754)	10,639,607
Shares issued in bought deal	11,500,000	11,500,000	-	-	-	11,500,000	-	11,500,000
Shares issued as part of a private placement	4,292,000	4,292,000	-	-	-	4,292,000	-	4,292,000
Shares issued as part of warrants exercised	2,025,000	615,909	(104,609)	-	-	511,300	-	511,300
Shares issued as part of options exercised	1,450,000	323,411	-	(118,911)	-	204,500	-	204,500
Shares issued for acquisition of PPP	9,940,872	9,940,872	-	-	-	9,940,872	-	9,940,872
Warrants issued in bought deal	-	(7,312,315)	7,312,315	-	-	-	-	-
Warrants issued as part of a private placement	-	(2,571,950)	2,708,699	-	-	136,749	-	136,749
Expiry of warrants	-	-	(1,484)	1,484	-	-	-	-
Share issuance costs	-	(1,730,116)	-	-	-	(1,730,116)	-	(1,730,116)
Issuance of stock options, net of cancelled	-	-	-	955,544	-	955,544	-	955,544
Aquisition of non-controlling interest by the Company	-	-	-	-	(13,226,832)	(13,226,832)	801,743	(12,425,089)
Transactions with owners	29,207,872	15,057,811	9,914,921	838,117	(13,226,832)	12,584,017	801,743	13,385,760
Net loss for the year	-	-	-	-	(4,893,549)	(4,893,549)	(278,989)	(5,172,538)
Balance, May 31, 2018	152,961,631	24,251,663	17,708,352	3,141,374	(26,248,560)	18,852,829	-	18,852,829

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

Tetra Bio-Pharma Inc.

Condensed Consolidated Interim Statements of Cash Flows
(Expressed in Canadian dollars)

	Six months ended May 31, 2018	Six months ended May 31, 2017
	\$	\$
OPERATING ACTIVITIES		
Net loss for the period	(5,172,538)	(3,099,717)
Adjustments for:		
Shares issued for promotion	-	210,920
Stock-based compensation	955,544	480,000
Loss on settlement of debt	-	-
Depreciation	3,600	3,600
Changes in working capital items (Note 14)	227,245	(305,895)
Net cash used in operating activities	(3,986,149)	(2,711,092)
INVESTING ACTIVITIES		
Acquisition of PhytoPain Pharma net of \$9,940,872 shares issued	(2,484,696)	-
Acquisition of licenses	-	(250,000)
Net cash used in investing activities	(2,484,696)	(250,000)
FINANCING ACTIVITIES		
Shares issued in bought deal	11,500,000	1,479,100
Shares issued as part of a private placement	4,292,000	-
Warrants issued as part of a private placement	136,749	-
Warrants exercised	511,300	2,774,789
Stock options exercised	204,500	200,000
Share issue costs	(1,730,116)	(6,800)
Net cash provided by financing activities	14,914,433	4,447,089
Increase in cash	8,443,588	1,485,997
Cash, beginning of the period	2,193,114	1,218,639
Cash, end of the period	10,636,702	2,704,636

Supplemental cash flow information is provided in Note 15

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

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended May 31, 2018

(Expressed in Canadian Dollars)

1. Nature of operations

Tetra Bio-Pharma Inc. ("Tetra" or the "Company"), was incorporated under the name Mazorro Resources Inc. ("Mazorro") under the Canada Business Corporations Act on May 17, 2007. On December 29, 2014, GrowPros MMP Inc. ("GrowPros MMP") completed an amalgamation agreement with Mazorro and 9048073 Canada Inc., a newly-incorporated subsidiary of Mazorro, in order to effect the November 1, 2014 definitive agreement. Legally, Mazorro is the parent of GrowPros MMP; however, as a result of the share exchange, control of the combined companies passed to the former shareholders of GrowPros MMP, which for accounting purposes is deemed to be the acquirer. For financial reporting purposes the transaction has been accounted for as an acquisition of Mazorro by GrowPros MMP under IFRS 2 Share Based Payment and therefore the financial statements have been prepared as a continuation of GrowPros MMP. As part of the amalgamation agreement Mazorro changed its name to GrowPros Cannabis Ventures Inc.

On September 28, 2016, the Company formally changed its name from GrowPros Cannabis Ventures Inc. to Tetra Bio-Pharma Inc. The Company's common shares were listed for trading on the Canadian Securities Exchange ("CSE") under the symbol "TBP" and the OTCQB under the symbol "TBPMF". On August 16, 2017, the Company's common shares became listed for trading on the TSX Venture Exchange ("TSXV") under the symbol "TBP" and the OTCQB under the symbol "TBPMF". Since August 16, 2017, the Company is voluntary delisted from CSE.

The principal business of the Company is that of pain management research including medical marijuana, consultations and acquisitions. The Company's head office is located at 200-2742 St. Joseph Blvd., Orleans, Ontario, K1C 1G5.

There can be no assurance that any of the Company's prospective projects in the industry will be successfully completed.

2. Going concern

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The Company has not yet determined whether its clinical trials will produce revenue generating pharmaceuticals. The Company has not generated any operating revenues or positive cash flows from its operations from inception to date. The Company has a deficit of \$26,248,560 as at May 31, 2018 (November 30, 2017 - \$8,128,179).

