



## **CANNARA BIOTECH INC.**

Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended

February 29, 2020 and February 28, 2019

(Unaudited)

# CANNARA BIOTECH INC.

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(Unaudited)

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# CANNARA BIOTECH INC.

## Condensed Interim Consolidated Statements of Financial Position

As at February 29, 2020 and August 31, 2019  
(Unaudited - in Canadian dollars)

	February 29, 2020	August 31, 2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 14,559,795	\$ 26,505,992
Restricted cash - share subscription agreements issued by a subsidiary	–	211,000
Accounts receivable	108,756	146,113
Sales tax receivable	544,594	682,139
Inventory (note 3)	440,299	186,707
Prepaid expenses	90,090	96,304
	15,743,534	27,828,255
Deposits	282,153	185,228
Deposits on property, plant and equipment	178,076	548,549
Property, plant and equipment (note 4)	42,040,141	38,650,377
Right-of-use asset (note 5)	610,697	609,709
Intangible asset (note 6)	365,148	281,020
	\$ 59,219,749	\$ 68,103,138
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,212,324	\$ 4,739,820
Deferred lease revenue	28,204	–
Liabilities for share subscription agreements issued by a subsidiary	–	211,000
Current portion of lease liability (note 5)	192,602	139,807
Short-term mortgage payable (note 7)	5,877,055	–
	8,310,185	5,090,627
Other long-term liabilities	17,534	–
Lease liabilities (note 5)	521,334	557,528
Mortgage payable (note 7)	6,537,011	12,526,467
	15,386,064	18,174,622
Shareholders' equity:		
Share capital (note 9)	55,419,551	54,925,997
Contributed surplus	6,782,037	6,676,783
Deficit	(20,676,213)	(14,427,946)
Accumulated other comprehensive loss	(19,630)	(10,099)
Equity attributable to the shareholders of the Company	41,505,745	47,164,735
Non-controlling interest (note 8)	2,327,940	2,763,781
Total equity	43,833,685	49,928,516
Contingencies (note 19)		
Subsequent event (note 20)		
	\$ 59,219,749	\$ 68,103,138

See accompanying notes to condensed interim consolidated financial statements.

# CANNARA BIOTECH INC.

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

For the three and six-month periods ended February 29, 2020 and February 28, 2019  
(Unaudited - in Canadian dollars)

	Three-month periods ended		Six-month periods ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
<b>Revenue</b>				
Lease revenues	\$ 641,480	\$ 518,438	\$ 1,169,008	\$ 1,036,881
Product revenues	7,354	–	13,075	–
Other income	19,599	–	19,599	–
	668,433	518,438	1,201,682	1,036,881
<b>Cost of sale</b>				
Lease operating costs	190,352	81,836	219,984	134,374
Cost of goods sold	7,947	–	11,870	–
	198,299	81,836	231,854	134,374
<b>Operating expenses</b>				
Salaries and benefits	1,038,053	539,060	1,915,181	1,280,827
General and administrative	1,039,723	253,209	1,613,095	625,426
Research and development (note 12)	368,675	–	598,050	–
Professional fees	414,415	711,131	824,456	1,502,035
Marketing costs	184,646	192,224	399,739	467,699
Regulatory and investor relations	143,311	137,902	295,285	148,310
Share-based compensation (note 10)	46,453	421,613	278,808	560,686
Amortization of property, plant and equipment (note 4)	645,870	103,649	1,122,700	207,063
Amortization of right-of-use asset (note 5)	51,092	35,313	93,302	59,960
Amortization of intangible asset (note 6)	28,112	–	37,500	–
	3,960,350	2,394,101	7,178,116	4,852,006
<b>Operating loss</b>	(3,490,216)	(1,957,499)	(6,208,288)	(3,949,499)
Listing expense related to the reverse acquisition of Dunbar Capital Corp. (note 14)	–	1,875,243	–	1,875,243
Net finance expense (note 13)	246,856	179,184	469,784	492,410
<b>Net loss</b>	(3,737,072)	(4,011,926)	(6,678,072)	(6,317,152)
<b>Other comprehensive loss:</b>				
Foreign currency translation adjustments	(12,334)	–	(15,567)	–
<b>Total comprehensive loss</b>	\$ (3,749,406)	\$ (4,011,926)	\$ (6,693,639)	\$ (6,317,152)
<b>Net loss attributable to:</b>				
Shareholders of the Company	\$ (3,529,035)	\$ (3,878,317)	\$ (6,248,267)	\$ (6,183,543)
Non-controlling interest	(208,037)	(133,609)	(429,805)	(133,609)
	\$ (3,737,072)	\$ (4,011,926)	\$ (6,678,072)	\$ (6,317,152)
<b>Total comprehensive loss attributable to:</b>				
Shareholders of the Company	\$ (3,536,587)	\$ (3,878,317)	\$ (6,257,798)	\$ (6,183,543)
Non-controlling interest	(212,819)	(133,609)	(435,841)	(133,609)
	\$ (3,749,406)	\$ (4,011,926)	\$ (6,693,639)	\$ (6,317,152)
<b>Basic and diluted loss per share</b>	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
<b>Weighted average number of outstanding shares</b>	707,731,575	587,028,862	707,326,749	531,543,230

