

Condensed Interim Consolidated Financial Statements of

**CANNARA BIOTECH INC.**

(formerly known as Dunbar Capital Corp.)

Three and six month periods ended February 28, 2019

(Unaudited)

# CANNARA BIOTECH INC.

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(Unaudited)

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# CANNARA BIOTECH INC.

## Condensed Interim Consolidated Statement of Financial Position

February 28, 2019, with comparative information as at August 31, 2018  
(Unaudited)

	February 28, 2019	August 31, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 35,941,545	\$ 12,899,672
Restricted cash - share subscription agreements issued by a subsidiary (note 10)	5,727,650	-
Accounts receivable	131,655	219,938
Sales tax receivable	1,469,317	365,108
	43,270,167	13,484,718
Deposits (note 5)	2,182,353	1,551,451
Property, plant and equipment (note 5)	23,715,479	13,355,844
Right-of-use asset (note 6)	691,004	468,285
Intangible assets (note 7)	66,556	-
Deferred share issuance costs	23,937	-
	\$ 69,949,496	\$ 28,860,298
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,704,437	\$ 1,091,235
Liabilities for share subscription agreements issued by a subsidiary (note 10)	5,727,650	-
Current portion of lease liability (note 6)	118,253	72,651
	9,550,340	1,163,886
Mortgage payable (note 8)	12,515,818	12,508,720
Lease liability (note 6)	640,645	445,271
	22,706,803	14,117,877
Shareholders' equity:		
Share capital (note 9)	52,785,783	15,853,968
Contributed surplus	1,990,556	1,001,350
Deficit	(8,296,440)	(2,112,897)
Equity attributable to the shareholders of the Company	46,479,899	14,742,421
Non controlling interest (note 10)	762,794	-
Total equity	47,242,693	14,742,421
Subsequent events (note 17)		
	\$ 69,949,496	\$ 28,860,298

See accompanying notes to condensed interim consolidated financial statements.

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# CANNARA BIOTECH INC.

## Condensed Interim Consolidated Statement of Net Loss and Comprehensive Loss

Three and six month periods ended February 28, 2019  
(Unaudited)

	Three month period ended February 28, 2019	Six month period ended February 28, 2019
Lease revenues	\$ 518,438	\$ 1,036,881
Lease operating costs	81,836	134,374
Operating expenses:		
General and administrative	293,067	675,692
Investor relations	98,044	98,044
Marketing costs	192,224	467,699
Professional fees	711,131	1,502,035
Salaries and benefits	539,060	1,280,827
Share-based compensation	421,613	560,686
Amortization of property, plant and equipment (note 5)	103,649	207,063
Amortization of right-of-use asset (note 6)	35,313	59,960
	2,394,101	4,852,006
Operating loss	(1,957,499)	(3,949,499)
Listing expense related to the reverse acquisition of Dunbar Capital Corp. (note 4)	1,875,243	1,875,243
Net finance expense (note 11)	179,184	492,410
Loss before income taxes	(4,011,926)	(6,317,152)
Income tax expense	-	-
Net loss and comprehensive loss	\$ (4,011,926)	\$ (6,317,152)
<b>Net loss and comprehensive loss attributable to:</b>		
Shareholders of the Company	\$ (3,878,317)	\$ (6,183,543)
Non-controlling interest	(133,609)	(133,609)
Net loss and comprehensive loss	\$ (4,011,926)	\$ (6,317,152)
Basic and diluted loss per share	\$ 0.01	\$ 0.01
Weighted average number of outstanding basic and diluted shares	587,028,862	531,543,230

Cannara Biotech (Ops) Inc. was incorporated on February 21, 2018 and did not have any activities between February 21, 2018 and February 28, 2018.

See accompanying notes to condensed interim consolidated financial statements.