As at May 31, 2018, the Company had a working capital surplus of \$10,210,539 (November 30, 2017 - 1,993,717), including \$10,636,702 (November 30, 2017 - \$2,193,114) in cash and current liabilities totalling \$1,219,793 (November 30, 2017 - \$499,053). The Company must secure additional financing to be able to fund its ongoing clinical trials. Management is evaluating various alternatives to secure the necessary financing so that the Company can continue as a going concern. Nevertheless, there is no assurance that these initiatives will be successful. Management believes that the Company has enough working capital to support operations and research for the next fiscal year (see Note 16).

In March 2018, the Company closed a bought deal financing and a private placement for total gross proceeds of \$11,500,000 and \$4,292,000, respectively.

The carrying amount of assets, liabilities and expenses presented in the financial statements and the classification used in the statement of financial position have not been adjusted as would be required if the going concern assumption was not appropriate. Those adjustments could be material.

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended May 31, 2018

(Expressed in Canadian Dollars)

3. Statement of compliance

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standards 34, "Interim Financial Reporting" ("IAS 34"), using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

The Condensed Consolidated Interim Financial Statements do not include all of the information required for full annual financial statements. The accounting policies and critical estimates applied by the Company in the Condensed Consolidated Interim Financial Statements are the same as those applied in the Company's annual consolidated financial statements as at and for the year ended November 30, 2017.

These Condensed Consolidated Interim Financial Statements were authorized for issuance by the Board of Directors on July 26, 2018.

4. Significant accounting policies

(a) Accounting policies applied in financial statements

The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and outstanding as of May 31, 2018 and have been consistently applied to all periods presented unless otherwise noted.

(b) Basis of presentation and measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis. Historical cost is generally based upon the fair value of the consideration given in exchange for assets. The expenses within the statements of loss and comprehensive loss are presented by nature.

(c) Functional currency

The functional currency for the parent entity, and each of its subsidiaries, is the currency of the primary economic environment in which the entity operates. Management has determined that the functional currency of each entity is the Canadian dollar. Determination of functional currency may involve certain judgments to determine the primary economic environment. The parent entity reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment. Monetary assets and liabilities are translated into Canadian dollars at exchange rates in effect at the statement of financial position date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at the rate at the time of the transaction. Any resulting gain or loss is recorded in the consolidated statements of loss.

(d) Basis of consolidation

These condensed consolidated interim financial statements incorporate the financial statements of the Company and its subsidiaries. Tetra Bio-Pharma Inc. is the ultimate parent company of the consolidated group. Subsidiaries are consolidated from the date on which the Company obtains control and continue to be consolidated until control ceases. Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. These condensed consolidated interim financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended May 31, 2018

(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

Where the ownership of a subsidiary is less than 100%, and a non-controlling interest thus exists, any losses of that subsidiary are attributed to the non-controlling interests even if that results in a deficit. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

An associate is an entity in which the Company or its subsidiaries have significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in, without having control over, the financial and operating policy decisions of the entity, and generally exists where between 20% and 50% of the voting power of the entity is held by the Company. As at May 31, 2018, and November 30, 2017, the Company did not have any associates.

The subsidiaries of the Company at May 31, 2018, and their principal activities are described below:

Name of subsidiary	Place of incorporation	Ownership interest	Principal activity
PhytoPain Pharma Inc.	Canada	100%	Marijuana related clinical trials
GrowPros Agro-Tek Inc.	Canada	100%	Development of health products
Grow Pros MMP Inc.	Canada	100%	Medical Marijuana
Minera Mazorro, S. de R.L. de C.V.	Mexico	100%	Inactive

PhytoPain Pharma ("PPP") was incorporated on May 11, 2016. The mission of PPP is the development and commercialization of botanical based pharmaceuticals. PPP is a clinical stage drug research and development company engaged in the development of medication to alleviate symptoms related to pain, insomnia and anxiety disorders in patients suffering from cancer and other chronic and terminal diseases that cause uncontrolled pain and or insomnia.

During the quarter ended May 31, 2018, Tetra Bio-Pharma purchased the remaining 20% interest in PPP held by the non-controlling shareholders – see Note 6. The share of net assets of subsidiaries attributable to non-controlling interest is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity. Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

(d) Impairment of long-lived assets

Long-lived assets, including equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended May 31, 2018

(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

(e) *Financial Instruments*

Financial instruments are defined as any contract that gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity. The Company recognizes financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument.

Financial assets of the Company are classified into the following categories at their initial recognition:

- loans and receivables;
- available for sale investments;
- fair value through profit or loss.

(e) *Financial Instruments (continued)*

Financial assets and liabilities are initially measured at fair value, plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs directly attributable to the acquisition or issuance of the financial asset or liability. In a purchase or sale of financial assets, recognition and derecognition occurs using trade date accounting.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and accounts receivable, except sales tax, fall into this category of financial instruments.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company does not have any assets designated as available for sale.

Available-for-sale financial assets are measured at fair value. Net change in fair value is recognized in other comprehensive income and reported within the accumulated other comprehensive income reserve within equity. When the asset is derecognized, the cumulative gain or loss recognized in other comprehensive income is reclassified to profit or loss as a gain (loss) on sale of marketable securities, if applicable, and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognized in profit or loss within finance income.

Financial liabilities at amortized cost

The Company's financial liabilities include accounts payable and accrued liabilities. Financial liabilities are measured subsequently at amortized cost using the effective interest method. All interest-related charges are reported in profit or loss, if applicable.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when all of the substantial risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled, or expired.