See accompanying notes to condensed interim consolidated financial statements.

# CANNARA BIOTECH INC.

## Condensed Interim Consolidated Statements of Changes in Equity

For the six-month periods ended February 29, 2020 and February 28, 2019  
(Unaudited - in Canadian dollars)

	Attributable to the shareholders of the Company					Total	Non-controlling interest	Total equity
	Shares	Share capital	Contributed surplus	Accumulated other comprehensive deficit	loss			
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	-	-	-	(6,248,267)	-	(6,248,267)	(429,805)	(6,678,072)
Other comprehensive loss:								
Foreign currency translation adjustments	-	-	-	-	(9,531)	(9,531)	(6,036)	(15,567)
Comprehensive loss	-	-	-	(6,248,267)	(9,531)	(6,257,798)	(435,841)	(6,693,639)
Share-based compensation (note 10):								
Employee compensation	-	-	268,136	-	-	268,136	-	268,136
Other services	-	-	10,672	-	-	10,672	-	10,672
	-	-	278,808	-	-	278,808	-	278,808
<b>Transaction with shareholders of the Company:</b>								
Warrants exercised (note 11)	3,200,000	493,554	(173,554)	-	-	320,000	-	320,000
As at February 29, 2020	709,970,705	\$ 55,419,551	\$ 6,782,037	\$ (20,676,213)	\$ (19,630)	\$ 41,505,745	\$ 2,327,940	\$ 43,833,685

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

See accompanying notes to condensed interim consolidated financial statements.

# CANNARA BIOTECH INC.

## Condensed Interim Consolidated Statements of Cash Flows

For the three and six-month periods ended February 29, 2020 and February 28, 2019  
(Unaudited - in Canadian dollars)

	Three-month periods ended		Six-month periods ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Cash provided by (used in):				
Operating:				
Net loss	\$ (3,737,072)	\$ (4,011,926)	\$ (6,678,072)	\$ (6,317,152)
Items not involving cash:				
Amortization of property, plant and equipment (note 4)	645,870	103,649	1,122,700	207,063
Amortization of right-of-use asset (note 5)	51,092	35,313	93,302	59,960
Amortization of intangible asset (note 6)	28,112	–	37,500	–
Interest on lease liability	35,973	33,280	71,191	58,827
Interest expense	316,667	234,496	618,535	578,676
Interest income	(87,219)	(138,858)	(211,220)	(198,821)
Share-based compensation (note 10)	46,453	421,613	278,808	560,686
Amortization of mortgage financing costs (note 13)	2,489	3,636	14,338	7,098
Listing expense related to the reverse acquisition of Dunbar Capital Corp. (note 14)	–	1,701,282	–	1,701,282
Net change in non-cash operating working capital items (note 17)	1,271,298	(389,018)	(157,144)	(305,731)
	(1,426,337)	(2,006,533)	(4,810,062)	(3,648,112)
Financing:				
Issuance of common shares (note 9)	–	37,375,268	–	37,375,268
Warrants exercised (note 11)	300,000	86,800	320,000	86,800
Share issuance costs	–	(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
Proceeds from mortgage (note 7)	–	–	6,000,000	–
Mortgage payments (note 7)	(75,000)	–	(6,100,000)	–
Mortgage issuance costs	(3,044)	–	(26,739)	–
Interest paid	(159,792)	(234,496)	(461,660)	(578,676)
Lease payments	(79,976)	(58,087)	(148,880)	(100,530)
	(17,812)	36,521,821	(417,279)	35,841,255
Investing:				
Deposits on property, plant and equipment	370,473	(512,346)	370,473	(630,902)
Acquisitions of property, plant and equipment (note 4)	(1,315,817)	(4,292,889)	(7,101,397)	(8,663,691)
Acquisition of intangible assets (note 6)	(95,551)	(66,556)	(154,214)	(66,556)
Interest received	97,248	138,858	186,029	198,821
	(943,647)	(4,732,933)	(6,699,109)	(9,162,328)
Net change in cash	(2,387,796)	29,782,355	(11,926,450)	23,030,815
Effect of foreign exchange on cash	(16,514)	–	(19,747)	–
Cash acquired from reverse acquisition of Dunbar Capital Corp.	–	11,058	–	11,058
Cash, beginning of period	16,964,105	6,148,132	26,505,992	12,899,672
Cash, end of period	\$ 14,559,795	\$ 35,941,545	\$ 14,559,795	\$ 35,941,545

