

Condensed Interim Consolidated Financial Statements of

**CANNARA BIOTECH INC.**

(formerly known as Dunbar Capital Corp.)

Three and nine month periods ended May 31, 2019

(Unaudited)

# CANNARA BIOTECH INC.

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(Unaudited)

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# CANNARA BIOTECH INC.

## Condensed Interim Consolidated Statement of Financial Position

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

	May 31, 2019	August 31, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 30,874,854	\$ 12,899,672
Accounts receivable	191,228	219,938
Sales tax receivable	1,467,665	365,108
Prepaid expenses	137,976	-
	<u>32,671,723</u>	<u>13,484,718</u>
Deposits (note 5)	2,391,080	1,551,451
Property, plant and equipment (note 5)	31,888,833	13,355,844
Right-of-use asset (note 6)	650,357	468,285
Intangible asset (note 7)	189,701	-
	<u>\$ 67,791,694</u>	<u>\$ 28,860,298</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,112,676	\$ 1,091,235
Current portion of lease liability (note 6)	128,060	72,651
	<u>4,240,736</u>	<u>1,163,886</u>
Mortgage payable (note 8)	12,519,639	12,508,720
Lease liability (note 6)	602,837	445,271
	<u>17,363,212</u>	<u>14,117,877</u>
Shareholders' equity:		
Share capital (note 9)	52,773,114	15,853,968
Contributed surplus	5,478,653	1,001,350
Deficit	(10,850,756)	(2,112,897)
Accumulated other comprehensive income	1,557	-
	<u>47,402,568</u>	<u>14,742,421</u>
Equity attributable to the shareholders of the Company		
Non-controlling interest (note 10)	3,025,914	-
	<u>50,428,482</u>	<u>14,742,421</u>
Total equity		
Subsequent event (note 17)		
	<u>\$ 67,791,694</u>	<u>\$ 28,860,298</u>

See accompanying notes to condensed interim consolidated financial statements.

# CANNARA BIOTECH INC.

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

Three and nine month periods ended May 31, 2019  
(Unaudited)

	Three month period ended May 31, 2019	Nine month period ended May 31, 2019
Lease revenues	\$ 506,785	\$ 1,543,666
Lease operating costs	221,157	355,531
Operating expenses:		
General and administrative	461,333	1,137,025
Investor relations	104,978	203,022
Marketing costs	34,650	502,349
Professional fees	1,052,434	2,554,469
Salaries and benefits	686,839	1,967,666
Share-based compensation	430,224	990,910
Amortization of property, plant and equipment (note 5)	109,782	316,845
Amortization of right-of-use asset (note 6)	40,647	100,607
	2,920,887	7,772,893
Operating loss	(2,635,259)	(6,584,758)
Listing expense related to the reverse acquisition of Dunbar Capital Corp. (note 4)	-	1,875,243
Net finance expense (note 11)	187,416	679,826
Loss before income taxes	(2,822,675)	(9,139,827)
Income tax expense	-	-
Net loss	(2,822,675)	(9,139,827)
Other comprehensive income:		
Foreign currency translation adjustment	2,507	2,507
Total comprehensive loss	\$ (2,820,168)	\$ (9,137,320)
<b>Net loss attributable to:</b>		
Shareholders of the Company	\$ (2,554,316)	\$ (8,737,859)
Non-controlling interest	(268,359)	(401,968)
	\$ (2,822,675)	\$ (9,139,827)
<b>Total comprehensive loss attributable to:</b>		
Shareholders of the Company	\$ (2,552,759)	\$ (8,736,302)
Non-controlling interest	(267,409)	(401,018)
	\$ (2,820,168)	\$ (9,137,320)
Basic and diluted loss per share	\$ 0.01	\$ 0.02
Weighted average number of outstanding basic and diluted shares	694,751,307	586,543,983

Cannara Biotech (Ops) Inc. was incorporated on February 21, 2018 and did not have any significant activities between February 21, 2018 and May 31, 2018.