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended May 31, 2018

(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include: significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or the likelihood that the borrower will enter bankruptcy or financial reorganization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of financial assets classified as loans and receivables, where the carrying amount is reduced through the use of an allowance account. When these assets are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(f) Impairment of non-financial assets

The Company assesses non-financial assets including property and equipment for impairment when facts and circumstances suggest that the carrying amount of the assets are impaired. An impairment review is undertaken when indicators of impairment arise.

Where such an indication exists, the recoverable amount of the asset is estimated. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are largely independent cash inflows (Cash-generating units or "CGU"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Where an impairment subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, subject to the amount not exceeding the carrying amount that would have been determined had impairment not been recognized for the asset in prior periods. Any reversal of impairment is recognized immediately in profit or loss.

(g) Provisions and contingent liabilities

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The Company had no material provisions or contingent liabilities as at May 31, 2018 and November 30, 2017.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination.

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended May 31, 2018

(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

(h) Equity

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, stock options and share warrants are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Share capital

Share capital represents the amount received on the issue of shares. Transaction costs directly attributable to the issuance of common shares are recognized as a reduction of share capital. If shares are issued when options and warrants are exercised, the share capital account also comprises the compensation costs previously recorded as contributed surplus and warrants. In addition, if shares are issued as consideration for the services provided or some other form of non-monetary assets, they are measured at their fair value according to the quoted price on the day of the conclusion of the agreement.

Unit placements

Proceeds from unit placements are allocated between shares and warrants issued according to their fair value using the proportional method. The Company uses the Black-Scholes pricing model to estimate the fair value of warrants issued.

Warrants

Warrants include charges related to the issuance of warrants until the warrants are exercised or expired. Amounts related to exercised warrants are moved to share capital while amounts related to expired warrants are moved to contributed surplus.

Share based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of loss and comprehensive loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, any increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of loss and comprehensive loss over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the estimated fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received. Options or warrants granted related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model.

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended May 31, 2018

(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

(h) *Equity (continued)*

All equity-settled share-based payments are reflected in contributed surplus, unless exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

(i) *Segmented reporting*

The Company presents and discloses segmented information based on information that is regularly reviewed by the Company's CEO who is the chief operating decision-maker. The CEO has primary responsibility for allocating resources to the Company's operating segments and assessing their performance. The Company is currently in the development stage and has determined that there is only one operating segment being the sector of medical marijuana. All of the Company's operations and material assets are in Canada.

(j) *Basic and diluted loss per share*

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares. The Company's diluted loss per share does not include the effect of stock options and warrants as they are anti-dilutive, by reducing the loss per share.

(k) *Inventory*

The Company values inventories at the lower of cost and net realizable value. Cost includes the costs of purchases net of vendor allowances plus other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition.

The Company estimates net realizable value as the amount that inventories are expected to be sold less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of the write-down previously recorded is reversed.

(l) *Intangible assets*

Intangible assets are comprised of natural product numbers, clinical trials and licenses acquired by the Company.

A natural product number is an eight-digit number located on natural health products legally licensed for sale in Canada. The Company acquired all formulations, raw material supplier information, trade secrets and intellectual property relative to the natural product numbers. These intangible assets are recorded at cost net of accumulated amortization and impairment losses. The natural product numbers are amortized on a straight-line basis over an estimated useful life of 30 years.

The clinical trials and licenses are described in note 7.

The clinical trials and licenses are not yet ready for use and, as a result, no amortization has been recorded on these assets.

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended May 31, 2018

(Expressed in Canadian Dollars)

4. Significant accounting policies (continued)

(m) Standards, amendments and interpretations not yet effective

Certain new standards, amendments and interpretations to existing standards have been published but are not yet effective and have not been adopted early by the Company.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of each pronouncement and has not yet determined the impact of these new standards and amendments on its financial statements. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below.

Certain other new standards and interpretations have been issued but are not expected to have an impact on the Company's consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 proposes to replace IAS 18 - Revenue, IAS 11 - Construction contracts, and some revenue-related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

IFRS 16 Leases ("IFRS 16")

IFRS 16 was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if IFRS 15 has also been applied.

IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 was issued by the IASB as a complete standard in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended May 31, 2018

(Expressed in Canadian Dollars)

5. Critical accounting estimates and judgments

The preparation of these consolidated financial statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In particular, the Company has identified the following areas where significant judgments, estimates, and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described below and also in the relevant notes to the consolidated financial statements.

Significant management judgments

Estimates

- The estimation of share-based payment costs requires the selection of an appropriate valuation model and data and consideration as to the volatility of the Company's own share, the probable life of share options and warrants granted and the time of exercise of those share options and warrants. The model used by the Company is the Black-Scholes valuation model.
- Determining whether facts and circumstances suggest that the carrying amount of intangible assets may exceed their recoverable amount. Determining if there are any facts and circumstances' indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations in many cases.
- When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset or the cash generating units must be estimated.
- Management continually evaluates the likelihood that its deferred tax assets could be realized. This requires management to assess whether it is probable that sufficient taxable income will exist in the future to utilize these losses within the carry-forward period. By its nature, this assessment requires significant judgments. To date, management has not recognized any deferred tax assets in excess of existing taxable temporary differences expected to reverse within the carry-forward period.
- Management has estimated the life of natural product numbers to be 30 years based on similar health products in the market.