See accompanying notes to condensed interim consolidated financial statements.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2020 and February 28, 2019  
(Unaudited - in Canadian dollars)

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## 1. Nature of operations

Cannara Biotech Inc. (hereafter the "Company" or "Cannara") is an emerging vertically integrated cannabis company focused on indoor cultivation, processing and sale of premium dried cannabis and cannabis derivatives under *The Cannabis Act* and plans to offer its product to consumers in Québec and throughout Canada. 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. 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.

The Company has finalized the construction of 170,000 square feet of its purpose-built modern and secure 625,000 square feet indoor cultivation facility ("Farnham Facility") and, through its subsidiary, Cannara Biotech (Québec) Inc., has obtained its licence from Health Canada to cultivate and process cannabis effective January 31, 2020. The Company has now officially commenced its cannabis operations and as at February 29, 2020, had a total of 18,012 plants in the cultivation cycle at the following stages:

- 14,894 plants in vegetation;
- 2,657 plants in flowering; and
- 461 mother plants.

In addition, through its subsidiary, ShopCBD.com Inc., the Company is also competing in the 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.

Cannara has only generated limited product revenues from its planned principal business activities to date, since the cultivation production was launched in the second quarter ended February 29, 2020 following the reception of the cultivation licence. The Company has incurred net losses of approximately \$6.7 million during the six-month period ended February 29, 2020 (2019 - \$6.3 million) and has a deficit of approximately \$20.7 million as at February 29, 2020 (2019 - \$14.4 million). The Company expects that its existing cash resources of \$14.6 million as at February 29, 2020 will enable it to fund its planned operating expenses for at least the next twelve months from February 29, 2020.

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 their existing cash, and/or a combination of public or private equity and debt financings (including mortgage re-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 and the successful sale and commercialization of its products.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2020 and February 28, 2019  
(Unaudited - in Canadian dollars)

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## 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 consolidated financial statements were approved by the Board of Directors and authorized for issuance on April 14, 2020.

### (b) Basis of preparation

These condensed interim consolidated financial statements were prepared using the same accounting policies as set forth in Note 2 in the audited financial statements of the Company for the year ended August 31, 2019, except as described below. 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, 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 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 outcomes that require material adjustments to the carrying amounts of assets or liabilities 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, 2019.



# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2020 and February 28, 2019  
(Unaudited - in Canadian dollars)

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

### (c) Research and development

Research and development expenditures are recognised as an expense in the period in which they are incurred. Research and development expenditures include employee salaries and benefits, professional fees, materials and related attributable costs to the Company's first harvests.

## 3. Inventory

Inventory consists of the following:

	February 29, 2020	August 31, 2019
Raw materials - Cultivation and other facility supplies	\$ 197,317	\$ -
Finished goods - U.S. hemp CBD products for resale	242,982	186,707
	<u>\$ 440,299</u>	<u>\$ 186,707</u>

The amounts of inventory expensed as cost of goods sold during the three and six-month periods ended February 29, 2020 were \$7,947 and \$11,870 (2018 - nil).