See accompanying notes to condensed interim consolidated financial statements.

# CANNARA BIOTECH INC.

## Condensed Interim Consolidated Statement of Changes in Equity

Nine month periods ended May 31, 2019  
(Unaudited)

	Attributable to the shareholders of the Company						Non-controlling interest	Total equity
	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income	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	-	-	-	(8,737,859)	-	(8,737,859)	(401,968)	(9,139,827)
Foreign currency translation adjustment	-	-	-	-	1,557	1,557	950	2,507
Comprehensive income (loss)	-	-	-	-	1,557	(8,736,302)	(401,018)	(9,137,320)
Share-based compensation (note 12):								
Employee compensation	-	-	836,830	-	-	836,830	-	836,830
Other services	-	-	424,080	-	-	424,080	-	424,080
	-	-	1,260,910	-	-	1,260,910	-	1,260,910
<b>Transaction with shareholders of the Company:</b>								
Warrants exercised	950,000	146,524	(51,524)	-	-	95,000	-	95,000
Subscription receipts exercised (note 9)	207,640,375	37,375,268	-	-	-	37,375,268	-	37,375,268
Share issuance costs (notes 4 and 10)	-	(2,314,986)	-	-	-	(2,314,986)	-	(2,314,986)
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)	-	-	3,267,917	-	-	3,267,917	3,426,932	6,694,849
As at May 31, 2019	694,770,705	\$ 52,773,114	\$ 5,478,653	\$ (10,850,756)	\$ 1,557	\$ 47,402,568	\$ 3,025,914	\$ 50,428,482

Cannara Biotech (Ops) Inc. was incorporated on February 21, 2018 and did not have any activities between February 21, 2018 and May 31, 2018.

See accompanying notes to condensed interim consolidated financial statements.

# CANNARA BIOTECH INC.

## Condensed Interim Consolidated Statement of Cash Flows

Three and nine month periods ended May 31, 2019  
(Unaudited)

	Three month period ended May 31, 2019	Nine month period ended May 31, 2019
Cash provided by (used in):		
Operating:		
Net loss	\$ (2,822,675)	\$ (9,139,827)
Items not involving cash:		
Amortization of property, plant and equipment (note 5)	109,782	316,845
Amortization of right-of-use asset (note 6)	40,647	100,607
Interest on lease liability	37,409	96,236
Share-based compensation (note 12)	430,224	990,910
Amortization of mortgage financing costs (note 11)	3,821	10,919
Listing expense related to the reverse acquisition of Dunbar Capital Corp. (note 4)	-	1,701,282
Net change in non-cash operating working capital items:		
Accounts receivable	(59,573)	28,710
Sales tax receivable	44,177	(1,102,557)
Deposits and prepaid expenses	1,652	44,177
Accounts payable and accrued liabilities	(674,683)	35,512
	(2,889,219)	(6,917,186)
Financing:		
Issuance of common shares	-	37,375,268
Warrants exercised	8,200	95,000
Share issuance costs (note 10)	(25,316)	(2,044,986)
Deferred share issuance costs	23,937	-
Issuance of shares by a subsidiary	5,592,849	6,694,849
Lease payments	(65,410)	(165,940)
	5,534,260	41,954,191
Investing:		
Acquisitions of property, plant and equipment (note 5)	(7,200,214)	(15,863,905)
Acquisition of intangible assets (note 7)	(123,145)	(189,701)
Deposits on property, plant and equipment (note 5)	(390,880)	(1,021,782)
	(7,714,239)	(17,075,388)
Net change in cash	(5,069,198)	17,961,617
Effect of foreign exchange on cash	2,507	2,507
Cash acquired from reverse acquisition of Dunbar Capital Corp.	-	11,058
Cash, beginning of period	35,941,545	12,899,672
Cash, end of period	\$ 30,874,854	\$ 30,874,854
Supplemental information to the statement of cash flows:		
Interest paid	\$ 336,615	\$ 1,028,755
Interest received	201,979	460,764
Property, plant and equipment included in accounts payable and accrued liabilities	1,082,922	2,985,929
Additions to right-of-use asset and lease liability	-	282,679
Share issuance costs settled in shares	-	270,000

Cannara Biotech (Ops) Inc. was incorporated on February 21, 2018 and did not have any activities between February 21, 2018 and May 31, 2018.

