



CANNARA BIOTECH INC.

Condensed Interim Consolidated Financial Statements

For the three-month periods ended November 30, 2020 and 2019
(Unaudited)

CANNARA BIOTECH INC.

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(Unaudited)

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CANNARA BIOTECH INC.

Condensed Interim Consolidated Statement of Financial Position
As at November 30, 2020 and August 31, 2020
(Unaudited – in Canadian dollars)

	November 30, 2020	August 31, 2020
Assets		
Current assets		
Cash	\$ 4,070,752	\$ 7,771,177
Accounts receivable	207,941	26,370
Sales tax receivable	159,596	251,728
Lease receivable	32,327	30,608
Biological assets (note 3)	554,055	1,313,370
Inventory (note 4)	1,869,134	928,351
Prepaid expenses and other assets	335,754	208,252
	7,229,559	10,529,856
Lease receivable	63,938	72,704
Deposits	352,153	352,153
Deposits on property, plant and equipment	120,794	89,319
Property, plant and equipment (note 5)	43,265,957	43,187,173
Right-of-use asset (note 6)	411,365	456,899
Intangible asset (note 7)	121,223	162,324
	\$ 51,564,989	\$ 54,850,428
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,196,893	\$ 2,915,279
Deferred lease revenue	28,204	28,204
Current portion of long-term debt (note 8)	3,239	2,039
Current portion of deferred grant income	22,162	22,162
Current portion of lease liabilities (note 6)	210,827	209,268
Current portion of mortgages payable (note 8)	300,000	300,000
	2,761,325	3,476,952
Other long-term liabilities	–	75,000
Long-term debt (note 8)	5,136	7,124
Lease liabilities (note 6)	390,228	442,496
Credit facilities (note 8)	972,216	–
Deferred grant income	504,192	509,732
Mortgages payable (note 8)	11,902,481	11,974,263
	16,535,578	16,485,567
Shareholders' equity		
Share capital (note 9)	58,371,664	58,361,592
Contributed surplus	7,170,274	7,034,550
Deficit	(30,572,039)	(27,077,006)
Accumulated other comprehensive gain	59,512	45,725
Total equity	35,029,411	38,364,861
Contingencies (note 14)		
Subsequent events (note 18)		
	\$ 51,564,989	\$ 54,850,428

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statement of Net Loss and Comprehensive Loss
For the three-month periods ended November 30, 2020 and 2019
(Unaudited)

	Three-month periods ended	
	November 30, 2020	November 30, 2019
Revenue		
Revenue from sale of goods (note 15)	\$ 777,406	\$ 5,721
Lease revenue	556,932	527,528
Other income	33,843	–
	1,368,181	533,249
Cost of sales		
Cost of goods sold (note 4)	773,189	3,923
Lease operating costs	98,847	29,632
Gross profit before fair value adjustments	496,145	499,694
Changes in fair value of inventory sold (note 4)	(203,310)	–
Unrealized loss on changes in fair value of biological assets (note 3)	(790,195)	–
Gross profit (loss)	(497,360)	499,694
Operating expenses		
General and administrative (note 11)	1,143,535	1,691,419
Research and development	550,394	–
Selling, marketing and promotion	265,079	217,531
Professional and legal fees	323,344	548,033
Share-based compensation (note 10)	103,721	232,355
Amortization (note 5, 6 and 7)	274,489	528,428
	2,660,562	3,217,766
Operating loss	(3,157,922)	(2,718,072)
Net finance expense (note 12)	337,111	222,928
Net loss	(3,495,033)	(2,941,000)
Other comprehensive loss		
Foreign currency translation adjustments	13,787	(3,233)
Total comprehensive loss	\$ (3,481,246)	\$ (2,944,233)
Total net loss attributable to:		
Shareholders of the Company	(3,495,033)	(2,719,232)
Non-controlling interest	–	(221,768)
Total net loss	\$ (3,495,033)	\$ (2,941,000)
Total comprehensive loss attributable to:		
Shareholders of the Company	(3,481,246)	(2,721,211)
Non-controlling interest	–	(223,022)
Total comprehensive loss	\$ (3,481,246)	\$ (2,944,233)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)
Weighted average number of outstanding shares	737,746,649	706,913,562

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statement of Changes in Equity
For the three-month periods ended November 30, 2020 and 2019
(Unaudited)