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2020 and February 28, 2019  
(Unaudited - in Canadian dollars)

## 4. Property, plant and equipment

	Land	Buildings	Facility production equipment	Computer equipment	Furniture and fixtures	Construction in progress	Total
<b>Cost</b>							
Balance as at August 31, 2019	\$ 1,104,963	\$ 11,916,257	\$ –	\$ 53,382	\$ 66,565	\$ 26,019,310	\$ 39,160,477
Additions	–	24,603,341	3,567,942	1,112,722	1,247,769	(26,019,310)	4,512,464
Balance as at February 29, 2020	\$ 1,104,963	\$ 36,519,598	\$ 3,567,942	\$ 1,166,104	\$ 1,314,334	\$ –	\$ 43,672,941
<b>Accumulated depreciation</b>							
Balance as at August 31, 2019	\$ –	\$ (480,232)	\$ –	\$ (14,604)	\$ (15,264)	\$ –	\$ (510,100)
Amortization	–	(803,681)	(158,717)	(94,946)	(65,356)	–	(1,122,700)
Balance as at February 29, 2020	\$ –	\$ (1,283,913)	\$ (158,717)	\$ (109,550)	\$ (80,620)	\$ –	\$ (1,632,800)
<b>Net book value</b>							
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 February 29, 2020	1,104,963	35,235,685	3,409,225	1,056,554	1,233,714	–	42,040,141

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2020 and February 28, 2019  
(Unaudited - in Canadian dollars)

## 5. Right-of-use assets and lease liabilities

Right-of-use assets:

<hr/>		
<b>Cost</b>		
Balance as at August 31, 2019		\$ 775,611
Additions		94,290
Balance as at February 29, 2020		<hr/> <b>\$ 869,901</b>
<b>Accumulated depreciation</b>		
Balance as at August 31, 2019		\$ (165,902)
Amortization		(93,302)
Balance as at February 29, 2020		<hr/> <b>\$ (259,204)</b>
<b>Net book value</b>		
Balance as at August 31, 2019		\$ 609,709
Balance as at February 29, 2020		610,697
<hr/>		

Lease liabilities:

	February 29, 2020	August 31, 2019
<hr/>		
Maturity analysis - contractual undiscounted cash flows:		
Less than one year	\$ 314,855	\$ 263,327
One to five years	642,952	735,065
Total undiscounted lease liabilities	<hr/> <b>\$ 957,807</b>	<hr/> <b>\$ 998,392</b>
Current	\$ 192,602	\$ 139,807
Non-current	521,334	557,528
Lease liabilities included in the statement of financial position	<hr/> <b>\$ 713,936</b>	<hr/> <b>\$ 697,335</b>

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2020 and February 28, 2019  
(Unaudited - in Canadian dollars)

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## 5. Right-of-use assets and lease liabilities (continued)

Lease liabilities (continued):

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Balance as at August 31, 2019	\$ 697,335
Additions	94,290
Rent paid	(148,880)
Interest on lease liabilities	71,191
Balance as at February 29, 2020	\$ 713,936

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## 6. Intangible asset:

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Net carrying value, August 31, 2019	\$ 281,020
Additions	117,448
Amortization	(37,500)
Foreign currency translation adjustments	4,180
Net carrying value, February 29, 2020	\$ 365,148

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The intangible asset relates to the e-commerce platform, ShopCBD.com, which is amortized over its estimated useful life of 3 years.

## 7. Mortgage payable

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Net carrying value, August 31, 2019	\$ 12,526,467
Proceeds from mortgage	6,000,000
Payment of mortgage	(6,100,000)
Deferred mortgage issuance costs	(26,739)
Amortization of deferred mortgage issuance costs	14,338
Net carrying value, February 29, 2020	\$ 12,414,066

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# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2020 and February 28, 2019  
(Unaudited - in Canadian dollars)

