

Condensed Interim Consolidated Financial Statements of

CANNARA BIOTECH INC.

Three-month periods ended November 30, 2019 and 2018
(Unaudited)

CANNARA BIOTECH INC.

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(Unaudited)

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CANNARA BIOTECH INC.

Condensed Interim Consolidated Statement of Financial Position

November 30, 2019 and August 31, 2019
(Unaudited)

	November 30, 2019	August 31, 2019
Assets		
Current assets:		
Cash	\$ 16,964,105	\$ 26,505,992
Restricted cash - subscription agreement issued by a subsidiary	-	211,000
Accounts receivable	334,141	146,113
Sales tax receivable	987,423	682,139
Inventory (note 3)	460,712	186,707
Prepaid expenses	161,131	96,304
	18,907,512	27,828,255
Deposits (note 4)	418,638	733,777
Property, plant and equipment (note 4)	41,583,568	38,650,377
Right-of-use asset (note 5)	636,190	609,709
Intangible asset (note 6)	330,295	281,020
	\$ 61,876,203	\$ 68,103,138
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,417,604	\$ 4,739,820
Current portion of lease liability (note 5)	179,784	139,807
Liabilities for subscription agreements issued by a subsidiary	-	211,000
Current portion of mortgage payable (note 7)	5,951,586	-
	7,548,974	5,090,627
Mortgage payable (note 7)	6,538,035	12,526,467
Lease liability (note 5)	552,556	557,528
	14,639,565	18,174,622
Shareholders' equity:		
Share capital	54,956,844	54,925,997
Contributed surplus	6,898,291	6,676,783
Deficit	(17,147,178)	(14,427,946)
Accumulated other comprehensive loss	(12,078)	(10,099)
Equity attributable to the shareholders of the Company	44,695,879	47,164,735
Non-controlling interest (note 8)	2,540,759	2,540,759
Total equity	47,236,638	49,928,516
Contingencies (note 13)		
	\$ 61,876,203	\$ 68,103,138

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-month periods ended November 30, 2019 and 2018
(Unaudited)

	Three-months period ended	
	November 30, 2019	November 30, 2018
Revenues:		
Product revenue	\$ 5,721	\$ –
Lease revenue	527,528	518,443
	533,249	518,443
Cost of revenues:		
Cost of goods sold	3,923	–
Lease operating costs	29,632	52,538
	33,555	52,538
Operating expenses:		
Salaries and benefits	914,186	741,767
Share-based compensation (note 10)	232,355	139,073
General and administrative	778,584	382,625
Investor relations	117,992	–
Marketing costs	216,180	275,475
Professional fees	430,041	790,904
Amortization of property, plant and equipment (note 4)	476,830	103,414
Amortization of right-of-use asset (note 5)	42,210	24,647
Amortization of intangible asset (note 6)	9,388	–
	3,217,766	2,457,905
Operating loss before undernoted item	(2,718,072)	(1,992,000)
Net finance expense (note 9)	222,928	313,226
Net loss	(2,941,000)	(2,305,226)
Other comprehensive loss:		
Foreign currency translation adjustments	(3,233)	–
Total comprehensive loss	\$ (2,944,233)	\$ (2,305,226)
Net loss attributable to:		
Shareholders of the Company	\$ (2,719,232)	\$ (2,305,336)
Non-controlling interest	(221,768)	–
	\$ (2,941,000)	\$ (2,305,336)
Total comprehensive loss attributable to:		
Shareholders of the Company	\$ (2,721,211)	\$ (2,305,226)
Non-controlling interest	(223,022)	–
Total comprehensive loss	\$ (2,944,233)	\$ (2,305,226)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)
Weighted average number of outstanding basic shares	706,913,562	476,667,330

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statement of Changes in Equity

Three-month periods ended November 30, 2019 and 2018
(Unaudited)