# CANNARA BIOTECH INC.

## Condensed Interim Consolidated Statement of Changes in Equity

Three and six month periods ended February 28, 2019  
(Unaudited)

	Attributable to the shareholders of the Company					Non-controlling interest	Total equity
	Shares	Share capital	Contributed surplus	Deficit	Total		
As at August 31, 2018	476,667,330	\$ 15,853,968	\$ 1,001,350	\$ (2,112,897)	\$ 14,742,421	\$ -	\$ 14,742,421
Net loss and comprehensive loss				(6,183,543)	(6,183,543)	(133,609)	(6,317,152)
Share-based compensation (note 12):							
Employee compensation	-	-	490,897	-	490,897	-	490,897
Other services	-	-	339,789	-	339,789	-	339,789
	-	-	830,686	-	830,686	-	830,686
<b>Transaction with shareholders of the Company:</b>							
Warrants exercised	868,000	133,877	(47,077)	-	86,800	-	86,800
Subscription receipts exercised (note 9)	207,640,375	37,375,268	-	-	37,375,268	-	37,375,268
Share issuance costs (note 11)	-	(2,289,670)	-	-	(2,289,670)	-	(2,289,670)
Issue of shares in connection with the reverse acquisition of Dunbar Capital Corp. (note 4)	9,513,000	1,712,340	-	-	1,712,340	-	1,712,340
<b>Changes in ownership interest:</b>							
Issuance of shares by a subsidiary (note 10)	-	-	205,597	-	-	896,403	1,102,000
As at February 28, 2019	694,688,705	\$ 52,785,783	\$ 1,990,556	\$ (8,296,440)	\$ 46,479,899	\$ 762,794	\$ 47,242,693

Cannara Biotech (Ops) Inc. was incorporated on February 21, 2018 and did not have any activities between February 21, 2108 and February 28, 2018.

See accompanying notes to condensed interim consolidated financial statements.

# CANNARA BIOTECH INC.

## Condensed Interim Consolidated Statement of Cash Flows

Three and six month periods ended February 28, 2019  
(Unaudited)

	Three month period ended February 28, 2019	Six month period ended February 28, 2019
Cash provided by (used in):		
Operating:		
Net loss and comprehensive loss	\$ (4,011,926)	\$ (6,317,152)
Items not involving cash:		
Amortization of property, plant and equipment (note 5)	103,649	207,063
Amortization of right-of-use asset (note 6)	35,313	59,960
Interest on lease liability	33,280	58,827
Share-based compensation (note 12)	421,613	560,686
Amortization of mortgage financing costs (note 11)	3,636	7,098
Listing expense related to the reverse acquisition of Dunbar Capital Corp. (note 4)	1,701,282	1,701,282
Net change in non-cash operating working capital items:		
Accounts receivable	365,547	88,283
Sales tax receivable	(187,679)	(1,104,209)
Accounts payable and accrued liabilities	(566,886)	710,195
	(2,102,171)	(4,027,967)
Financing:		
Issuance of common shares	37,375,268	37,375,268
Warrants exercised	86,800	86,800
Share issuance costs (note 6)	(2,019,670)	(2,019,670)
Deferred share issuance costs	270,006	(23,937)
Issuance of shares by a subsidiary	1,102,000	1,102,000
Lease payments	(58,087)	(100,530)
	36,756,317	36,419,931
Investing:		
Acquisitions of property, plant and equipment (note 5)	(4,292,889)	(8,663,691)
Acquisition of intangible assets (note 7)	(66,556)	(66,556)
Deposits	(512,346)	(630,902)
	(4,871,791)	(9,361,149)
Net change in cash	29,782,355	23,030,815
Cash acquired from reversed acquisition of Dunbar Capital Corp.	11,058	11,058
Cash, beginning of period	6,148,132	12,899,672
Cash, end of period	\$ 35,941,545	\$ 35,941,545
Supplemental information to the statement of cash flows:		
Interest paid	\$ 578,676	\$ 692,140
Interest received	198,821	258,784
Property, plant and equipment included in accounts payable and accrued liabilities	812,951	1,903,007
New right-of-use asset and lease liability	282,679	282,679
Share issuance costs settled in shares	270,000	270,000

Cannara Biotech (Ops) Inc. was incorporated on February 21, 2018 and did not have any activities between February 21, 2018 and February 28, 2018.