## 7. Mortgage payable (continued)

	February 29, 2020	August 31, 2019
Mortgage payable, bearing interest at prime plus 2% per annum due monthly, repayable over 240 equal installments <sup>(ii)</sup>	\$ 5,900,000	\$ –
Less: unamortized financing costs	(22,945)	–
<b>Short-term mortgage</b>	<b>\$ 5,877,055</b>	<b>\$ –</b>
Mortgage payable, bearing interest at 13% per annum due monthly, repayable entirely in a lump sum on April 6, 2021 <sup>(i)</sup>	\$ 6,550,000	\$12,550,000
Less: unamortized financing costs	(12,989)	(23,533)
<b>Long-term mortgage</b>	<b>\$ 6,537,011</b>	<b>\$12,526,467</b>

(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 and six-month periods ended February 29, 2020, the Company recognized \$88,048 and \$139,764 as interest expense (2019 - nil). As at February 29, 2020, accrued interests of \$19,236 were included in total balance (2019 - nil).

(ii) On October 9, 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 February 29, 2020, the interest rate related to this mortgage was 5.95%. The funds received from the mortgage were applied to reduce the 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 no less than 1.25 to 1.0 at each year-end. Notwithstanding the repayment schedule of the debt, the mortgage is repayable on demand. Subsequent to the quarter end, the Company obtain a letter from the bank indicating the mortgage will not be called prior to April 1, 2021.

During the three and six-month periods ended February 29, 2020, the Company recognized \$228,619 and \$478,771 as interest expense (2019 - \$341,090 and \$685,270, respectively). As at February 29, 2020, accrued interest of \$137,639 were included in accounts payables and accrued liabilities (2019 - \$117,248).

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2020 and February 28, 2019  
(Unaudited - in Canadian dollars)

## 8. Non-controlling interest (NCI)

The following table summarizes the information about the Company's subsidiary, Global ShopCBD.com (consolidated) that have NCI, before any intragroup eliminations:

	February 29, 2020
Cash	\$ 5,510,957
Accounts receivable	9,751
Sales taxes receivable	8,214
Inventory	242,982
Prepaid expenses	28,433
Intangible asset	365,148
Amount due from the parent company	59,671
Accounts payable and accrued liabilities	(220,819)
<b>Net assets</b>	<b>\$ 6,004,337</b>
	For the six-month period ended February 29, 2020
Revenues	\$ 13,075
Cost of goods sold	(11,870)
Operating expenses	(1,200,695)
Net finance income	90,915
<b>Net loss</b>	<b>(1,108,575)</b>
Foreign currency translation adjustments	(15,567)
<b>Comprehensive loss</b>	<b>\$ (1,124,142)</b>
<b>Non-controlling interest</b>	<b>38.77%</b>
Carrying amount of NCI	\$ 2,327,940
Loss allocated to NCI	(429,805)
Comprehensive loss allocated to NCI	(435,841)
Cash flows used in operating activities	\$ (1,915,876)
Cash flows used in financing activities	-
Cash flows used in investing activities	(154,214)
Effect of foreign exchange on cash	(19,747)
<b>Net decrease in cash</b>	<b>\$ (2,089,837)</b>

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2020 and February 28, 2019  
(Unaudited - in Canadian dollars)

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## 9. Share capital

### (a) Authorized

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

### (b) Transactions on share capital

On October 12, 2018, October 19, 2018, and November 28, 2018, the Company issued a total of 207,640,374 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 207,640,374 common shares.

On December 18, 2018, as a result of the reverse acquisition with Dundar Capital Corp. (note 14), 15,000 Class A and 476,652,330 Class B common shares were converted into 476,667,330 ordinary common shares.

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

During the first quarter ended November 30, 2019, 200,000 warrants were exercised at a price of \$0.10 per warrant for an aggregate consideration of \$20,000.

During the second quarter ended February 29, 2020, 3,000,000 warrants were exercised at a price of \$0.10 per warrant for an aggregate consideration of \$300,000.

## 10. Share-based compensation

The Company has established a share option plan whereby certain employees, directors and consultants 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.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

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## 10. Share-based compensation (continued)

Outstanding options under the plan are granted with service requirements (or service conditions) and become exercisable upon vesting. The share options granted to directors and third parties for services have vesting terms determined on a case-by-case basis.