	For the three-month period ended November 30, 2019								
	Attributable to the shareholders of the Company								
	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total	Non-controlling interest	Total equity	
As at August 31, 2019	706,770,705	\$ 54,925,997	\$ 6,676,783	\$ (14,427,946)	\$ (10,099)	\$ 47,164,735	\$ 2,763,781	\$ 49,928,516	
Net loss	–	–	–	(2,719,232)	–	(2,719,232)	(221,768)	(2,941,000)	
Other comprehensive loss:									
Foreign currency translation adjustments	–	–	–	–	(1,979)	(1,979)	(1,254)	(3,233)	
Comprehensive loss	–	–	–	(2,719,232)	(1,979)	(2,721,211)	(223,022)	(2,944,233)	
Share-based compensation (note 10):									
Employee compensation	–	–	148,537	–	–	148,537	–	148,537	
Other services	–	–	83,818	–	–	83,818	–	83,818	
	–	–	232,355	–	–	232,355	–	232,355	
Transaction with shareholders of the Company:									
Warrants exercised (note 11)	200,000	30,847	(10,847)	–	–	20,000	–	20,000	
As at November 30, 2019	706,970,705	\$ 54,956,844	\$ 6,898,291	\$ (17,147,178)	\$ (12,078)	\$ 44,695,879	\$ 2,540,759	\$ 47,236,638	

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statement of Changes in Equity (continued)

Three-month periods ended November 30, 2019 and 2018
(Unaudited)

	For the three-month period ended November 30, 2018								
	Attributable to the shareholders of the Company								
	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total	Non-controlling interest	Total equity	
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	–	–	–	(2,305,226)	–	(2,305,226)	–	(2,305,226)	
Other comprehensive loss:									
Foreign currency translation adjustment	–	–	–	–	–	–	–	–	
Comprehensive loss	–	–	–	(2,305,226)	–	(2,305,226)	–	(2,305,226)	
Share-based compensation (note 10):									
Employee compensation	–	–	139,073	–	–	139,073	–	139,073	
Other services	–	–	271,111	–	–	271,111	–	271,111	
	–	–	410,184	–	–	410,184	–	410,184	
As at November 30, 2018	476,667,330	\$ 15,853,968	\$ 1,411,534	\$ (4,418,123)	\$ –	\$ 12,847,379	\$ –	\$ 12,847,379	

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statement of Cash Flows

Three-month periods ended November 30, 2019 and 2018
(Unaudited)

	November 30, 2019	November 30, 2018
Cash provided by (used in):		
Operating:		
Net loss	\$ (2,941,000)	\$ (2,305,226)
Items not involving cash:		
Amortization of property, plant and equipment (note 4)	476,830	103,414
Amortization of right-of-use asset (note 5)	42,210	24,647
Amortization of intangible asset (note 6)	9,388	-
Interest on lease liability (note 9)	35,218	25,547
Interest expense (note 9)	301,868	344,180
Interest income (note 9)	(124,001)	(59,963)
Share-based compensation (note 10)	232,355	139,073
Amortization of mortgage financing costs (note 7)	11,849	3,462
Net change in non-cash operating working capital items:		
Accounts receivable	(152,808)	(277,264)
Sales tax receivable	(305,284)	(916,530)
Inventory	(274,005)	-
Deposits	(103,334)	-
Prepaid expenses	(64,827)	-
Accounts payable and accrued liabilities	(528,184)	1,277,081
	(3,383,725)	(1,641,579)
Financing:		
Warrants exercised (note 11)	20,000	-
Interest paid (note 9)	(301,868)	(344,180)
Proceeds from mortgage (note 7)	6,000,000	-
Mortgage payments (note 7)	(6,025,000)	-
Deferred mortgage costs (note 7)	(23,695)	-
Deferred share issuance cost	-	(293,943)
Lease payments (note 5)	(68,904)	(42,443)
	(399,467)	(680,566)
Investing:		
Acquisitions of property, plant and equipment (note 4)	(5,785,580)	(4,370,802)
Additions to intangible asset (note 6)	(58,663)	-
Interest received	88,781	59,963
Deposits	-	(118,556)
	(5,755,462)	(4,429,395)
Net change in cash	(9,538,654)	(6,751,540)
Effect of foreign exchange on cash	(3,233)	-
Cash, beginning of period	26,505,992	12,899,672
Cash, end of period	\$ 16,964,105	\$ 6,148,132
Supplemental information to the statement of cash flows:		
Non-cash transactions:		
Initial recognition of right-of-use asset and lease liability	\$ 68,961	\$ -
Property, plant and equipment included in accounts payable and accrued liabilities	488,605	1,090,056