See accompanying notes to condensed interim consolidated financial statements.

# CANNARA BIOTECH INC.

## Notes to Condensed Interim Consolidated Financial Statements

Three and six month periods ended February 28, 2019  
(Unaudited)

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### 1. Reporting entity:

Cannara Biotech Inc. (formerly Dunbar Capital Corp.) (hereafter the "Company" or "Cannara") is a development stage company whose principal business activities will be to develop and commercialize a variety of cannabis-infused medical and recreational products and flowers through its wholly-owned subsidiary, Cannara Biotech (Ops) Inc. (hereafter "Cannara Ops"). The Company will cultivate inside a recently purchased, modern and secure 625,000 square foot facility, and plans to offer its product to consumers throughout Canada and international markets. The Company is domiciled in Canada and was incorporated under the laws of British Columbia on October 19, 2017. Its head office is located at 333 Décarie, Suite 200, Ville St-Laurent, Québec, H4N 3M9.

Cannara has not generated any product revenues from its planned principal business activities to date. The Company has incurred net losses of approximately \$6.3 million during the six month period ended February 28, 2019 and has a deficit of approximately \$8.3 million as at February 28, 2019. The Company expects that its existing cash resources as at February 28, 2019 will enable it to fund its planned operating expenses for at least the next twelve months from February 28, 2019.

The Company expects to incur continued operating losses for the foreseeable future. Until such time as significant revenue from product sales is generated, the Company expects to finance its operations through a combination of public or private equity, debt financings or other sources, which may include collaborations with third parties. The ability of the Company to ultimately achieve future profitable operations is dependent upon the successful development of its product pipeline, obtaining regulatory approvals, and the successful sale and commercialization of its products.

The details of the Company's subsidiaries are presented in Note 10.

### 2. Basis of preparation and significant accounting policies:

#### (a) Statement of compliance and basis of preparation:

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). These condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issuance on April 29, 2019.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and six month periods ended February 28, 2019  
(Unaudited)

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## 2. Basis of preparation and significant accounting policies (continued):

### (b) Basis of preparation:

The condensed interim consolidated financial statements were prepared using the same accounting policies as set forth in Notes 1 and 2 in the audited financial statements of the Company for the year ended August 31, 2018 except as described in Note 3. These condensed interim consolidated financial statements do not include all the notes required in annual financial statements. Therefore, these condensed interim financial statements should be read in conjunction with the audited financial statements and notes thereto of the Company for the year ended August 31, 2018.

The preparation of the Company's condensed interim consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of expenditures, assets and liabilities. Actual results could differ from those estimates.

On an ongoing basis, estimates and judgements are evaluated. The Company bases its estimates on the most probable set of economic conditions and planned course of action, historical experience, known trends and events, and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Uncertainty about these assumptions and estimates could result in outcome that requires material adjustments to the carrying amount of the asset or liability affected in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which these estimates are revised and in any future periods affected.

The critical accounting judgements and key sources of estimate uncertainty are consistent with those in the audited consolidated financial statements and notes thereto to the Company for the year ended August 31, 2018. New critical accounting estimates for the period ended February 28, 2019 include the amount recognized as an intangible asset and its useful life.



# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and six month periods ended February 28, 2019  
(Unaudited)

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### 3. Newly adopted accounting policies:

(a) Basis of consolidation:

(i) Subsidiaries:

The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which the control ceases. Subsidiaries are entities controlled by the Company. The company controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those through its power over the entity. The accounting policies of the subsidiary are changed when necessary to align them with the policies adopted by the Company.

All intercompany balances and transactions, revenue and expenses resulting from transactions between subsidiaries and with the Company are eliminated when preparing the consolidated financial statements.

(ii) Non-controlling interest:

Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Adjustments to non-controlling interests are based on a proportionate share of the identifiable net assets of the subsidiary.