The following table shows the change in stock options:

	Number	Weighted average exercise price
Outstanding, August 31, 2019	39,029,424	\$ 0.20
Granted	1,595,000	0.18
Forfeited	(2,403,424)	0.18
Outstanding, February 29, 2020	38,221,000	\$ 0.20
Exercisable, February 29, 2020	25,837,090	\$ 0.23

During the first quarter ended November 30, 2019, the Company granted 840,000 options that vest in accordance to the employee share option plan and 100,000 options that vest immediately.

During the second quarter ended February 29, 2020, the Company granted 505,000 options that vest in accordance to the employee share option plan and 150,000 options that vest immediately.

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 was measured using the Black-Scholes option pricing model based on the following weighted average assumptions:

	Six-month period ended February 29, 2020
Granted	
Share price	\$ 0.14
Exercise price	\$ 0.18
Risk-free interest rate	1.52%
Expected life	5 years
Expected price volatility of the Company's shares	114.3%
Expected dividend yield	nil
Fair value of the option	\$ 0.1129



# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

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## 10. Share-based compensation (continued)

During the three and six-month periods ended February 29, 2020, the Company recorded a share-based compensation expense of \$46,453 and \$278,808, respectively with a corresponding increase in contributed surplus (2019 - \$421,613 and \$560,686, respectively).

All options are anti-dilutive.

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

The following table shows the change in warrants:

	Number	Exercise price
Outstanding, August 31, 2019	14,948,710	\$ 0.10
Exercised	(3,200,000)	0.10
Outstanding, February 29, 2020	11,748,710	\$ 0.10
Exercisable, February 29, 2020	11,748,710	\$ 0.10

During the six-month period ended February 29, 2020, the Company recorded an increase in share capital of \$493,554 and a decrease of \$173,554 in contributed surplus as a result of the exercise of 3,200,000 warrants.

# CANNARA BIOTECH INC.

## Notes to Condensed Interim Consolidated Financial Statements

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(Unaudited - in Canadian dollars)

### 12. Research and development

As part of its Canadian Operations (see note 15), the Company had conducted certain activities related to research and development.

During the six-month period ended February 29, 2020, the Company's cultivation and compliance staff researched, tested and developed cultivation methodologies that are expected to generate increased yield and quality which will facilitate the production of a premium cannabis product. The Company received its license to cultivate and process cannabis on January 31, 2020, and as a result, planted its first crop in February 2020 which is expected to be harvested before mid-year. As the Company has yet to successfully harvest its first crop as at February 29, 2020, the initial research and cultivation activities have been considered as research and development. All costs related to these activities, including material and labor costs related to plant inventory, have been expensed as incurred. As at February 29, 2020, the Company had a total of 18,012 plants in the cultivation cycle at the following stages:

- 14,894 plants in vegetation;
- 2,657 plants in flowering; and
- 461 mother plants.

### 13. Net finance expense

	Three-month periods ended		Six-month periods ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Interest income	\$ 87,219	\$ 198,822	\$ 211,220	\$ 258,785
Foreign exchange gain	24,486	–	27,143	–
Finance income	111,705	198,822	238,363	258,785
Interest on mortgage	316,667	341,090	618,535	685,270
Amortization of mortgage financing costs	2,489	3,636	14,338	7,098
Interest on lease liabilities	35,973	33,280	71,191	58,827
Other finance expense	3,432	–	4,083	–
Finance expense	358,561	378,006	708,147	751,195
Net finance expense	\$ 246,856	\$ 179,184	\$ 469,784	\$ 492,410

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

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## 14. Reverse acquisition of Dunbar Capital Cop. by Cannara Biotech (Ops) Inc.

On October 17, 2018, Cannara Ops signed an agreement with Dunbar Capital Corp. ("Dunbar") whereby Dunbar acquired 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.

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:

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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
<hr/>	
Listing expense related to the reverse acquisition of Dunbar	<u>\$ 1,875,243</u>

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2020 and February 28, 2019  
(Unaudited - in Canadian dollars)

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## 14. Reverse acquisition of Dunbar Capital Cop. 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 as a reduction of the share capital, along with investment banking costs of \$1,946,838.