	For the three-month period ended November 30, 2020					
	Attributable to the shareholders of the Company					
	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive gain	Total equity
As at August 31, 2020	737,738,815	\$ 58,361,592	\$ 7,034,550	\$ (27,077,006)	\$ 45,725	\$ 38,364,861
Net loss	-	-	-	(3,495,033)	-	(3,495,033)
Other comprehensive loss						
Foreign currency translation adjustments	-	-	-	-	13,787	13,787
Comprehensive loss	-	-	-	(3,495,033)	13,787	(3,481,246)
Share-based compensation (note 10)						
Employee compensation	-	-	131,836	-	-	131,836
Other services	-	-	3,888	-	-	3,888
	-	-	135,724	-	-	135,724
Transaction with shareholders of the Company						
Issuance of shares to settle a liability (note 9)	100,720	10,072	-	-	-	10,072
As at November 30, 2020	737,839,535	\$ 58,371,664	\$ 7,170,274	\$ (30,572,039)	\$ 59,512	\$ 35,029,411

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statement of Changes in Equity
For the three-month periods ended November 30, 2020 and 2019
(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									
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	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 Cash Flows
For the three-month periods ended November 30, 2020 and 2019
(Unaudited)

	November 30, 2020	November 30, 2019
Cash provided by (used in):		
Operating		
Net loss	\$ (3,495,033)	\$ (2,941,000)
Items not involving cash:		
Changes in fair value of inventory sold (note 4)	203,310	–
Unrealized loss on changes in fair value of biological assets (note 3)	790,195	–
Amortization of property, plant and equipment (note 5)	621,221	476,830
Amortization of right-of-use asset (note 6)	45,534	42,210
Amortization of intangible asset (note 7)	41,047	9,388
Interest on lease liabilities (note 6)	29,685	35,218
Interest expense (note 12)	299,467	301,868
Interest income (note 12)	(16,946)	(124,001)
Share-based compensation (note 10)	135,724	232,355
Amortization of financing costs (note 8)	6,672	11,849
Other	154	–
Net change in non-cash operating: Working capital items (note 17)	(2,152,407)	(1,428,442)
	(3,491,377)	(3,383,725)
Financing		
Warrants exercised	–	20,000
Proceeds from credit facilities (note 8)	1,000,000	–
Deferred credit facilities costs (note 8)	(31,238)	–
Proceeds from mortgage	–	6,000,000
Deferred mortgage costs	–	(23,695)
Mortgage payments (note 8)	(75,000)	(6,025,000)
Interest paid (note 8)	(191,088)	(301,868)
Lease payments (note 6)	(80,394)	(68,904)
	621,394	(399,467)
Investing		
Interest received	15,114	88,781
Deposits on property, plant and equipment	(31,475)	–
Acquisitions of property, plant and equipment (note 5)	(827,922)	(5,785,580)
Additions to intangible asset	–	(58,663)
	(844,283)	(5,755,462)
Net change in cash	(3,714,266)	(9,538,654)
Effect of foreign exchange on cash	13,841	(3,233)
Cash, beginning of period	7,771,177	26,505,992
Cash, end of period	\$ 4,070,752	\$ 16,964,105

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements
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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 will offer its product for sale 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 completed 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 on January 31, 2020, further amended on January 6, 2021, to permit Cannara to sell dried cannabis products to provincial retail distributors in Canada. The Company now has the necessary licences to start delivering cannabis products to the Société québécoise du cannabis ("SQDC") under its existing Letter of Intent.

Cannara has only generated limited product revenues and limited ancillary cannabis revenues since the Company required an amendment to its licence to permit it to sell its dried cannabis products to provincial retail distributors, which occurred after the end of the first quarter of 2021. The Company has incurred net losses of approximately \$3.5 million during the three-month period ended November 30, 2020 (November 30, 2019 - \$2.9 million) and has a deficit of approximately \$30.6 million as at November 30, 2020 (August 31, 2020 - \$27.1 million). The Company expects that its existing cash resources of \$4.1 million as at November 30, 2020, along with cash received subsequent to quarter-end from its credit facilities and commercial sales (note 18), will enable it to fund its planned operating expenses for at least the next twelve months from November 30, 2020.

The Company anticipates that it will continue to incur losses until commercialization activities have been ramped up. The Company expects to finance its operations through existing cash, and/or a combination of public or private equity and debt financing or other sources. 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
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(Unaudited)

1. Nature of operations

COVID-19

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 physical distancing, have caused material disruptions 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. 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. Currently, the effects of COVID-19 have had limited impact on the business; however, the situation is dynamic, and the ultimate duration and magnitude of the impact on the economy and on our business are not known at this time.