(b) Intangible assets:

(i) Recognition and measurement:

Capitalized intangibles relate to website costs and are measured at cost less accumulated amortization and accumulated impairment losses. Internal and external expenditures related to the development of websites are recognised as an asset only if the Company can demonstrate the technical feasibility to complete the development of the website, its intention and the availability of resources to complete the development and to use the website, and its ability to use the website in a manner that will generate probable future economic benefits and to measure the expenditures reliably. Subsequent costs related to the development of the websites are capitalized only when it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditures, including costs incurred during the planning stage (pre-development) and costs of developing content for advertising and promotional purposes, are recognized in the statement of loss as incurred.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and six month periods ended February 28, 2019  
(Unaudited)

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### 3. Newly adopted accounting policies (continued):

(b) Intangible assets (continued):

(ii) Amortization:

Amortization is calculated to write off the cost of intangible assets over the estimated useful lives, and is recognized in the interim consolidated statement of net loss and comprehensive loss. The website is assumed to have no residual value. The estimated useful life of the website is 3 years and will be amortized using the straight-line method. As at February 28, 2019, the website is still in the development stage and will commence to be amortized once it is substantially complete and ready for use. The useful life and amortization method is reviewed at each reporting date and adjusted if appropriate.

### 4. Reverse acquisition of Dunbar Capital Corp. by Cannara Biotech (Ops) Inc.:

On October 17, 2018, Cannara Ops signed an agreement with Dunbar Capital Corp. ("Dunbar") whereby Dunbar will acquire from the shareholders of Cannara Ops 100% of the issued and outstanding shares of Cannara Ops for an equivalent number of Dunbar common shares at a deemed price of \$0.18 per common share. The final business combination took effect on December 31, 2018.

As the shareholders of Cannara Ops gained voting control of Dunbar pursuant to the issuance of Dunbar common shares to the shareholders of Cannara Ops, representing a significant majority interest, Cannara Ops is determined to be the accounting acquirer and, consequently, the transaction has been accounted for as a reverse acquisition of Dunbar by Cannara Ops. As Dunbar does not meet the definition of a business, the transaction is accounted for as a reverse acquisition of net assets, pursuant to IFRS 2, *Share-based payment*.

The acquisition-date fair value of the consideration transferred by the accounting acquirer, Cannara Ops, for its interest in the accounting acquiree, Dunbar, of \$1,712,340, was determined based on the fair value of the equity interest Cannara Ops would have had to give to the owners of Dunbar, before the reverse acquisition, to provide the same percentage equity interest in the combined entity that results from the reverse acquisition, and is recorded as an increase in common shares in the consolidated statement of financial position.

As the fair value of Dunbar's identifiable net assets at the reverse acquisition date was \$11,058, the excess of the consideration transferred over the net assets acquired of \$1,701,282 is reflected as a listing expense related to the reverse acquisition of Dunbar in the condensed interim consolidated statements of net loss and comprehensive loss.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and six month periods ended February 28, 2019  
(Unaudited)

## 4. Reverse acquisition of Dunbar Capital Corp. by Cannara Biotech (Ops) Inc. (continued):

The following table provides a breakdown of the expenses incurred in connection with the reverse acquisition of Dunbar by Cannara Ops for the period ended February 28, 2019:

Consideration transferred for Dunbar excess of net assets acquired	\$	1,701,282
Professional fees		164,062
Exchange and listing fees		9,899
<hr/>		
Listing expense related to the reverse acquisition of Dunbar	\$	1,875,243

Financing costs, consisting of legal and other advisory costs in the amount of \$173,961, were allocated to the listing of the Company's common shares existing immediately prior to the reverse acquisition and were expensed as incurred as part of the reverse acquisition of Dunbar Capital Corp. Financing costs, consisting of legal and other advisory costs in the amount of \$342,832, were allocated to new share capital issued in conjunction with the reverse acquisition and are reflected as share issuance costs as a reduction of the share capital, along with investment banking costs of \$1,946,838.