Judgments

- The assessment of the Company's ability to execute its strategy by funding future working capital requirements. Further information regarding going concern is outlined in note 2.
- By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence and potential quantum of contingencies inherently involves the exercise of significant judgments and the use of estimates regarding the outcome of future events.

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

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(Expressed in Canadian Dollars)

6. Acquisition

Purchase of remaining interest in Phyto Pain Pharma (PPP)

Effective March 19, 2018, the Company acquired the remaining 20% interest in PPP. As a result, the Company now owns 100% of Phyto Pain Pharma (PPP). The Company acquired the remaining 20% interest in PPP from the non-controlling shareholders of PPP for a total purchase price of \$2,484,696 in cash and \$9,940,879 common shares of the Company (with a fair value of \$1.00 per share – Note 8).

The Company's purchase of remaining 20% of the shares of PPP has been accounted for as an equity transaction with the excess in fair value of consideration, plus equity of the non-controlling interest, allocated to deficit.

The following is a summary of the PPP-related purchase price components, and the allocation of equity acquired on March 19, 2018:

	Purchase price
	\$
Cash consideration paid	2,484,696
Fair value of 9,940,872 common shares issued	9,940,872
Difference	(479)
Non-controlling interest as at March 19, 2018	801,743
Charged to deficit	13,226,832

7. Intangible assets

The following is a summary of intangible assets as at May 31, 2018 and November 30, 2017:

	Natural Health			
	Product numbers	Clinical trials	Licenses	Total
Cost	\$	\$	\$	\$
Balance as at November 30, 2016	216,000	-	-	216,000
Amortization expense	(7,200)	-	-	(7,200)
Acquired during the year	-	7,687,090	750,000	8,437,090
Balance as at November 30, 2017	208,800	7,687,090	750,000	8,645,890
Amortization expense	(3,600)	-	-	(3,600)
Balance as at May 31, 2018	205,200	7,687,090	750,000	8,642,290

Natural health product numbers consist of 8 natural product numbers registered with Health Canada.

On September 27, 2016, the Company completed the acquisition of 8 natural health product numbers related to the initiation of manufacturing and distribution of products for natural health care including products containing extracts or oils derived from Cannabis sativa for 1,800,000 common shares. The estimated fair value of the common shares was \$216,000 based on the quoted market price of the Company's shares on the date of the transaction.

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended May 31, 2018

(Expressed in Canadian Dollars)

7. Intangible assets (continued)

Clinical trials

On May 19, 2016, the Company entered into an agreement in which it would acquire 100% of the intellectual property relating to the Health Canada pre-approved clinical trial for the inhalation of cannabis drug products for management of chronic pain.

As consideration for the acquisition of the intellectual property, the Company was required to make the following milestone payments: a) upon submission of pre-Clinical Trial Application information package: 2,500,000 options at \$0.05 for 5 years and 1,500,000 common share warrants at \$0.05 for 1 year; b) upon commencement of Phase 1 clinical trials of ("PPP001"): 4,000,000 common shares warrants at \$0.05 for 2 years; and c) upon successful completion of Phase 1 clinical trials of: 4,000,000 common shares warrants at \$0.05 for 3 years.

As at May 31, 2018 and during the previous year ended November 30, 2017, all milestone payments with an estimated fair value of \$Nil (2017 - \$7,687,090) have been issued.

These intangible assets have not been depreciated because they are not yet ready for use.

Licences

On May 23, 2017, the Company entered into a definitive agreement with Panag Pharma Inc. and acquired licences for the development and commercialization of two cannabinoid based formulations. As at May 31, 2018, the Company incurred \$Nil (2017 - \$250,000) on the acquisition of the licences. The agreement is subject to certain milestone payments relating to the research and development of the two formulations totalling \$550,000. The agreement is also subject to certain milestone payments and royalties related to sales.

On June 2, 2017, the Company entered into a definitive agreement with IntelGenx Corp. and acquired licences for the development and commercialization of a Dronabinol XL Tablet. As at May 31, 2018, the Company incurred \$Nil (2017 - \$500,000) on the acquisition of the licences. The agreement is subject to certain milestone payments relating to the research and development of Dronabinol totalling \$1,350,000. The agreement is also subject to certain milestone payments and royalties related to sales.

On December 3, 2017, the Company entered into a definitive agreement with Constance Therapeutics Inc. and acquired licences for the pharmaceutical drug development, and eventual commercialization in Canada, of their standardized, patent-pending, medicinal cannabis extract products. As at May 31, 2018, the Company incurred \$Nil (2017 - \$Nil) on the acquisition of the licences. The agreement is subject to certain milestone payments relating to the research and development. The agreement is also subject to certain milestone payments and royalties related to sales.

These intangible assets have not been depreciated because they are not yet ready for use.

8. Share capital

Authorized: the authorized share capital consists of an unlimited number of each of the following classes of shares: Class A Common shares, Class B Common shares, Class C Common shares, Class A Special shares, Class B Special shares, Class C Special shares, Class D Special shares and Class E Special shares, each with no par value.

As at May 31, 2018 and November 30, 2017, there are only Class A Common shares issued and outstanding (the "common shares").