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 29, 2021.

(b) Basis of preparation

The condensed interim consolidated financial statements were prepared using the same accounting policies as set forth in Notes 2 and 3 in the audited financial statements of the Company for the year ended August 31, 2020. 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, 2020.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements
For the three-month periods ended November 30, 2020 and 2019
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2. Basis of preparation and significant accounting policies (continued)

(b) Basis of preparation

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, 2020.

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3. Biological assets

The Company's biological assets consist of cannabis plants up to the point of harvest. The changes in the carrying values of biological assets are as follows:

Carrying amount, as at August 31, 2020	\$	1,313,370
Production costs capitalized		1,313,530
Net change in fair value due to biological transformation, less cost to sell		(790,195)
Transferred to inventory upon harvest		(1,282,650)
<hr/>		
Carrying amount, as at November 30, 2020	\$	554,055

The estimates used in determining the fair value of cannabis plants are as follows:

- expected average wholesale and retail selling price per gram of harvested cannabis;
- expected cost to complete and cost to sell;
- expected yield per cannabis plant;
- stage of completion in the production process (days remaining until harvest); and
- expected plant loss based on their various stages of growth.

The valuation of biological assets is based on an income approach in which the fair value at the point of harvesting is estimated based on selling prices less the costs to sell. For in-process biological assets, the fair value at point of harvest is adjusted based on the stage of growth at period-end. Stage of growth is determined by reference to the time incurred as a percentage of total weeks of growth as applied to estimated total fair value per gram (less costs to complete and costs to sell) to arrive at an in-process fair value for estimated biological assets, which have not yet been harvested.

Because there is no actively traded commodity market for cannabis plants and dried product, the valuation of the biological assets is obtained using valuations techniques where the inputs are based upon unobservable market data and are classified as level 3 in the fair market value hierarchy. There has been no transfer between levels as at November 30, 2020.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements
For the three-month periods ended November 30, 2020 and 2019
(Unaudited)

3. Biological assets (continued)

Management's identified significant unobservable inputs, their values and sensitivity analysis are presented in the tables below.

The income approach calculates the present value of expected future cash flows from the Company's biological assets using the following inputs for the period ended November 30, 2020:

Unobservable inputs	Input values	Sensitivity analysis
<i>Average wholesale and retail selling price</i> Represents the average expected wholesale and retail selling price per gram of dried cannabis, excluding excise taxes, where applicable, which is expected to approximate future wholesale and retail selling prices.	\$0.85 to \$3.50 per gram	An increase or decrease of 5% applied to the average selling price would result in a change of approximately \$53,000 to the valuation.
<i>Yield per plant</i> Represents the average number of grams of dried cannabis expected to be harvested from each cannabis plant.	50 grams per plant	An increase or decrease of 5% applied to the average yield per plant would result in a change of approximately \$29,000 to the valuation.
<i>Stage of completion</i> Calculated by taking the average number of days in the cultivation cycle over the total estimated duration of a cultivation cycle which is currently approximately 13 to 14 weeks from clone to harvest.	weighted average stage of completion is 47%	An increase or decrease of 5% applied to the average stage of growth per plant would result in a change of approximately \$29,000 to the valuation.

The Company's estimates are, by their nature, subject to change, and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

As at November 30, 2020, it is expected that the Company's biological assets will yield approximately 1,146 kilograms of dried cannabis when harvested.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements
For the three-month periods ended November 30, 2020 and 2019
(Unaudited)

4. Inventory

The inventory consists of the following:

	November 30, 2020		
	Capitalized cost	Fair value adjustment	Total
Raw materials - cultivation and supplies	\$ 379,420	\$ -	\$ 379,420
Finished goods - U.S. hemp-based CBD products for resale	134,697	-	134,697
Harvested cannabis			
Dried cannabis and work-in-progress	1,155,048	(64,027)	1,091,021
Finished goods – bulk packaging	247,620	16,376	263,996
	\$ 1,916,785	\$ (47,651)	\$ 1,869,134

	August 31, 2020		
	Capitalized cost	Fair value adjustment	Total
Raw materials - cultivation and supplies	\$ 295,602	\$ -	\$ 295,602
Finished goods - U.S. hemp-based CBD products for resale	168,387	-	168,387
Harvested cannabis			
Dried cannabis and work-in-progress	357,079	(30,470)	326,609
Finished goods – bulk packaging	105,731	32,022	137,753
	\$ 926,799	\$ 1,552	\$ 928,351

The amount of inventory expensed as cost of goods sold during the three-month period ended November 30, 2020 was \$773,189 (2019 – \$3,923), including an impairment loss on inventory of \$210,493 for cannabis that cost exceeds its net realizable value.