## 5. Property, plant and equipment:

	Land	Buildings	Computer equipment	Furniture and fixtures	Construction in progress	Total
<b>Cost</b>						
Balance as at						
August 31, 2018	\$ 1,032,940	\$ 11,700,895	\$ 36,752	\$ 57,595	\$ 612,690	\$ 13,440,872
Additions	-	30,816	-	-	10,535,882	10,566,698
Balance as at						
February 28, 2019	\$ 1,032,940	\$ 11,731,711	\$ 36,752	\$ 57,595	\$ 11,148,572	\$ 24,007,570
<b>Accumulated depreciation</b>						
Balance as at						
August 31, 2018	\$ -	\$ (80,076)	\$ (2,552)	\$ (2,400)	\$ -	\$ (85,028)
Amortization	-	(195,264)	(6,040)	(5,759)	-	(207,063)
Balance as at						
February 28, 2019	\$ -	\$ (275,340)	\$ (8,592)	\$ (8,159)	\$ -	\$ (292,091)
<b>Net book value</b>						
Balance as at						
August 31, 2018	\$ 1,032,940	\$ 11,620,819	\$ 34,200	\$ 55,195	\$ 612,690	\$ 13,355,844
Balance as at						
February 28, 2019	1,032,940	11,456,371	28,160	49,436	11,148,572	23,715,479

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and six month periods ended February 28, 2019  
(Unaudited)

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## 5. Property, plant and equipment (continued):

There are approximately \$2.2 million of deposits for property, plant and equipment purchased but for which the Company has yet to receive control over the assets. These amounts, which have been included in the "Deposits" caption on the condensed Interim Consolidated Statement of Financial Position, will be included in property, plant and equipment when control of the related asset is transferred to the Company.

Construction in progress relates to costs incurred for the phase one build out of the Company's 625,000 square foot facility. The construction is expected to be completed within the third quarter of calendar year 2019. The Company has no commitments related to the build-out of their facility.

## 6. Right-of-use asset and lease liability:

Right-of-use asset:

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<b>Cost</b>	
Balance as at August 31, 2018	\$ 492,932
Additions	282,679
Balance as at February 28, 2019	\$ 775,611
<b>Accumulated depreciation</b>	
Balance as at August 31, 2018	\$ (24,647)
Amortization	(59,960)
Balance as at February 28, 2019	\$ (84,607)
<b>Net book value</b>	
Balance as at August 31, 2018	\$ 468,285
Balance as at February 28, 2019	691,004

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# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and six month periods ended February 28, 2019  
(Unaudited)

## 6. Right-of-use asset and lease liability (continued):

Lease liability:

	February 28, 2019	August 31, 2018
Maturity analysis - contractual undiscounted cash flows:		
Less than one year	\$ 262,436	\$ 169,772
One to five years	867,174	636,647
<b>Total undiscounted lease liability</b>	<b>\$ 1,129,610</b>	<b>\$ 806,419</b>
Current	\$ 118,253	\$ 72,651
Non-current	640,645	445,271
<b>Lease liability included in the statement of financial position</b>	<b>\$ 758,899</b>	<b>\$ 517,922</b>

## 7. Intangible assets:

	Website in development
Net carrying value, August 31, 2018	\$ -
Additions	66,556
Amortization	-
<b>Net carrying value, February 28, 2019</b>	<b>\$ 66,556</b>

The intangible asset relates to the development of a website, [www.shopCBD.com](http://www.shopCBD.com), which will be an online e-commerce website for the purpose of selling hemp-based CBD products directly to customers in the United States.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and six month periods ended February 28, 2019  
(Unaudited)

## 8. Mortgage payable:

	February 28, 2019	August 31, 2018
Mortgage payable, bearing interest at 11% per annum due monthly, repayable entirely in a lump sum on April 6, 2021 <sup>(i)</sup>	\$ 12,550,000	\$ 12,550,000
Less: unamortized financing costs	34,182	41,280
	<u>\$ 12,515,818</u>	<u>\$ 12,508,720</u>

<sup>(i)</sup> The mortgage is secured by a first ranking hypothec on the land and building and by an additional hypothec equal to 20% of the balance of purchase of the land and building.