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

Three-month periods ended November 30, 2019 and 2018
(Unaudited)

1. Nature of operations:

Cannara Biotech Inc. (hereafter the "Company" or "Cannara"), existing under the laws of British Columbia, is an emerging vertically integrated cannabis company focused on the indoor cultivation, processing and sale of premium dried cannabis and cannabis derivatives under *The Cannabis Act* through its wholly-owned subsidiaries, Cannara Biotech (Ops) Inc. and Cannara Biotech (Québec) Inc. (together, hereafter "Cannara Ops"). The Company anticipates cultivating inside a modern and secure 625,000 square foot facility ("Farnham Facility") and plans to offer its product to consumers throughout Canada and international markets. In addition, through its subsidiary, ShopCBD.com Inc., the Company is also competing in the growing U.S. Hemp CBD market by having launched an online e-commerce platform offering a curated selection of top tier U.S. Hemp CBD products in a fast, secure and reliable transaction.

The registered office of the Company is located at 333 Décarie Boulevard, Suite 200, St-Laurent, Montréal, QC, H4N 3M9.

The Company's common shares are listed under the symbol "LOVE" on the Canadian Stock Exchange in Canada, "LOVFF" on the OTCQB Venture Market in the United States and "8CB" on the Frankfurt Stock Exchange in Germany.

Cannara has not generated any product revenues from its planned principal business activities to date as Cannara Ops awaits final approval for its license to cultivate and sell cannabis from Health Canada for Phase 1 of its Farnham Facility. The final step of the license application was submitted by Cannara Ops at the beginning of September 2019. While the Company is constructing and developing its various planned phases for the Farnham Facility, the Company also generates ancillary lease revenues from its current unoccupied space from various lessees.

The Company incurred net losses of approximately \$2,941,000 during the three-month period ended November 30, 2019 and has a deficit of \$17,147,178 as at November 30, 2019. The Company expects that its existing cash resources as at November 30, 2019 will enable it to fund its planned operating expenses for at least the next twelve months from November 30, 2019.

The Company expects to incur continued operating losses until it receives approval for its license to cultivate and sell cannabis under *The Cannabis Act* and can commercialize its products. 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.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three-month periods ended November 30, 2019 and 2018
(Unaudited)

2. Basis of preparation and significant accounting policies:

(a) Statement of compliance:

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB").

These condensed interim financial statements were approved by the Board of Directors and authorized for issuance on January 16, 2020.

(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, 2019 except as described in Note 3. These condensed interim consolidated financial statements do not include all the notes required in annual consolidated financial statements. Therefore, these condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto of the Company for the year ended August 31, 2019.

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, 2019.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three-month periods ended November 30, 2019 and 2018
(Unaudited)

3. Inventory:

The inventory consists of the following:

	November 30, 2019	August 31, 2019
Raw material - Cultivation and other facility supplies	\$ 215,285	\$ -
Finished goods - U.S. hemp CBD products for resale	245,427	186,707
	<hr/> \$ 460,712	<hr/> \$ 186,707

The amount of inventory expensed during the three-month period ended November 30, 2019 was \$3,923 (2018 - nil).