The realized fair value on inventory sold during the three-month period ended November 30, 2020 was \$203,310 (2019 – nil).

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements
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(Unaudited)

5. Property, plant and equipment

	Land	Buildings	Facility production equipment	Computer equipment and software	Vehicles	Furniture and fixtures	Total
Cost							
Balance as at August 31, 2020	\$ 1,104,963	\$ 37,629,164	\$ 4,660,531	\$ 1,191,489	\$ 9,940	\$ 1,340,126	\$ 45,936,213
Additions	–	399,045	300,960	–	–	–	700,005
Balance as at November 30, 2020	\$ 1,104,963	\$ 38,028,209	\$ 4,961,491	\$ 1,191,489	\$ 9,940	\$ 1,340,126	\$ 46,636,218
Accumulated depreciation							
Balance as at August 31, 2020	\$ –	\$ (2,038,419)	\$ (347,506)	\$ (211,813)	\$ (553)	\$ (150,749)	\$ (2,749,040)
Amortization	–	(421,729)	(112,268)	(51,280)	(498)	(35,446)	(621,221)
Balance as at November 30, 2020	\$ –	\$ (2,460,148)	\$ (459,774)	\$ (263,093)	\$ (1,051)	\$ (186,195)	\$ (3,370,261)
Net book value							
Balance as at November 30, 2020	\$ 1,104,963	\$ 35,568,061	\$ 4,501,717	\$ 928,396	\$ 8,889	\$ 1,153,931	\$ 43,265,957

During the three-month period ended November 30, 2020, the Company recognized \$621,221 as depreciation expense (2019 - \$476,830), of which \$187,908 has been recognized in the consolidated statement of loss and comprehensive loss and \$433,313 has been included in the calculation of the cannabis valuation (2019 - nil).

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Notes to Condensed Interim Consolidated Financial Statements
For the three-month periods ended November 30, 2020 and 2019
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5. Property, plant and equipment (continued)

	Land	Buildings	Facility production equipment	Computer equipment and software	Vehicles	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	–	25,768,461	4,696,917	1,138,107	9,940	1,273,561	(26,019,310)	6,867,676
Disposal	–	(27,956)	(28,790)	–	–	–	–	(56,746)
Impairment	–	(27,598)	(7,596)	–	–	–	–	(35,194)
Balance as at								
August 31, 2020	\$ 1,104,963	\$ 37,629,164	\$ 4,660,531	\$ 1,191,489	\$ 9,940	\$ 1,340,126	\$ –	\$ 45,936,213
Accumulated depreciation								
Balance as at								
August 31, 2019	\$ –	\$ (480,232)	\$ –	\$ (14,604)	\$ –	\$ (15,264)	\$ –	\$ (510,100)
Amortization	–	(1,558,187)	(347,506)	(197,209)	(553)	(135,485)	–	(2,238,940)
Balance as at								
August 31, 2020	\$ –	\$ (2,038,419)	\$ (347,506)	\$ (211,813)	\$ (553)	\$ (150,749)	\$ –	\$ (2,749,040)
Net book value								
Balance as at								
August 31, 2020	\$ 1,104,963	\$ 35,590,745	\$ 4,313,025	\$ 979,676	\$ 9,387	\$ 1,189,377	\$ –	\$ 43,187,173

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Notes to Condensed Interim Consolidated Financial Statements
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6. Right-of-use asset and lease liabilities

(a) Right-of-use asset

	November 30, 2020
Cost	
Balance, beginning and end of period	\$ 765,780
Accumulated depreciation	
Balance, beginning of period	\$ (308,881)
Amortization	(45,534)
Balance, end of period	\$ (354,415)
Net book value	
Balance as at November 30, 2020	\$ 411,365
Balance as at August 31, 2020	456,899