## 9. Share capital:

(a) Authorized:

The Company has an unlimited number of voting and participating common shares.

(b) Issued and outstanding common shares:

	February 28, 2019		August 31, 2018	
	Number of shares	Amount	Number of shares	Amount
Class A shares	–	\$ –	15,000	\$ 15
Class B shares	–	–	476,652,330	15,853,953
Common shares	694,688,705	52,785,783	–	–
Balance	<u>694,688,705</u>	<u>\$ 52,785,783</u>	<u>476,667,330</u>	<u>\$ 15,853,968</u>

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and six month periods ended February 28, 2019  
(Unaudited)

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## 9. Share capital (continued):

### (b) Issued and outstanding common shares (continued):

On October 12, 2018, October 19, 2018, and November 28 2018, the Company issued a total of 207,640,375 subscription receipts at a price of \$0.18 per subscription receipt on a private placement basis, with each subscription receipt representing the right to receive one common share without payment of additional consideration, subject to certain conditions, which include the successful listing of the Company on the Canadian Securities Exchange. On January 14, 2019, the Company had met all the conditions and the Company issued 207,640,375 common shares in exchange for cash consideration of \$37,375,268. Furthermore, 9,513,000 common shares, having an estimated fair value of \$1,712,340, were deemed to be issued to the equity owners of Dunbar prior to the reverse acquisition.

On December 31, 2018, as a result of the reverse acquisition as described in Note 4, the Company's Class A and Class B shares common shares were converted to ordinary common shares.

During the three and six month period ended February 28, 2019, 868,000 warrants were exercised at a price of \$0.10 per warrant for an aggregate consideration of \$86,800.

## 10. Subsidiaries and non-controlling interest (NCI):

The table below provides details of subsidiaries of the Company:

	Principal place of business	Ownership interest as at February 28, 2019
Cannara Biotech (Ops) Inc.	Canada	100%
Global shopCBD.com Inc.	Canada	72.6%

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and six month periods ended February 28, 2019  
(Unaudited)

## 10. Subsidiaries and non-controlling interest (NCI) (continued):

### NCI in subsidiary

The following table summarizes the information about the Company's subsidiaries that have NCI, before any intragroup eliminations:

<b>As at February 28, 2019</b>	<b>Global ShopCBD.com</b>
NCI percentage	27.40%
Cash and cash equivalents	\$ 3,270,000
Restricted cash - share subscription agreements	5,727,650
Intangible asset	66,556
Deferred share issuance costs	23,937
Accounts payable and accrued liabilities	(255,322)
Liabilities from share subscription agreements	(5,727,650)
Loans from parent company	(322,565)
Net assets	2,782,606
Carrying amount of NCI	\$ 762,794
Expenses	\$ 487,394
Net loss and comprehensive loss	\$ 487,394
Loss allocated to NCI	\$ 133,609
Cash flows from operating activities	\$ -
Cash flows from financing activities	3,270,000
Cash flows from investing activities	-
Net increase in cash and cash equivalents	\$ 3,270,000

On February 20, 2019, Global shopCBD.com Inc. issued a total of 50,000,000 common shares to Cannara Ops for gross proceeds of \$250,000.

On February 22, 2019, Global shopCBD.com Inc. issued a total of 95,900,000 common shares to Cannara Ops for gross proceeds of \$1,918,000. In addition, 50,000,000 common shares were issued to a company controlled by a member of key management for proceeds of \$1,000,000 and 5,100,000 common shares were issued to other investors for gross proceeds of \$102,000.



# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and six month periods ended February 28, 2019  
(Unaudited)

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## 10. Subsidiaries and non-controlling interest (NCI) (continued):

During the six month period ended February 28, 2019, the Company's subsidiary, Global shopCBD.com, entered into share subscription agreements to issue 38,184,334 common shares at a price of \$0.15 per common share on a private placement basis to third parties that include shareholders of Cannara, with each share subscription agreement representing the right to receive common shares without payment of additional consideration subject to certain terms and conditions. On March 11, 2019, the Company fulfilled the terms and conditions and issued 37,285,660 common shares resulting in the Company's ownership interest decreasing to 61.2% from 72.6% as at February 28, 2019.