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three-month periods ended November 30, 2019 and 2018
(Unaudited)

4. Property, plant and equipment:

	Land	Buildings	Facility production equipment	Computer equipment	Furniture and fixtures	Construction in progress	Total
Cost							
Balance as at August 31, 2019	\$ 1,104,963	\$ 11,916,257	\$ –	\$ 53,382	\$ 66,565	\$ 26,019,310	\$ 39,160,477
Additions	–	23,743,265	3,360,712	1,112,722	1,212,632	(26,019,310)	3,410,021
Balance as at November 30, 2019	\$ 1,104,963	\$ 35,659,522	\$ 3,360,712	\$ 1,166,104	\$ 1,279,197	\$ –	\$ 42,570,498
Accumulated depreciation							
Balance as at August 31, 2019	\$ –	\$ (480,232)	\$ –	\$ (14,604)	\$ (15,264)	\$ –	\$ (510,100)
Amortization	–	(352,404)	(72,092)	(44,683)	(7,651)	–	(476,830)
Balance as at November 30, 2019	\$ –	\$ (832,636)	\$ (72,092)	\$ (59,287)	\$ (22,915)	\$ –	\$ (986,930)
Net book value							
Balance as at August 31, 2019	\$ 1,104,963	\$ 11,436,025	\$ –	\$ 38,778	\$ 51,301	\$ 26,019,310	\$ 38,650,377
Balance as at November 30, 2019	1,104,963	34,826,886	3,288,620	1,106,817	1,256,282	–	41,583,568

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three-month periods ended November 30, 2019 and 2018
(Unaudited)

4. Property, plant and equipment (continued):

As at November 30, 2019, there are approximately \$130,076 (August 31, 2019 - \$548,549) 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" 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.

On September 12, 2019, the Company announced that it had submitted to Health Canada its Site Evidence Package for Phase 1 of the Farnham Facility which will permit the Company to cultivate, process and sell premium dried cannabis and cannabis derivatives under *The Cannabis Act*. The submission of the site evidence package marks the substantial completion of the Phase 1 construction of the Farnham Facility, and, as a result, amounts in construction in progress were reclassified to their respective asset category and began to be amortized.

5. Right-of-use asset and lease liability:

Right-of-use asset:

Cost	
Balance as at August 31, 2019	\$ 775,611
Additions	68,691
Balance as at November 30, 2019	<u>\$ 844,302</u>
Accumulated depreciation	
Balance as at August 31, 2019	\$ (165,902)
Amortization	(42,210)
Balance as at November 30, 2019	<u>\$ (208,112)</u>
Net book value	
Balance as at August 31, 2019	\$ 609,709
Balance as at November 30, 2019	636,190

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three-month periods ended November 30, 2019 and 2018
(Unaudited)

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

Lease liability:

	November 30, 2019	August 31, 2019
Maturity analysis - contractual undiscounted cash flows:		
Less than one year	\$ 307,104	\$ 263,327
One to five years	710,145	735,065
Total undiscounted lease liability	\$ 1,017,249	\$ 998,392
Current	\$ 179,784	\$ 139,807
Non-current	552,556	557,528
Lease liability included in the condensed interim consolidated statement of financial position	\$ 732,340	\$ 697,335
Balance as at August 31, 2019		\$ 697,335
Additions		68,691
Rent paid		(68,904)
Interest on lease liability		35,218
Balance as at November 30, 2019		\$ 732,340

6. Intangible asset:

	Website
Net carrying value, August 31, 2019	\$ 281,020
Additions	58,663
Amortization	(9,388)
Net carrying value, November 30, 2019	\$ 330,295

The intangible asset relates to the e-commerce platform, ShopCBD.com, which was officially launched in November 2019, and, as a result, began to be amortized over its intended useful life of 3 years.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three-month periods ended November 30, 2019 and 2018
(Unaudited)

7. Mortgage payable:

Net carrying value, August 31, 2019	\$ 12,526,467
Proceeds from mortgage ⁽ⁱⁱ⁾	6,000,000
Payments ⁽ⁱⁱ⁾	(6,025,000)
Deferred mortgage issuance costs	(23,695)
Amortization of deferred financing costs	11,849
Net carrying value, November 30, 2019	\$ 12,489,621