(b) Lease liabilities

	November 30, 2020	August 31, 2020
Maturity analysis - contractual undiscounted cash flows:		
Less than one year	\$ 304,383	\$ 312,867
One to five years	474,098	521,895
Total undiscounted lease liabilities	\$ 778,481	\$ 834,762
Current	\$ 210,827	\$ 209,268
Non-current	390,228	442,496
Lease liabilities included in the condensed interim consolidated statement of financial position	\$ 601,055	\$ 651,764
Balance as at August 31, 2020		\$ 651,764
Rent paid		(80,394)
Interest on lease liabilities		29,685
Balance as at November 30, 2020	\$ 601,055	

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Notes to Condensed Interim Consolidated Financial Statements
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7. Intangible asset

	November 30, 2020
Net carrying value, August 31, 2020	\$ 162,324
Amortization	(41,047)
Foreign currency translation adjustments	(54)
Net carrying value, November 30, 2020	\$ 121,223

The intangible asset relates to the e-commerce platform, ShopCBD.com.

8. Financing

(a) Mortgages payable

Net carrying value, August 31, 2020	\$ 12,274,263
Payments	(75,000)
Amortization of deferred financing costs	3,218
Net carrying value, November 30, 2020	\$ 12,202,481

	November 30, 2020	August 31, 2020
Mortgage payable, bearing interest at 13% per annum due monthly, repayable entirely in a lump sum on March 6, 2022 ⁽ⁱ⁾	\$ 6,550,000	\$ 6,550,000
Less: unamortized financing costs	(4,059)	(6,855)
Mortgage payable, bearing interest at prime plus 2% per annum, \$25,000 due monthly, repayable over 240 equal installments, ending on October 9, 2039 ⁽ⁱⁱ⁾	5,675,000	5,750,000
Less: unamortized financing costs	(18,460)	(18,882)
	12,202,481	12,274,263
Short-term portion of mortgages payable	(300,000)	(300,000)
	\$ 11,902,481	\$ 11,974,263

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8. Financing (continued)

(a) Mortgages payable

- (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, 2020 the Company recognized \$212,292 as interest expense (2019 - \$250,152) for this mortgage. As at November 30, 2020, accrued interest of \$69,986 was included in accounts payable and accrued liabilities (2019 - \$144,638). On November 26, 2020, the Company obtained a letter to extend the maturity date from September 6, 2021 to March 6, 2022.
- (ii) As at November 30, 2020, the interest rate related to this mortgage was 4.45%. 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. During the three-month period ended November 30, 2020, the Company recognized \$63,312 as interest expense (2019 - \$51,716) for this mortgage. As at November 30, 2020, accrued interests of \$14,530 were included in accounts payable and accrued liabilities (2019 - \$15,423).

(b) Long-term debt

The long-term debt was incurred to finance the purchase of certain equipment. The debt is reimbursable monthly over 36 equal installments, ending May 2023, and does not bear interest.

	November 30, 2020	August 31, 2020
Maturity analysis - contractual undiscounted cash flows:		
Less than one year	\$ 3,546	\$ 3,546
One to five years	5,318	6,205
Total undiscounted long-term debt	\$ 8,864	\$ 9,751
Current	\$ 3,239	\$ 2,039
Non-current	5,136	7,124
Long-term debt included in the consolidated statement of financial position	\$ 8,375	\$ 9,163

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8. Financing (continued)

(c) Credit facilities

Net carrying value, August 31, 2020	\$	–
Proceeds from credit facilities		1,000,000
Deferred financing costs		(31,238)
Amortization of deferred financing costs		3,454
Net carrying value, November 30, 2020	\$	972,216

November 30,
2020

Credit Facilities, bearing interest at 13% per annum due monthly, repayable entirely in a lump sum on March 25, 2022 ⁽ⁱ⁾	\$	1,000,000
Less: unamortized financing costs		(27,784)
	\$	972,216

⁽ⁱ⁾ The credit facilities are secured by a first ranking movable hypothec over a universality of movable property, present and future, corporeal and incorporeal. As at November 30, 2020, the Company had \$4,00,000 remaining to withdraw on the credit facilities in monthly tranches of \$1,000,000. Repayment of the credit facilities is required within eighteen months of disbursement.

9. Share capital

(a) Authorized

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

(b) Transactions on share capital

On November 23, 2020, the Company issued a total of 100,720 shares to settle a liability to a third party in the amount of \$10,072.

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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.