## 15. Segment disclosures

### (a) Reportable segments

The Company operates in two segments: (1) Indoor cannabis operations which encompasses the cultivation, processing and sale of premium dried cannabis and cannabis derivatives exclusively for the Québec and 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 listing expense, 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

For the three and six-month periods ended February 29, 2020 and February 28, 2019

(Unaudited - in Canadian dollars)

## 15. Segment disclosures (continued)

### (a) Reportable segments (continued)

	Three-month period ended February 29, 2020				Three-month period ended February 28, 2019			
	Canadian operations	U.S. operations	Other	Total	Canadian operations	U.S. operations	Other	Total
Revenues:								
Lease revenues	\$ –	\$ –	\$ 641,480	\$ 641,480	\$ –	\$ –	\$ 518,438	\$ 518,438
Product revenues	–	7,354	–	7,354	–	–	–	–
Other income	–	–	19,599	19,599	–	–	–	–
	–	7,354	661,079	668,433	–	–	518,438	518,438
Cost of sale:								
Lease operating costs	–	–	190,352	190,352	–	–	81,836	81,836
Cost of goods sold	–	7,947	–	7,947	–	–	–	–
	–	7,947	190,352	198,299	–	–	81,836	81,836
Segment gross profit	–	(593)	470,727	470,134	–	–	436,602	436,602
Operating expenses	2,666,770	522,053	–	3,188,823	1,375,075	458,451	–	1,833,526
Segment operating income (loss)	(2,666,770)	(522,646)	470,727	(2,718,689)	(1,375,075)	(458,451)	403,602	(1,396,924)
Listing expense related to the reverse acquisition	–	–	–	–	–	–	1,875,243	1,875,243
Share-based compensation	–	–	46,453	46,453	–	–	421,613	421,613
Amortization	–	–	725,074	725,074	–	–	138,962	138,962
Net finance expense	–	–	246,856	246,856	–	–	179,184	179,184
Net loss	\$ (2,666,770)	\$ (522,646)	\$ (547,656)	\$ (3,737,072)	\$ (1,375,075)	\$ (458,451)	\$ (2,178,400)	\$ (4,011,926)

# CANNARA BIOTECH INC.

## Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2020 and February 28, 2019  
(Unaudited - in Canadian dollars)

### 15. Segment disclosures (continued)

#### (a) Reportable segments (continued)

	Six-month period ended February 29, 2020				Six-month period ended February 28, 2019			
	Canadian operations	U.S. operations	Other	Total	Canadian operations	U.S. operations	Other	Total
Revenues:								
Lease revenues	\$ –	\$ –	\$ 1,169,008	\$ 1,169,008	\$ –	\$ –	\$ 1,036,881	\$ 1,036,881
Product revenues	–	13,075	–	13,075	–	–	–	–
Other income	–	–	19,599	19,599	–	–	–	–
	–	13,075	1,188,607	1,201,682	–	–	1,036,881	1,036,881
Cost of sale:								
Lease operating costs	–	–	219,984	219,984	–	–	134,374	134,374
Cost of goods sold	–	11,870	–	11,870	–	–	–	–
	–	11,870	219,984	231,854	–	–	134,374	134,374
Segment gross profit	–	1,205	968,623	969,828	–	–	902,507	902,507
Operating expenses	4,522,784	1,123,022	–	5,645,806	3,565,846	458,451	–	4,024,297
Segment operating income (loss)	(4,522,784)	(1,121,817)	968,623	(4,675,978)	(3,565,846)	(458,451)	902,507	(3,121,790)
Listing expense related to the reverse acquisition	–	–	–	–	–	–	1,875,243	1,875,243
Share-based compensation	–	–	278,808	278,808	–	–	560,686	560,686
Amortization	–	–	1,253,502	1,253,502	–	–	267,023	267,023
Net finance expense	–	–	469,784	469,784	–	–	492,410	492,410
Net loss	\$ (4,522,784)	\$ (1,121,817)	\$ (1,033,471)	\$ (6,678,072)	\$ (3,565,846)	\$ (458,451)	\$ (2,292,855)	\$ (6,317,152)

# CANNARA BIOTECH INC.

## Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2020 and February 28, 2019  
(Unaudited - in Canadian dollars)

### 15. 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 source of revenue

The Company leased 423,551 square feet of the total 625,000 available square feet to third parties. During the second quarter ended February 29, 2020, the Company realized 100% of its lease revenue with three lessees. Tenant A's lease term is until September 30, 2022. Lease revenues from this tenant for the three-month and six-month periods ended February 29, 2020 were \$67,486 and \$134,971. 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 for the three-month and six-month periods ended February 29, 2020 were \$449,139 and \$898,277. Tenant C's lease term is until May 31, 2020. Lease revenues from this tenant for the three-month and six-month periods ended February 29, 2020 were nil and \$110,323.