See accompanying notes to condensed interim consolidated financial statements.

# CANNARA BIOTECH INC.

## Notes to Condensed Interim Consolidated Financial Statements

Three and nine month periods ended May 31, 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 products 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 \$9.1 million during the nine month period ended May 31, 2019 and has a deficit of approximately \$10.9 million as at May 31, 2019. The Company expects that its existing cash resources as at May 31, 2019 will enable it to fund its planned operating expenses for at least the next twelve months from May 31, 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.

### 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 July 24, 2019.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and nine month periods ended May 31, 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 judgments, 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 judgments 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 judgments 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 judgments 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 May 31, 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 nine month periods ended May 31, 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.

(iii) Foreign operations:

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

These condensed interim consolidated financial statements comprise the financial position and performance of the following subsidiaries with their respective functional currencies:

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Subsidiaries	Functional currency
Cannara Biotech (Ops) Inc.	Canadian dollar
Global shopCBD.com Inc. (subsidiary of Cannara Biotech (Ops) Inc.)	Canadian dollar
ShopCBD.com (subsidiary of Global shopCBD.com Inc.)	United States dollar

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The assets and liabilities of foreign operations, are translated to Canadian dollars at exchange rate in effect at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates in effect at the dates of the transactions.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and nine month periods ended May 31, 2019  
(Unaudited)

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

(a) Basis of consolidation (continued):

(iii) Foreign operations (continued):

Foreign currency differences are recognized in other comprehensive income (loss) and presented in the cumulative translation adjustment account in equity. However, if the foreign operation is a non wholly-owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation adjustment account related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Company disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Company disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence of joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the cumulative translation adjustment account in equity.

(iv) Foreign currency transaction:

Transactions denominated in foreign currencies are translated to the respective functional currencies of the Company's entities at subsidiaries rates in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate prevailing at that date.

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate in effect at the end of the year.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and nine month periods ended May 31, 2019  
(Unaudited)

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

(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.

(ii) Amortization:

Amortization is calculated to write off the cost of intangible assets over the estimated useful lives, and is recognized in the condensed 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 May 31, 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 are reviewed at each reporting date and adjusted if appropriate.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and nine month periods ended May 31, 2019  
(Unaudited)

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#### 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 condensed interim 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 statement of net loss and comprehensive loss.

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 May 31, 2019:

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

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# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and nine month periods ended May 31, 2019  
(Unaudited)

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

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 resulting in a reduction of share capital, along with investment banking costs of \$1,948,216.

#### 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	72,023	209,542	16,631	11,170	18,540,468	18,849,834
Balance as at May 31, 2019	\$ 1,104,963	\$ 11,910,437	\$ 53,383	\$ 68,765	\$ 19,153,158	\$ 32,290,706
<b>Accumulated depreciation</b>						
Balance as at August 31, 2018	\$ -	\$ (80,076)	\$ (2,552)	\$ (2,400)	\$ -	\$ (85,028)
Amortization	-	(298,276)	(9,033)	(9,536)	-	(316,845)
Balance as at May 31, 2019	\$ -	\$ (378,352)	\$ (11,585)	\$ (11,936)	\$ -	\$ (401,873)
<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 May 31, 2019	1,104,963	11,532,085	41,798	56,829	19,153,158	31,888,833

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and nine month periods ended May 31, 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 phased 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 its 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 May 31, 2019	<u>\$ 775,611</u>
<b>Accumulated depreciation</b>	
Balance as at August 31, 2018	\$ (24,647)
Amortization	(100,607)
Balance as at May 31, 2019	<u>\$ (125,254)</u>
<b>Net book value</b>	
Balance as at August 31, 2018	\$ 468,285
Balance as at May 31, 2019	<u>650,357</u>