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended May 31, 2018

(Expressed in Canadian Dollars)

8. Share capital (continued)

2018 Fiscal year issuances

On March 27, 2018, the Company completed a non-brokered private placement of 4,292,000 units at a price of \$1.00 per unit for aggregate gross proceeds of \$4,292,000. Each unit consists of one common share and one non-transferable warrant, with a whole warrant entitling the holder to purchase one common share of the Company at a price of \$1.30 per share for a period of 3 years following the closing date.

The 4,292,000 warrants issued in connection to the private placements listed above have been recorded at an estimated value of \$2,571,950 based on the proportional method based on the Black Scholes option pricing model, using the following assumptions: share price of \$0.88, an average exercise price of \$1.30, risk free interest rate of 1.79%, expected life of warrants of 3 years, annualized volatility rate of 127% (based on the Company's historical volatility for 3 years up to the issuance date) and dividend rate of 0%.

In connection with this private placement, the Company paid a finder's fee of \$275,800 and in addition, issued 275,800 finder's warrants as commission, with a whole warrant entitling the holder to purchase one common share of the Company at a price of \$1.30 per share for a period of 2 years following the closing date.

The 275,800 warrants issued in connection to the private placements listed above have been recorded at an estimated value of \$136,749 based on the proportional method based on the Black Scholes option pricing model, using the following assumptions: share price of \$0.88, an average exercise price of \$1.30, risk free interest rate of 1.79%, expected life of warrants of 2 years, annualized volatility rate of 127% (based on the Company's historical volatility for 2 years up to the issuance date) and dividend rate of 0%.

On March 5, 2018, the Company completed a bought deal public offering for aggregate gross proceeds of \$11,500,000. A total of 11,500,000 units were sold at a price of \$1.00 per unit. Each unit consists of one common share and one transferable common share purchase warrant, with a whole warrant entitling the holder to purchase one common share of the Company at a price of \$1.30 per share for a period of 3 years following the closing date.

The 11,500,000 warrants issued in connection to the bought deal listed above have been recorded at an estimated value of \$7,312,315 based on the proportional method based on the Black Scholes option pricing model, using the following assumptions: share price of \$0.91, an average exercise price of \$1.30, risk free interest rate of 1.79%, expected life of warrants of 3 years, annualized volatility rate of 130% (based on the Company's historical volatility for 3 years up to the issuance date) and dividend rate of 0%.

In connection with this bought deal, the Company paid a finder's fee of \$805,000.

During the period of six months ended May 31, 2018, a total of 2,025,000 common share purchase warrants were exercised for gross proceeds of \$511,300. The warrants had an average exercise price of \$0.25 and expired between December 20, 2017 and August 15, 2018.

During the period of six months ended May 31, 2018, a total of 1,450,000 stock options were exercised for gross proceeds of \$204,500. The stock options had an exercise price between \$0.05 and \$0.71 and expired between July 24, 2018 and June 15, 2021.

2017 Fiscal year issuances

On December 6, 2016, the Company completed a non-brokered private placement of 5,000,000 units at a price of \$0.20 per unit for aggregate gross proceeds of \$1,000,000. Each unit consists of one common share and one non-transferable warrant, with a whole warrant entitling the holder to purchase one common share of the Company at a price of \$0.26 per share for a period of 3 years following the closing date. The warrants are subject to an accelerated expiry if the Company's shares trade above \$0.45 for thirty consecutive trading days at which time the warrants will expire in 30 days if not exercised.

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

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(Expressed in Canadian Dollars)

8. Share capital (continued)

The 5,000,000 warrants issued in connection to the private placements listed above have been recorded at an estimated value of \$397,000 based on the proportional method based on the Black Scholes option pricing model, using the following assumptions: share price of \$0.12, an average exercise price of \$0.26, risk free interest rate of 0.87%, expected life of warrants of 3 years, annualized volatility rate of 135% (based on the Company's historical volatility for 3 years up to the issuance date) and dividend rate of 0%.

On March 20, 2017, the Company announced that the 5,000,000 warrants had been exercised for aggregate gross proceeds of \$1,300,000.

There were no finders' fees issued in connection with this private placement.

On December 30, 2016, the Company completed a non-brokered private placement for 2,395,500 units at a price of \$0.20 per unit for aggregate gross proceeds of \$479,100. Each unit consists of one common share and one non-transferable warrant, with a whole warrant entitling the holder to purchase one common share at a price of \$0.26 per share for a period of twelve months expiring December 30, 2017.

The 2,395,500 warrants issued in connection to the private placements listed above have been recorded at a value of \$127,000 based on the proportional method based on the Black Scholes option pricing model, using the following assumptions: share price of \$0.15, an average exercise price of \$0.26, risk free interest rate of 0.76%, expected life of warrants of 1 year, annualized volatility rate of 135% (based on the Company's historical volatility for 1 year up to the issuance date) and dividend rate of 0%.

In connection with the private placement, the Company paid a finder's fee of \$6,800.

During the year ended November 30, 2017, a total of 25,692,603 common share purchase warrants were exercised for gross proceeds of \$3,837,088. The warrants had an average exercise price of \$0.15 and expired between December 20, 2016 and December 5, 2019.

During the year ended November 30, 2017, a total of 4,900,000 stock options were exercised for gross proceeds of \$297,000. The stock options had an exercise price between \$0.05 and \$0.18 and expired between November 5, 2017 and October 19, 2021.