The activity of outstanding share options for the three-month period ended November 30, 2020 was as follows:

	Number	Weighted average exercise price
Outstanding, beginning of period	41,929,793	\$ 0.20
Granted	250,000	0.18
Forfeited	(1,019,583)	0.11
Expired	(174,792)	0.18
Outstanding, end of period	40,985,418	\$ 0.20
Exercisable, end of period	25,304,513	\$ 0.23

During the first quarter ended November 30, 2020, the Company granted 250,000 options that vest immediately.

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

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10. 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 the following inputs and assumptions:

Granted	Three-month period ended November 30, 2020	
Share price	\$	0.09
Exercise price	\$	0.18
Risk-free interest rate ⁽ⁱ⁾		0.32%
Expected life ⁽ⁱⁱ⁾		5 years
Expected price volatility ⁽ⁱⁱⁱ⁾		101%
Fair value of the option	\$	0.05
Expected dividend yield ^(iv)		Nil

- (i) The risk-free interest rate was based on the Bank of Canada government bonds rates in effect at grant date for time periods approximately equal to the expected life of the option.
- (ii) The expected life of the options reflects the assumption of future exercise patterns that may occur.
- (iii) Expected price volatility was estimated based on historical volatility of the Company's shares.
- (iv) 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 period ended November 30, 2020, the Company recorded a share-based compensation expense of \$135,724 (2019 - \$232,355), for which \$103,721 was recognized in the consolidated statement of loss and comprehensive loss and \$32,003 was classified in the calculation of the cannabis valuation.

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11. General and administrative

	Three-month periods ended	
	November 30, 2020	November 30, 2019
Salaries and benefits	\$ 703,760	\$ 948,685
Office and regulatory	203,056	360,509
Facility expense	216,927	285,640
Travel	19,792	96,585
General and administrative	\$ 1,143,535	\$ 1,691,419

12. Net finance expense

	Three-month periods ended	
	November 30, 2020	November 30, 2019
Interest income	\$ 16,946	\$ 124,001
Foreign exchange gain	–	2,657
Finance income	16,946	126,658
Interest on mortgage payable	275,604	301,868
Interest on credit facilities	23,863	–
Interest on lease liabilities	29,685	35,218
Amortization of financing costs	6,672	11,849
Other finance expense	98	651
Foreign exchange loss	18,135	–
Finance expense	354,057	349,586
Net finance expense	\$ 337,111	\$ 222,928

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13. Financial instruments

Fair value measurements

The fair value of cash, accounts receivable, accounts payable and accrued liabilities approximates their carrying amounts due to the short-term maturity of those instruments.

The fair value of the long-term debt, credit facilities and mortgages payable approximates their carrying amounts, as the interest rate approximates the current market rate.

14. Contingencies

In the normal course of business, the Company may be involved in various legal and regulatory proceedings. 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, 2020, there are no material claims in favor or against the Company.

15. Segment disclosures

(a) Reportable segments

The Company operates in two segments: (1) Indoor cannabis operations which encompasses the cultivation, processing and sale of dried cannabis and cannabis derivatives exclusively for the Quebec and Canadian market ("Cannabis operations") and (2) Real estate operations related to the Farnham building ("Real estate 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. Categorized as Other are items related to U.S. hemp-based CBD products revenues and related operating costs. 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, 2020.

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15. Segment disclosures (continued)

(a) Reportable segments (continued)

	Three-month period ended November 30, 2020				Three-month period ended November 30, 2019			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Revenue								
Revenue from sale of goods	\$ 679,125	\$ –	\$ 98,281	\$ 777,406	\$ –	\$ –	\$ 5,721	\$ 5,721
Lease revenue	–	556,932	–	556,932	–	527,528	–	527,528
Other income	33,843	–	–	33,843	–	–	–	–
	712,968	556,932	98,281	1,368,181	–	527,528	5,721	533,249
Cost of sales								
Cost of goods sold	689,955	–	83,234	773,189	–	–	3,923	3,923
Lease operating costs	–	98,847	–	98,847	–	29,632	–	29,632
Segment gross profit before fair value adjustments	23,013	458,085	15,047	496,145	–	497,896	1,798	499,694
Changes in fair value of inventory sold	(203,310)	–	–	(203,310)	–	–	–	–
Unrealized loss on changes in fair value of biological assets	(790,195)	–	–	(790,195)	–	–	–	–
Segment gross profit (loss)	(970,492)	458,085	15,047	(497,360)	–	497,896	1,798	499,694
Operating expenses	2,036,321	–	246,031	2,282,352	1,856,014	–	600,969	2,456,983
Segment operating income (loss)	(3,006,818)	458,085	(230,984)	(2,779,717)	(1,856,014)	497,896	(599,171)	(1,957,289)
Share-based compensation	–	–	103,721	103,721	–	–	232,355	232,355
Amortization	–	–	274,489	274,489	–	–	528,428	528,428
Net finance expense	–	–	337,111	337,111	–	–	222,928	222,928
Net income (loss)	\$ (3,006,813)	\$ 458,085	\$ (946,305)	\$ (3,495,033)	\$ (1,856,014)	\$ 497,896	\$ (1,582,882)	\$ (2,941,000)