As at February 28, 2019, the proceeds from the issuance of share subscription agreements were held in escrow. The restricted account is included in "Restricted cash - share subscription agreements issued by a subsidiary" with a corresponding liability on the condensed interim consolidated statement of financial position. Included in these accounts is \$131,800 of cash that was subsequently returned to investors. As the funds were not received by the Company, they are not presented on the statement of cash flows.

## 11. Net finance expense:

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	Three month period ended February 28, 2019	Six month period ended February 28, 2019
Interest on mortgage payable	\$ 341,090	\$ 685,270
Amortization of mortgage financing costs	3,636	7,098
Interest on lease liability	33,280	58,827
Finance expense	378,006	751,195
Interest income	198,822	258,785
Net finance expense	\$ 179,184	\$ 492,410

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## 12. Share-based compensation:

The Company has established a share option plan whereby certain personnel may be granted options to acquire shares under the terms of the employee share option plan or shares may be granted to third parties in exchange for services. The number and characteristics of share options granted under the employee share option plan are determined by the Board of Directors of the Company but cannot exceed 10% of the outstanding balance of shares issued. The characteristics of share options granted to third parties for services are determined on a case-by-case basis.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and six month periods ended February 28, 2019  
(Unaudited)

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## 12. Share-based compensation (continued):

The share options granted under the employee share option plan vest 25% after the first anniversary of the grant date with the remainder vesting in 36 monthly consecutive equal installments and expire five years from the date of issue. The plan provides for the issuance of common shares at an exercise price determined by the Board of Directors which is not lower than the fair value of the common shares on the grant date.

Outstanding options under the plan are granted with service requirements (or service conditions) and become exercisable upon vesting.

The share options granted to third parties for services have vesting terms determined on a case-by-case basis.

The activity of outstanding share options for the six month period ended February 28, 2019 was as follows:

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	Number	Weighted average exercise price
Outstanding, beginning of period	13,000,001	\$ 0.10
Granted on September 4, 2018	2,777,778	0.18
Granted on December 17, 2018	13,497,645	0.18
Outstanding, end of period	29,275,424	\$ 0.1445
Exercisable, end the period	3,227,778	\$ 0.18

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The share options granted on September 4, 2018 vested immediately upon issuance and were granted to a third party for services performed related to the reverse acquisition.

The share options granted on December 17, 2018 included 450,000 options that vested immediately upon issuance and 13,047,645 options that vest based on the employee share option plan.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and six month periods ended February 28, 2019  
(Unaudited)

## 12. Share-based compensation (continued):

The estimated fair value of the share options at the grant date was measured using the Black-Scholes option pricing model and used the following inputs and assumptions:

Granted	September 4, 2018	December 17, 2018
Share price	\$ 0.18	\$ 0.18
Exercise price	\$ 0.18	\$ 0.18
Risk-free interest rate	1.88%	1.93%
Expected life	2 years	2-5 years
Expected price volatility of the Company's shares	103%	103%
Fair value of the option	\$ 0.0976	\$ 0.0977-0.1372

The share price was based on the subscription receipts price of \$0.18 per subscription right.

The risk-free interest rate was based on the Bank of Canada rates in effect at grant date for time periods approximately equal to the expected life of the option.

The expected life of the options reflects the assumption of future exercise patterns that may occur.

Expected price volatility was estimated based on historical volatility of comparable publicly traded companies in a similar industry.

The expected dividend yield has been estimated at nil as the Company has never paid cash dividends and does not expect to do so in the foreseeable future.

During the three month and six month period ended February 28, 2018, the Company recorded a share-based compensation expense of \$421,613 and \$490,897 respectively with a corresponding increase in contributed surplus.

During the three month and six month periods ended February 28, 2018, the company recorded Nil and \$270,000, respectively, of share-based compensation granted to a third party related to the Company's reverse acquisition. These share issuance costs were applied against share capital once the subscription receipts were exercised on January 14, 2019 to obtain the common shares.