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# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and nine month periods ended May 31, 2019  
(Unaudited)

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

Lease liability:

	May 31, 2019	August 31, 2018
Maturity analysis - contractual undiscounted cash flows:		
Less than one year	\$ 262,436	\$ 169,772
One to five years	801,565	636,647
<b>Total undiscounted lease liability</b>	<b>\$ 1,064,001</b>	<b>\$ 806,419</b>
Current	\$ 128,060	\$ 72,651
Non-current	602,837	445,271
<b>Lease liability included in the statement of financial position</b>	<b>\$ 730,897</b>	<b>\$ 517,922</b>

## 7. Intangible asset:

	Website in development
Net carrying value, August 31, 2018	\$ —
Additions	189,701
Amortization	—
<b>Net carrying value, May 31, 2019</b>	<b>\$ 189,701</b>

The intangible asset relates to the development of a website, [www.shopCBD.com](http://www.shopCBD.com), which is currently being developed to be an online e-commerce platform focused on the retailing of U.S. hemp-based CBD products exclusively to customers in the United States. [www.shopCBD.com](http://www.shopCBD.com) is expected to launch in the fourth quarter of fiscal 2019.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and nine month periods ended May 31, 2019  
(Unaudited)

## 8. Mortgage payable:

	Mortgage Payable	
Net carrying value, August 31, 2018		\$ 12,508,720
Payments		–
Amortization of deferred financing costs		10,919
Net carrying value, May 31, 2019		\$ 12,519,639

  

	May 31, 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	30,361	41,280
	\$ 12,519,639	\$ 12,508,720

(i) 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:

	May 31, 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	694,770,705	52,773,114	–	–
Balance	694,770,705	\$ 52,773,114	476,667,330	\$ 15,853,968



# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and nine month periods ended May 31, 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 nine month period ended May 31, 2019, 82,000 and 950,000 warrants were exercised respectively at a price of \$0.10 per warrant for an aggregate consideration of \$8,200 and \$95,000 respectively.

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

The table below provides details of subsidiaries of the Company:

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	Principal place of business	Ownership interest as at May 31, 2019
Cannara Biotech (Ops) Inc.	Canada	100%
Global shopCBD.com Inc. (subsidiary of Cannara Biotech (Ops) Inc.)	Canada	61.23%
ShopCBD.com (Subsidiary of Global shopCBD.com Inc.)	United States	61.23%

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# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and nine month periods ended May 31, 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 May 31, 2019</b>	<b>Global ShopCBD.com (Consolidated)</b>
NCI percentage	38.77%
Cash and cash equivalents	\$ 8,301,507
Accounts receivable	8,370
Sales tax receivable	6,820
Prepaid expenses	89,603
Intangible asset	189,700
Accounts payable and accrued liabilities	(136,431)
Loans from parent company	(654,984)
Net assets	7,804,585
Carrying amount of NCI	\$ 3,025,914
Expenses	\$ 1,036,775
Net loss and comprehensive loss	\$ 1,036,775
Loss allocated to NCI	\$ 401,968
Cash flows from operating activities	\$ 1,162,863
Cash flows from financing activities	7,325,838
Cash flows from investing activities	(189,701)
Effect of foreign exchange on cash	2,507
Net increase in cash and cash equivalents	\$ 8,301,507

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 nine month periods ended May 31, 2019  
(Unaudited)

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

During February 2019, 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 included 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 Global shopCBD.com Inc. fulfilled the terms and conditions and issued 37,285,660 common shares for aggregate gross proceeds of \$5,592,849 resulting in the Company's ownership interest decreasing to 61.23% from 72.60% as at May 31, 2019. Any share subscription agreements that did not result in issuance of common shares were cancelled and related cash, if provided, was returned to the potential investors.