	November 30, 2019	August 31, 2019
Mortgage payable, bearing interest at 13% per annum due monthly, repayable entirely in a lump sum on April 6, 2021 ⁽ⁱ⁾	\$ 6,550,000	\$ 12,550,000
Mortgage payable, bearing interest at prime plus 2% per annum due monthly, repayable over 240 equal installments ⁽ⁱⁱ⁾	5,975,000	-
Less unamortized financing costs	35,379	23,533
	12,484,621	12,526,467
Less: current portion	5,951,586	-
	\$ 6,538,035	\$ 12,526,467

- ⁽ⁱ⁾ The mortgage is secured by a second 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. During the three-month period ended November 30, 2019, the Company repaid \$6,000,000 of the principal amount owed triggering an interest modification from 11% to 13% and recognized \$250,152 (three-month period ended November 20, 2018 - \$344,180) as interest expense.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three-month periods ended November 30, 2019 and 2018
(Unaudited)

7. Mortgage payable (continued):

- (ii) On October 9th, 2019, the Company obtained a first ranking mortgage against its Farnham Facility at the value of \$6,000,000 with a Canadian financial institution at an interest rate of prime plus 2%. As at November 30, 2019, the interest rate related to this mortgage was 5.95%. The funds received from the mortgage were applied to reduce principal amount owing under the existing mortgage bearing an interest rate of 13%. The mortgage is secured by a guarantee executed by a related party. The mortgage also contains a financial covenant requiring the Company to maintain a debt service ratio of not less than 1.25 to 1.0 at each year-end. For the three-month period ended November 30, 2019, the Company recognized \$51,716 (three-month period ended November 30, 2018 - nil) as interest expense on the mortgage. The mortgage is repayable on demand.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three-month periods ended November 30, 2019 and 2018
(Unaudited)

8. Non-controlling interest (NCI):

The following table summarizes the information about the Company's subsidiaries that have NCI, before any intragroup eliminations as at and for the three-month period ended November 30, 2019:

	Global ShopCBD.com Inc. (consolidated)
Cash	\$ 6,791,005
Accounts receivable	23,776
Sales tax receivable	51,231
Inventory	245,427
Prepaid expenses	17,823
Intangible asset	330,295
Accounts payable and accrued liabilities	(159,064)
Amount due to the parent company	(747,243)
Net assets	\$ 6,553,250
Revenues	\$ 5,721
Cost of revenues	(3,923)
Operating expenses	(610,356)
Net finance income	36,563
Net loss	(571,995)
Foreign currency translation adjustments	(3,233)
Comprehensive loss	\$ (575,228)
Non-controlling interest	38.77%
Carrying amount of NCI	\$ 2,540,759
Net loss allocated to NCI	(221,768)
Comprehensive loss allocated to NCI	(223,022)
Cash flows from operating activities	\$ (747,893)
Cash flows from financing activities	-
Cash flows from investing activities	(58,663)
Effect of foreign exchange on cash	(3,233)
Net increase in cash	\$ (809,789)

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three-month periods ended November 30, 2019 and 2018
(Unaudited)

9. Net finance expense:

	Three-month periods ended	
	November 30, 2019	November 30, 2018
Interest income	\$ 124,001	\$ 59,963
Foreign exchange gain	2,657	–
Finance income	126,658	59,963
Interest on mortgage payable	301,868	344,180
Amortization of mortgage financing costs	11,849	3,462
Interest on lease liability	35,218	25,547
Other finance expense	651	–
Finance expense	349,586	373,189
Net finance expense	\$ 222,928	\$ 313,226

10. 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.

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.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three-month periods ended November 30, 2019 and 2018
(Unaudited)

10. Share-based compensation (continued):

The activity of outstanding share options for the three-month period ended November 30, 2019 was as follows:

	Number	Weighted average exercise price
Outstanding, August 31, 2019	39,029,424	\$ 0.20
Granted on October 3, 2019	125,000	0.18
Granted on November 25, 2019	815,000	0.18
Forfeited	(205,000)	0.18
Outstanding, end of period	39,764,424	\$ 0.20
Exercisable, end of period	22,831,943	\$ 0.24

The share options granted on October 3, 2019 vest based on the employee share option plan.