During the year ended November 30, 2017, the Company issued a total of 250,000 common shares for promotional services. The estimated fair value of the common shares was \$172,500 based on the quoted market price of the Company's shares on the date of the transaction.

During the year ended November 30, 2017, the Company issued a total 501,800 common shares for the settlement of debt with a carrying value of \$38,420. The estimated fair value of the common shares was \$321,152 based on the quoted market price of the Company's shares on the date of the transaction. This resulted in a loss on settlement of debt of \$282,732.

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

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(Expressed in Canadian Dollars)

9. Warrants

The following table reflects the continuity of warrants:

	Number of warrants	Grant date fair value \$	Weighted average exercise price \$
Outstanding, November 30, 2016	20,469,169	503,195	0.08
Issued as part of a private placement	7,395,500	524,000	0.26
Issued for intangible asset acquisition	8,000,000	7,687,090	0.05
Expired	(255,000)	(640)	0.15
Exercised	(25,541,669)	(920,214)	0.15
Outstanding, November 30, 2017	10,068,000	7,793,431	0.08
Issued as part of private placement	4,292,000	2,571,950	1.30
Finder's warrants issued as part of private placement	275,800	136,749	1.30
Issued in bought deal	11,500,000	7,312,315	1.30
Expired	(28,000)	(1,484)	0.26
Exercised	(2,025,000)	(104,609)	0.25
Outstanding, May 31, 2018	24,082,800	17,708,352	0.90

The number of outstanding warrants which could be exercised for an equivalent number of common shares is as follows:

Number of Warrants	Grant date fair value \$	Exercise price \$	Expiry date
15,000	248	0.07	September 28, 2018
4,000,000	4,033,059	0.05	February 16, 2019
4,000,000	3,654,031	0.05	June 7, 2020
11,500,000	7,312,315	1.30	March 5, 2021
4,292,000	2,571,950	1.30	March 29, 2021
275,800	136,749	1.30	March 29, 2020
24,082,800	17,708,352		

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

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10. Stock options

2018 stock options activity

On May 14, 2018, 440,000 stock options granted to a director and officer of the Company were cancelled. The stock options was exercisable at \$0.71 and had expire date on July 24, 2021. The stock options have been recorded at a value of \$115,608 based on the Black Scholes option pricing model using the following assumptions: share price of \$0.80, an average exercise price of \$0.71, risk free interest rate of 1.58%, expected life of warrants of 4 years, expected volatility rate of 132% (based on the Company's historical volatility for 4 years up to the issuance date) and dividend rate of 0%.

On April 4, 2018, 400,000 stock options were granted to director and officer of the Company. The stock options are exercisable at \$0.75 and expire April 4, 2021. The stock options have been recorded at a value of \$220,809 based on the Black Scholes option pricing model using the following assumptions: share price of \$0.75, an average exercise price of \$0.75, risk free interest rate of 2.03%, expected life of stock option of 3 years, expected volatility rate of 127% (based on the Company's historical volatility for 3 years up to the issuance date) and dividend rate of 0%.

On January 2, 2018, 500,000 stock options were granted to Momentum Public Relation Inc. The stock options are exercisable at \$1.50 and expire between January 2, 2021 and August 2, 2021. The stock options have been recorded at a value of \$104,704 based on the Black Scholes option pricing model using the following assumptions: share price of \$1.02, an average exercise price of \$1.00, risk free interest rate of 2.04%, expected life of stock option of 4 years, expected volatility rate of 132% (based on the Company's historical volatility for 4 years up to the issuance date) and dividend rate of 0%.

2017 stock options activity

On February 23, 2017, 750,000 stock options were granted to directors and officers of the Company. The stock options are exercisable at \$0.70 and expire on February 23, 2022. The stock options have been recorded at a value of \$480,000 based on the Black Scholes option pricing model using the following assumptions: share price of \$0.70, an average exercise price of \$0.70, risk free interest rate of 1.16%, expected life of warrants of 5 years, expected volatility rate of 151% (based on the Company's historical volatility for 5 years up to the issuance date) and dividend rate of 0%.

On July 24, 2017, 400,000 stock options were granted to directors and officers of the Company. The stock options are exercisable at \$0.80 and expire on July 24, 2021. The stock options have been recorded at a value of \$312,000 based on the Black Scholes option pricing model using the following assumptions: share price of \$0.80, an average exercise price of \$0.80, risk free interest rate of 1.58%, expected life of warrants of 4 years, expected volatility rate of 165% (based on the Company's historical volatility for 5 years up to the issuance date) and dividend rate of 0%.

On November 27, 2017, 450,000 stock options were granted to consultants of the Company. The stock options are exercisable at \$0.71 and expire on July 24, 2018. The stock options have been recorded at a value of \$152,412 based on the Black Scholes option pricing model using the following assumptions: share price of \$0.71, an average exercise price of \$0.71, risk free interest rate of 1.43%, expected life of warrants of 1 year, expected volatility rate of 156% (based on the Company's historical volatility for 1 years up to the issuance date) and dividend rate of 0%.

On November 27, 2017, 3,350,000 stock options were granted to directors and officers of the Company. The stock options are exercisable at \$0.71 and expire on July 24, 2021. The stock options have been recorded at a value of \$1,196,760 based on the Black Scholes option pricing model using the following assumptions: share price of \$0.80, an average exercise price of \$0.71, risk free interest rate of 1.58%, expected life of warrants of 4 years, expected volatility rate of 132% (based on the Company's historical volatility for 4 years up to the issuance date) and dividend rate of 0%.