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15. Segment disclosures (continued)

(b) Entity-wide disclosures

All property, plant and equipment are located in Canada. All intangible assets are located in the United States.

(c) Sources of lease revenues

The Company leased 333,551 square feet of the total 625,000 available square feet to third parties. For the period ended November 30, 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 period ended November 30, 2020 amounted to \$67,486.
- Tenant B's lease term ended October 31, 2020. Lease revenues from this tenant for the period ended November 30, 2020 amounted to \$299,426.
- Starting November 1, 2020, Tenant C rented the exact same space as previous tenant until October 31, 2022, if renewal clauses are not exercised. Lease revenues from this tenant for the period ended November 30, 2020 amounted to \$190,020.

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 for the three-month periods ended November 30, 2020 and 2019, were as follows:

	Three-month periods ended	
	November 30, 2020	November 30, 2019
Salaries and benefits	\$ 84,000	\$ 168,000
Shared-based compensation	16,184	72,707
Board of Directors' fees	11,250	34,500
	<u>\$ 111,434</u>	<u>\$ 275,207</u>

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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	
	November 30, 2020	November 30, 2019
Nature of transactions:		
Management fees and other expenses ⁽ⁱ⁾	\$ 7,743	\$ 13,141
Interest on mortgage payable and credit facilities ⁽ⁱ⁾	236,155	250,152
	\$ 243,898	\$ 263,293

	November 30, 2020	August 31, 2020
Balances due from (due to) related parties is as follows:		
Accounts payable and accrued liabilities ⁽ⁱ⁾	\$ (93,849)	\$ (144,638)
Accounts payable to key management personnel ⁽ⁱⁱ⁾	–	(29,808)
Accounts payable to Board of Directors members	–	(12,500)
Credit facilities ⁽ⁱ⁾	(1,000,000)	–
Mortgage payable ⁽ⁱ⁾	(6,550,000)	(6,550,000)

⁽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, the credit facilities and the related mortgage payable.

⁽ⁱⁱ⁾ Accounts payable 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.

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17. Cash flow information

Net change in non-cash working capital items:

	Three-month periods ended	
	November 30, 2020	November 30, 2019
Accounts receivable	\$ (185,083)	\$ 152,808
Sales tax receivable	92,132	(305,284)
Lease receivable	12,335	–
Biological assets	(1,313,530)	–
Inventory	138,557	(274,005)
Prepaid expenses and other assets	(127,502)	(64,827)
Deposits	–	(103,334)
Accounts payable and accrued liabilities	(763,776)	(528,184)
Deferred grant income	(5,540)	–
	<u>\$ (2,152,407)</u>	<u>\$ (1,428,442)</u>

Supplemental information in the statement of cash flows:

	Three-month periods ended	
	November 30, 2020	November 30, 2019
Variation of property, plant and equipment included in accounts payable and accrued liabilities	\$ 127,917	\$ 488,605
Addition to right-of-use assets and lease liabilities	–	68,961

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18. Subsequent events

Financing

Subsequent to quarter-end, the Company drew down a further \$2 million from its credit facilities referred to in note 8(c) with a related party to support cash flows until the Company starts generating revenue from its provincial retail distribution channels.

Stock options

During December 2020, the Company granted 722,000 options at an exercise price of \$0.18 that vest in accordance with the employee share option plan.

Sale licence

On January 6, 2021, the Company received an amendment to its licence that will allow the Company to sell its dried cannabis products to provincial retail distributors. The Company now has the necessary licences to start delivering cannabis products to the SQDC under its existing Letter of Intent.

Wholesale Contract

On January 21, 2021, the Company completed its first shipment of 201.61 kg of dried cannabis to its wholesale partner under its one-year supply agreement to provide approximately 200 kg of dried cannabis monthly commencing January 2021.