The share options granted on November 25, 2019 included 100,000 options that vested immediately upon issuance and 715,000 options that vest based on the employee share option plan.

The share options forfeited relate to the options held by directors and/or employees that are no longer part of the Company.

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

Granted	October 3, 2019	November 25, 2019
Share price	\$ 0.165	\$ 0.14
Exercise price	\$ 0.18	\$ 0.18
Risk-free interest rate	1.23%	1.46%
Expected life	5 years	2-5 years
Expected price volatility of the Company's shares	121.88%	115.99%
Fair value of the option	\$ 0.1361	\$ 0.1103
Expected dividend yield	Nil	Nil

The share price for the options granted on October 3, 2019 and November 25, 2019 were based on the market prices on the grant date.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three-month periods ended November 30, 2019 and 2018
(Unaudited)

10. Share-based compensation (continued):

The risk-free interest rate was based on the Bank of Canada rates in effect at the 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.

The expected price volatility was estimated based on historical volatility of the Company.

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 periods ended November 30, 2019 and 2018, the Company recorded a share-based compensation expense of \$232,355 and \$139,073, respectively, with a corresponding increase in contributed surplus.

11. 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 and will expire between June 20, 2020 and July 12, 2020.

As at November 30, 2019, the Company has the following warrants outstanding with the corresponding exercise price:

	Number	Exercise price
Outstanding, August 31, 2019	14,948,710	\$ 0.10
Exercised	200,000	0.10
Outstanding, November 30, 2019	14,748,710	\$ 0.10
Exercisable, end the period	14,748,710	\$ 0.10

During the three-month period ended November 30, 2019, the Company recorded an increase in share capital of \$30,847 and a decrease of \$10,847 in contributed surplus as a result of the exercise of 200,000 warrants.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three-month periods ended November 30, 2019 and 2018
(Unaudited)

12. Financial instruments:

Fair value measurements:

The fair value of cash, restricted cash, accounts receivable, deposits 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.

13. Contingencies:

In the normal course of business, the Company may be involved in various legal proceedings, the outcomes of which cannot be determined, or outflow of economic benefit is not probable, and, accordingly, no provision has been recorded. The Company believes that the resolution of these proceedings will not have a material favourable or unfavourable effect on its condensed interim consolidated statement of financial position or financial performance. As at November 30, 2019, there are no material claims in favor or against the Company, and, as such, no contingencies have been recorded.

14. Segment disclosures:

(a) Reportable segments:

The Company operates in two segments: (1) Indoor cannabis operations which encompass the cultivation, processing and sale of premium dried cannabis and cannabis derivatives exclusively for the Canadian market (Canadian operations); and (2) E-commerce retailer of curated selection of top tier U.S. hemp-based CBD products exclusively for the U.S. market. (U.S. operations).

The chief operating decision-maker assesses performance based on segment operating results which were defined as segment loss before share-based compensation, amortization, net finance expense and income tax. These items, including ancillary lease revenues, lease operating costs and amortization have been categorized as Other. The accounting policies of the segments are the same as those described in Note 3 of the audited financial statements of the Company for the year ended August 31, 2019.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three-month periods ended November 30, 2019 and 2018
(Unaudited)

14. Segment disclosures (continued):

(a) Reportable segments (continued):