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

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(Expressed in Canadian Dollars)

10. Stock options (continued)

The following table shows the continuity of options:

	Number of options	Grant date fair value \$	Weighted average exercise price \$
Outstanding, November 30, 2016	6,800,000	295,165	0.07
Granted	4,950,000	2,141,172	0.71
Exercised	(4,900,000)	(176,477)	0.05
Expired	(250,000)	(640)	0.05
Outstanding, November 30, 2017	6,600,000	2,259,220	0.56
Granted and vested (1)	900,000	1,071,152	0.88
Cancelled (1)	(440,000)	(115,608)	0.71
Exercised	(1,450,000)	(118,911)	0.05
Outstanding, May 31, 2018	5,610,000	3,095,853	0.73

(1) On November 27, 2017, 3,350,000 options were granted. Included in this amount 1,040,000 options are vested and 440,000 options were cancelled. On May 31, 2018, 900,000 options were granted. Included in this amount 525,000 options are vested.

Number of options	Number of options vested	Vested grant date fair value \$	Exercise price \$	Expiry date
400,000	400,000	62,700	0.18	October 19, 2021
750,000	750,000	480,000	0.70	February 23, 2022
400,000	400,000	312,000	0.80	July 24, 2021
250,000	250,000	84,673	0.71	July 24, 2018
2,910,000	2,910,000	1,830,967	0.71	July 24, 2021
500,000	125,000	104,704	1.50	February 2, 2021
400,000	400,000	220,809	0.75	April 4, 2021
5,610,000	5,235,000	3,095,853		

The unvested options vest as follows:

- 375 000 options in respect to the term of the agreement

Tetra Bio-Pharma Inc.

Notes to the Condensed Consolidated Interim Financial Statements

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11. Non-controlling interest

Balance, November 30, 2016	\$ (52,709)
Share of net loss for the year	(470,045)
Balance, November 30, 2017	\$ (522,754)
Share of net loss for the period, as at March 19, 2018	(278,989)
Acquisition of non-controlling interest by the Company	801,743
Balance, May 31, 2018	\$ -

Effective March 2018, Tetra Bio-Pharma acquired the remaining 20% interest in PPP. Prior to this acquisition, non-controlling interest represented equity interests in PPP owned by the non-controlling shareholders of PPP. The share of net assets of PPP attributable to non-controlling interest is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity. Changes in the Tetra Bio-Pharma's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Name	Proportion of ownership interests and voting rights held by NCI		Loss and comprehensive loss allocation to NCI		Accumulated NCI	
	May 31, 2018	November 30, 2017	May 31, 2018	November 30, 2017	May 31, 2018	November 30, 2017
PhytoPain Pharma Inc.	Nil	20%	Nil	\$ 470,045	Nil	\$ 522,754

No dividends were paid to NCI during the six months ended May 31, 2018 and the year ended November 30, 2017.

12. General and administrative expense

	Three months ended		Six months ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
	\$	\$	\$	\$
Management fees	111,135	94,610	202,737	148,610
Payroll and benefits	247,789	50,966	430,332	50,966
Professional fees	430,117	66,020	626,375	124,243
Exchange and regulatory fees	135,029	54,460	175,560	71,227
Land lease expense	-	-	-	11,000
Travel and promotion expense	172,073	263,713	252,319	419,118
Depreciation	1,800	1,800	3,600	3,600
Miscellaneous expenses	37,224	27,965	57,610	51,498
Total	1,135,167	559,534	1,748,533	880,262

Tetra Bio-Pharma Inc.

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(Expressed in Canadian Dollars)

13. Loss per common share

Diluted loss per share did not include the effect of 5,610,000 stock options (November 30, 2017 – 6,600,000), and 24,082,800 warrants (November 30, 2017 – 10,068,000) outstanding at May 31, 2018, as they are anti-dilutive.

14. Changes in non-cash working capital items and supplemental cash flow information

	Six months ended	
	May 31, 2018	May 31, 2017
	\$	\$
Accounts receivable	(168,353)	(228,398)
Prepaid expenses	(145,671)	(105,720)
Inventory	(179,950)	-
Accounts payable and accrued liabilities	720,740	28,223
Other	479	-
Total	227,245	(305,895)

Non-cash transactions

On January 15, 2018 200,000 options valued at \$142,000 were exercised by a consultant of the Company (note 11).

15. Related party balances and transactions

Related parties include the Board of Directors and key management personnel, as well as, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions. Unless otherwise stated, none of the transactions incorporated special terms and conditions and no guarantees were given or received.

(a) Transactions with key management personnel

Remuneration of directors and key management personnel of the Company was as follows:

	Three months ended		Six months ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
	\$	\$	\$	\$
Consulting fees	75,833	119,610	276,583	203,610
Salary	229,539	20,625	358,411	20,625
	305,372	140,235	634,994	224,235
Stock-based compensation	421,693	-	1,071,152	480,000
Stock-based compensation cancelled	(115,608)	-	(115,608)	-
	306,085	-	955,544	480,000
Compensation warrants	-	-	-	74,000
	611,457	140,235	1,590,538	778,235

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15. Related party balances and transactions (continued)

As at May 31, 2018, directors and key management personnel were owed \$Nil (November 30, 2017 - \$8,623). This amount is included in accounts payable and accrued liabilities. The amount is unsecured, non-interest bearing and due on demand.