In addition, the Company granted 4,172,645 options to a third party on December 17, 2018 and recorded a share-based compensation expense of \$69,789 with a corresponding increase in contributed surplus.

All options are anti-dilutive.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and six month periods ended February 28, 2019  
(Unaudited)

## 13. Warrants:

Outstanding warrants were issued as part of services received related to issuance of common shares. The warrants become exercisable immediately upon issuance and expire on the second anniversary after the date of issuance.

As at February 28, 2019, the Company has the following warrants outstanding with the corresponding exercise price:

	Number	Exercise price
Outstanding, beginning of period	15,898,710	\$ 0.10
Exercised	868,000	0.10
Outstanding, end of period	15,030,710	\$ 0.10
Exercisable, end of period	15,030,710	\$ 0.10

The warrants expire between June 20, 2020 and July 12, 2020.

## 14. Financial instruments:

Fair value measurements

The fair value of cash and cash equivalents, restricted cash-subscription agreements issued by a subsidiary, sales tax receivable, accounts receivable, accounts payable and accrued liabilities and liability for share subscription agreements issued by a subsidiary approximates their carrying amounts due to the short-term maturity of those instruments.

The fair value of mortgage payable and lease liability approximates the carrying amounts, as the interest rate approximates the current market rate.

## 15. Segment disclosures:

The Company has a single operating segment being cannabis-infused medical and recreational products and flowers.

For the six month period ended February 28, 2019, ancillary lease revenues, lease operating costs and allocated amortization of property, plant and equipment totaled \$1,036,881, \$134,373 and \$149,085, respectively. Income is generated from customers domiciled in Canada. The Company's non-current assets are located in Canada.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and six month periods ended February 28, 2019  
(Unaudited)

## 15. Segment disclosures (continued):

### *Significant sources of revenue*

During the period ended February 28, 2019, the Company realized 100% of its lease revenue from two lessees. Tenant A's initial lease term is until September 30, 2022. Lease revenues from this tenant for the remainder of the year ending August 31, 2019 will be approximately \$138,500. Tenant B's lease term is until May 31, 2019. Lease revenues from this tenant will be approximately \$449,000 until May 31, 2019.

## 16. Related parties:

Related parties include entities related by virtue of key management personnel exercising significant influence or control over the entities' financial and operating policies.

The following provides the transaction amounts by nature with related parties:

	Three month period ended February 28, 2019	Six month period ended February 28, 2019
Nature of transactions:		
Management fees <sup>(i)</sup>	\$ 109,499	\$ 191,163
Interest on mortgage payable <sup>(i)</sup>	341,090	685,270
	<b>\$ 450,589</b>	<b>\$ 876,433</b>

	As at February 28, 2019	As at August 31, 2018
Balances with related parties are as follows:		
Receivables <sup>(i)</sup>	\$ 85,602	\$ 497,202
Payables <sup>(i)</sup>	(237,134)	(318,816)
Payable to shareholder	(231,384)	(78,012)
Payable to key management personnel	(49,019)	(9,886)
Payable to a Board member	-	(56,000)
Mortgage payable <sup>(i)</sup>	(12,550,000)	(12,550,000)

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and six month periods ended February 28, 2019  
(Unaudited)

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## 16. Related parties (continued):

- (i) These related party transactions and balances are with an entity who has a shareholder that is also a director on the Company's Board of Directors.

Related party transactions have been recorded at the exchange amount, which is the amount agreed to and established by the related parties.

## 17. Subsequent events:

On March 21, 2019, 82,000 warrants were exercised at \$0.10 per warrant for an aggregate consideration of \$8,200.

On March 11, 2019, Global shopCBD.com Inc. successfully closed on its subscription agreements and issued a total of 38,285,660 common shares for gross proceeds of \$5,592,849.

On March 5, 2019, Global shopCBD.com Inc. incorporated a wholly-owned subsidiary in California called ShopCBD.com Inc.