Financing costs, consisting of legal and other advisory costs, in the amount of \$23,938, were allocated to share capital in conjunction with the share financing in Global shop CBD.com.

## 11. Net finance expense:

	Three month period ended May 31, 2019	Nine month period ended May 31, 2019
Interest on mortgage payable	\$ 348,611	\$ 1,033,881
Amortization of mortgage financing costs	3,821	10,919
Interest on lease liability	37,409	96,236
Finance expense	389,841	1,141,036
Interest income	201,979	460,764
Foreign exchange gain	446	446
Net finance expense	\$ 187,416	\$ 679,826

## 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 nine month periods ended May 31, 2019  
(Unaudited)

## 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 nine month period ended May 31, 2019 was as follows:

	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
Granted on May 1, 2019	854,000	0.18
Outstanding, end of period	30,129,424	\$ 0.1455
Exercisable, end the period	3,327,778	\$ 0.18

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.

The share options granted on May 1, 2019 include 100,000 options that vested immediately upon issuance and 754,000 options that vest based on the employee share option plan.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three and nine month periods ended May 31, 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	May 1, 2019
Share price	\$ 0.18	\$ 0.18	\$ 0.18
Exercise price	\$ 0.18	\$ 0.18	\$ 0.18
Risk-free interest rate	1.88%	1.93%	1.48%
Expected life	2 years	2-5 years	5 years
Expected price volatility of the Company's shares	103%	103%	124.8%
Fair value of the option	\$ 0.0976	\$ 0.0977-0.1372	\$ 0.1517
Expected dividend yield	Nil	Nil	Nil

The share price, for options granted on September 4, 2018 and December 17, 2018, was based on the subscription receipts price of \$0.18 per subscription right. The share price for the options granted on May 1, 2019 were based on the market price on the grant date.

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 nine month periods ended May 31, 2019, the Company recorded a share-based compensation expense of \$430,224 and \$990,910, respectively, with a corresponding increase in contributed surplus.

During the three month and nine month periods ended May 31, 2019, 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 \$154,080 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 nine month periods ended May 31, 2019  
(Unaudited)

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## 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 May 31, 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	950,000	0.10
Outstanding, end of period	14,948,710	\$ 0.10
Exercisable, end of period	14,948,710	\$ 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, sales tax receivable, accounts receivable, prepaid expenses and accounts payable and accrued liabilities 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 currently evaluates its operations as one operating segment being cannabis and CBD products and dried flowers.

For the nine-month period ended May 31, 2019, ancillary lease revenues, lease operating costs and allocated amortization of property, plant and equipment totaled \$1,543,666, \$355,531 and \$159,184, 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 nine month periods ended May 31, 2019  
(Unaudited)

## 15. Segment disclosures (continued):

### *Significant sources of revenue*

During the period ended May 31, 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 ended August 31, 2019 will be approximately \$69,000. Tenant B's lease was renewed for an additional term which will expire on October 31, 2019. Lease revenues from this tenant will be approximately \$748,500 until October 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 May 31, 2019	Nine month period ended May 31, 2019
Nature of transactions:		
Management fees <sup>(i)</sup>	\$ 45,881	\$ 237,044
Interest on mortgage payable <sup>(i)</sup>	348,611	1,033,881
Key management salaries and benefits	215,385	694,231
Key management stock based compensation	271,020	684,604
Compensation to Board of Directors	39,823	83,772
	<b>\$ 920,720</b>	<b>\$ 2,733,532</b>

	As at May 31, 2019	As at August 31, 2018
Balances with related parties are as follows:		
Receivables <sup>(i)</sup>	\$ 5,090	\$ 497,202
Payables <sup>(i)</sup>	(241,630)	(318,816)
Payable to shareholder	-	(78,012)
Payable to key management personnel	(19,317)	(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 nine month periods ended May 31, 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 event:**

On July 20, 2019, the Company issued 12,000,000 common shares by way of a non-brokered private placement for aggregate gross proceeds of \$2,160,000.