During the six months ended May 31, 2018, consulting fees of \$89,583 (2017 – \$152,917) were paid/payable to 9315-4466 Quebec Inc., a company controlled by a senior officer of the Company's subsidiary. As at May 31, 2018, there was a balance of \$Nil (November 30, 2017 - \$Nil) owing.

During the six months ended May 31, 2018, consulting fees of \$45,000 (2017 – \$115,000) were paid/payable to 9206-8618 Quebec Inc., a company controlled by a senior officer of the Company's subsidiary. As at May 31, 2018, there was a balance of \$Nil (November 30, 2017 - \$Nil) owing.

16. Capital management

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to achieve optimal returns to shareholders and benefits for other stakeholders. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business. The Company considers its capital to be equity, which is comprised of share capital, reserves and accumulated deficit which totalled \$18,716,579 as at May 31, 2018 (November 30, 2017 – \$11,162,361).

The Company is currently in a start-up stage and as of the date of these financial statements none of its projects have advanced past the early clinical trial phase. As such the Company is dependent on external financing to fund its activities. In order to fund its research, carry out its operations and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts when economic conditions permit it to do so.

Management has chosen to mitigate the risk and uncertainty associated with raising additional capital in current economic conditions by:

- (i) minimizing discretionary disbursements;
- (ii) focusing on obtaining Health Canada and FDA approvals for clinical trials; and
- (iii) exploring alternative sources of liquidity

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate.

The Company's capital management objectives, policies and processes have remained unchanged during the six months ended May 31, 2018 and the year ended November 30, 2017.

The Company is not subject to any external capital requirements or restrictions.

17. Financial risk factors

Financial risk

The Company's activities expose it to a variety of financial risks in relation to financial instruments. The financial assets and liabilities by category are summarized in Note 19. The main types of risks are credit risk and liquidity risk.

Risk management is carried out by the Company's management team under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

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17. Financial risk factors (continued)

(i) Credit risk

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and accounts receivable. Cash is held with reputable Canadian chartered bank, from which management believes the risk of loss to be minimal. The Company periodically monitors the investments it makes and is satisfied with the creditworthiness of its Canadian chartered bank.

The Company's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality.

None of the Company's financial assets are secured by collateral or other credit enhancements.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if its access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at May 31, 2018, the Company had cash of \$10,636,702 (November 30, 2017 - \$2,193,114) and current liabilities of \$1,219,793 (November 30, 2017 - \$499,053). All of the Company's financial liabilities have contractual maturities of less than 30 days, and are subject to normal trade terms. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as liquidity.

18. Categories of financial instruments

	May 31, 2018	November 30, 2017
	\$	\$
Financial assets ⁽¹⁾ :		
Cash	10,636,702	2,193,114
Financial liabilities		
Financial liabilities at amortized cost		
Accounts payable and accrued liabilities	(1,219,793)	(499,053)

⁽¹⁾ The accounts receivable do not include sales taxes receivable.

As of May 31, 2018, and November 30, 2017, the estimated fair value of all the Company's financial instruments, approximated the carrying value due to the short-term nature of these instruments.

Financial instruments measured at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs). As at May 31, 2018 and November 30, 2017, the Company does not have any financial instruments recorded at fair value and that require classification in the fair value hierarchy.

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19. Commitments and contingencies

On February 22, 2018, the Company entered into an agreement to sell all shares of its subsidiary "GrowPros MMP Inc." to North Bud Farms Inc. ("North Bud") for gross proceeds of \$350,000, as well as 15,000,000 common shares of North Bud. This sale is contingent upon North Bud completing a listing transaction and becoming a publicly traded company by June 30, 2018 (and was subsequently revised to July 31, 2018). As at May 31, 2018, the conditions of the agreement were not completed and consequently the transaction was not recorded. The \$ 350,000 non-refundable prepayment amount has been recorded in current liabilities as a deposit earned in advance with respect to the terms and conditions of the agreement.

Contingent payments

The Company is party to certain management and employment contracts. These contracts require that additional payments of approximately \$40,000 be made upon termination without cause. As a triggering event has not taken place, the contingent payments have not been reflected in these financial statements.

Advance inventory purchases

During the year ended November 30, 2017, the Company entered into a supply and distribution agreement to purchase inventory. The term of this agreement is 5 years and includes the following US\$ minimum purchase commitments in the following years totaling US\$1,510,000 (approximately CAD\$1,900,000):

Year	Minimum Purchase US\$
2018	340,000
2019	360,000
2020	360,000
2021	360,000
2022	<u>90,000</u>
Total	<u>US\$1,510,000</u>

University funding agreement

During the year ended November 30, 2017, the Company entered into an agreement with a university in Canada to support cannabis research. The Company has committed to provide \$500,000 to this university over 5 years.

As at May 31, 2018, the Company has not made, nor been asked to make any payment.

Investigational service contract

During the year ended November 30, 2017 (and amended during the period ended May 31, 2018), the Company entered into an investigational service contract for research and development. Under the terms of this agreement, the Company must pay approximately \$785,000 based on certain research related milestones. Certain milestones were reached as at May 31, 2018 and as such approximately \$355,000 in milestone payments were made as at May 31, 2018.