Income is generated from customers domiciled in Canada.

### 16. 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 were as follows:

	<u>Three-month periods ended</u>		<u>Six-month periods ended</u>	
	<u>February 29,</u> <u>2020</u>	<u>February 28,</u> <u>2019</u>	<u>February 29,</u> <u>2020</u>	<u>February 28,</u> <u>2019</u>
Salaries and benefits	\$ 168,000	\$ 344,231	\$ 336,000	\$ 478,846
Share-based compensation	68,859	276,614	141,566	410,880
Board of Directors' fees	9,000	—	34,500	—
	<u>\$ 245,859</u>	<u>\$ 620,845</u>	<u>\$ 512,066</u>	<u>\$ 889,726</u>

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2020 and February 28, 2019  
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## 16. 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		Six-month periods ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Nature of transactions:				
Management fees <sup>(i)</sup>	\$ 21,480	\$ 109,499	\$ 34,621	\$ 191,163
Interest on mortgage <sup>(i)</sup>	209,958	341,090	460,110	685,270
	\$ 231,438	\$ 450,589	\$ 494,731	\$ 876,433

	February 29, 2020	August 31, 2019
Balances due from (due to) related parties are as follows:		
Accounts receivable <sup>(i)</sup>	\$ –	\$ 5,090
Accounts payable and accrued liabilities <sup>(i)</sup>	(155,601)	(118,904)
Accounts payable to key management personnel <sup>(ii)</sup>	(15,192)	(74,939)
Accounts payable to Board members	(8,000)	–
Accounts payable to a company controlled by a Board member	(68,820)	–
Liabilities for subscription agreement issued by a subsidiary - payable to an executive of the Company	–	(211,000)
Mortgage payable <sup>(i)</sup>	(6,550,000)	(12,550,000)

<sup>(i)</sup> The Company has a Board of Directors 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.

<sup>(ii)</sup> 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.



# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

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## 17. Cash flow information

Net change in non-cash working capital items:

	Three-month periods ended		Six-month periods ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Accounts receivable	\$ 215,356	\$ 365,547	\$ 62,548	\$ 88,283
Sales tax receivable	442,829	(187,679)	137,545	(1,104,209)
Inventory	20,413	–	(253,592)	–
Prepaid expenses	71,041	–	6,214	–
Deposits	6,409	–	(96,925)	–
Accounts payable and accrued liabilities	487,046	(566,886)	(41,138)	710,195
Deferred revenue	28,204	–	28,204	–
	<u>\$ 1,271,298</u>	<u>\$ (389,018)</u>	<u>\$ (157,144)</u>	<u>\$ (305,731)</u>

Supplemental information in the statement of cash flows:

	Three-month periods ended		Six-month periods ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Variation of intangible assets included in accounts payable and accrued liabilities	\$ (31,396)	\$ –	\$ 36,766	\$ –
Variation of property, plant and equipment included in accounts payable and accrued liabilities	(118,025)	812,951	2,588,933	1,903,007
New right-of-use asset and lease liability	25,329	282,679	94,290	282,679

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

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## 18. Financial instruments

Fair value measurements

The fair value of cash and cash equivalents, sales tax receivable, accounts receivable, accounts payable and accrued liabilities and deferred revenue 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.

## 19. Contingencies

In the normal course of business, the Company may be involved in various legal or regulatory 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 statements of financial position or financial performance.

As at February 29, 2020, there are no material claims in favor or against the Company, and, as such, no contingencies were recorded.

## 20. Subsequent event

In March 2020, the COVID-19 outbreak has been declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian and provincial governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and in Canada resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions however the success of these interventions is not currently determinable. The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect our business is not known at this time.

Subsequent to quarter-end, the Company has received various government grants of approximately \$0.5 million related to energy savings and environmental footprint reduction initiatives incorporated into the operations at the Farnham facility.