	Three-month period ended November 30, 2019				Three-month period ended November 30, 2018			
	Canadian operations	U.S. operations	Other	Total	Canadian operations	U.S. operations	Other	Total
Revenues:								
Sales revenue	\$ –	\$ 5,721	\$ –	\$ 5,721	\$ –	\$ –	\$ –	\$ –
Lease revenue	–	–	527,528	527,528	–	–	518,443	518,443
	–	5,721	527,528	533,249	–	–	518,443	518,443
Cost of revenues:								
Cost of goods sold	–	3,923	–	3,923	–	–	–	–
Lease operating costs	–	–	29,632	29,632	–	–	52,538	52,538
	–	3,923	29,632	33,555	–	–	52,538	52,538
Segment gross profit	–	1,798	497,896	499,694	–	–	465,905	465,905
Operating expenses	1,856,014	600,969	–	2,456,983	2,190,771	–	–	2,190,771
Segment operating income (loss)	(1,856,014)	(599,171)	497,896	(1,957,289)	(2,190,771)	–	465,905	(1,724,866)
Share-based compensation	–	–	232,355	232,355	–	–	139,073	139,073
Amortization	–	–	528,428	528,428	–	–	128,061	128,061
Net finance expense	–	–	222,928	222,928	–	–	313,226	313,226
Net loss	\$ (1,856,014)	\$ (599,171)	\$ (485,815)	\$ (2,941,000)	\$ (2,190,771)	\$ –	\$ (114,455)	\$ (2,305,226)

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three-month periods ended November 30, 2019 and 2018
(Unaudited)

14. Segment disclosures (continued):

(b) Entity-wide disclosures:

All property, plant and equipment are located in Canada and are held within the Canadian operations segment. All intangible assets are located in the United States and are held within the U.S. operations segment.

(c) Other sources of revenue:

In order to increase cash flow, the Company leased 333,551 square feet of the total 625,000 available square feet to two tenants. During the three-month period ended November 30, 2019, the Company realized 100% of its lease revenue with two lessees. Tenant A's lease term is until September 30, 2022. Lease revenues from this tenant for the three-month period ended November 30, 2019 were \$67,486. Tenant B's lease term is until May 31, 2020 and contains renewal options to extend the lease to May 31, 2022 in six month increments. Lease revenues from this tenant were \$449,139 for the three-month period ended November 30, 2019.

Income is generated from customers domiciled in Canada.

15. Related parties:

(a) Key management personnel compensation:

Key management personnel are the people who have the authority and responsibility for planning, directing and controlling the business activities of the Company and include all of its directors and chief executives. The compensations of key management personnel, including directors' fees, salaries and benefits for the three-month periods ended November 30, 2019 and 2018, were as follows:

	Three-month periods ended	
	November 30, 2019	November 30, 2018
Salaries and benefits	\$ 168,000	\$ 134,615
Shared-based compensation	72,707	134,623
Board of Directors' fees	34,500	–
	<u>\$ 275,207</u>	<u>\$ 269,238</u>

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)

Three-month periods ended November 30, 2019 and 2018
(Unaudited)

15. Related parties (continued):

(b) Other transactions with related parties:

Related parties include entities related by virtue of key management personnel and directors 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 periods ended	
	November 30, 2019	November 30, 2018
Nature of transactions:		
Management fees ⁽ⁱ⁾	\$ 13,141	\$ 81,664
Interest on mortgage payable ⁽ⁱ⁾	250,152	344,180
	<u>\$ 263,293</u>	<u>\$ 425,844</u>

	November 30, 2019	August 31, 2019
Balances due from (due to) related parties is as follows:		
Accounts receivable	\$ –	\$ 5,090
Accounts payable and accrued liabilities ⁽ⁱ⁾	(102,646)	(118,904)
Payable to key management personnel ⁽ⁱⁱ⁾	(59,512)	(74,939)
Liabilities for share subscription agreement issued by a subsidiary	–	(211,000)
Mortgage payable ⁽ⁱ⁾	(6,550,000)	(12,550,000)

⁽ⁱ⁾ The Company has a Board of Director who is a shareholder in an entity with which the Company entered into various transactions for the leases on the Farnham Facility and the related mortgage payable. On October 9, 2019, the Company repaid \$6,000,000 against the principal portion of the mortgage payable.

⁽ⁱⁱ⁾ Payable balance relates to accrued salary and vacation for key management personnel.

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