



CANNARA BIOTECH INC.

Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended

May 31, 2021 and 2020

(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 May 31, 2021 and August 31, 2020
(Unaudited - in Canadian dollars)

	May 31, 2021	August 31, 2020
Assets		
Current assets		
Cash	\$ 5,563,680	\$ 7,771,177
Accounts receivable	2,394,169	26,370
Sales tax receivable	–	251,728
Lease receivable	36,062	30,608
Biological assets (note 3)	2,187,590	1,313,370
Inventory (note 4)	3,368,714	928,351
Prepaid expenses and other assets	312,789	208,252
	13,863,004	10,529,856
Lease receivable	44,901	72,704
Deposits	396,114	352,153
Deposits on property, plant and equipment	280,130	89,319
Property, plant and equipment (note 5)	42,983,652	43,187,173
Right-of-use asset (note 6)	320,296	456,899
Intangible asset (note 7)	37,625	162,324
	\$ 57,925,722	\$ 54,850,428
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,930,181	\$ 2,915,279
Sales tax payable	180,009	–
Deferred lease revenue	37,878	28,204
Current portion of long-term debt (note 8)	3,311	2,039
Current portion of deferred grant income	32,043	22,162
Current portion of lease liabilities (note 6)	214,180	209,268
Current portion of mortgages payable (note 8)	300,000	300,000
	4,697,602	3,476,952
Other long-term liabilities	–	75,000
Long-term debt (note 8)	3,462	7,124
Lease liabilities (note 6)	277,940	442,496
Credit facilities (note 8)	3,981,191	–
Deferred grant income	713,090	509,732
Mortgages payable (note 8)	11,757,207	11,974,263
	21,430,492	16,485,567
Shareholders' equity		
Share capital (note 9)	59,021,592	58,361,592
Contributed surplus	7,012,032	7,034,550
Deficit	(29,736,992)	(27,077,006)
Accumulated other comprehensive gain	198,598	45,725
Total equity	36,495,230	38,364,861
Contingencies (note 14)		
Subsequent events (note 18)		
	\$ 57,925,722	\$ 54,850,428

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)
For the three and nine-month periods ended May 31, 2021 and 2020
(Unaudited - in Canadian dollars)

	Three-month periods ended		Nine-month periods ended	
	May 31, 2021	May 31, 2020	May 31, 2021	May 31, 2020
Revenue				
Revenue from sale of goods	\$ 7,015,475	\$ 41,237	\$ 9,032,659	\$ 54,312
Excise taxes	(1,108,790)	–	(1,131,922)	–
Net revenue from sale of goods	5,906,685	41,237	7,900,737	54,312
Lease revenues	809,913	710,272	2,119,302	1,879,280
Other income	442,733	12,397	765,227	31,996
	7,159,331	763,906	10,785,266	1,965,588
Cost of revenue				
Cost of goods sold (note 4)	3,562,739	29,607	5,101,775	41,477
Lease operating costs	90,314	87,671	382,806	307,655
Gross profit before fair value adjustments	3,506,278	646,628	5,300,685	1,616,456
Changes in fair value of inventory sold (note 4)	(1,526,050)	–	(2,177,245)	–
Unrealized gain on changes in fair value of biological assets (note 3)	2,438,896	69,113	2,893,533	69,113
	4,419,124	715,741	6,016,973	1,685,569
Operating expenses				
General and administrative (note 11)	828,505	952,038	2,841,691	4,651,930
Research and development	443,470	1,340,833	1,676,763	1,938,883
Selling, marketing and promotion	311,097	262,741	819,000	664,698
Professional and legal fees	251,232	306,065	929,538	1,251,972
Share-based compensation (note 10)	88,796	25,064	242,336	303,872
Amortization (notes 5, 6 and 7)	236,709	113,654	762,832	1,367,156
Gain on sublease on initial recognition	–	(25,894)	–	(25,894)
Loss on disposal of property, plant and equipment	–	–	54,224	–
	2,159,809	2,974,501	7,326,384	10,152,617
Operating income (loss)	2,259,315	(2,258,760)	(1,309,411)	(8,467,048)
Net finance expense (note 12)	561,513	248,343	1,350,575	718,127
Net income (loss)	1,697,802	(2,507,103)	(2,659,986)	(9,185,175)
Other comprehensive income (loss)				
Foreign currency translation adjustments	100,261	(6,159)	152,873	(21,726)
Total comprehensive income (loss)	\$ 1,798,063	\$ (2,513,262)	\$ (2,507,113)	\$ (9,206,901)
Net income (loss) attributable to:				
Shareholders of the Company	\$ 1,697,802	\$ (2,374,841)	\$ (2,659,986)	\$ (8,623,108)
Non-controlling interest	–	(132,262)	–	(562,067)
	\$ 1,697,802	\$ (2,507,103)	\$ (2,659,986)	\$ (9,185,175)
Total comprehensive income (loss) attributable to:				
Shareholders of the Company	\$ 1,798,063	\$ (2,378,612)	\$ (2,507,113)	\$ (8,636,410)
Non-controlling interest	–	(134,650)	–	(570,491)
	\$ 1,723,621	\$ (2,513,262)	\$ (2,507,113)	\$ (9,206,901)
Basic earnings (loss) per share	\$ 0.01	\$ (0.01)	\$ (0.01)	\$ (0.01)
Diluted earnings (loss) per share	0.01	(0.01)	(0.01)	(0.01)
Weighted average number of outstanding shares	738,796,028	711,167,444	738,703,055	708,360,851

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Changes in Equity
For the nine-month periods ended May 31, 2021 and 2020
(Unaudited - in Canadian dollars)

	Attributable to the shareholders of the Company				Accumulated other comprehensive income	Total equity
	Shares	Share capital	Contributed surplus	Deficit		
As at August 31, 2020	\$ 737,738,815	\$ 58,361,592	\$ 7,034,550	\$ (27,077,006)	\$ 45,725	\$ 38,364,861
Net loss	–	–	–	(2,659,986)	–	(2,659,986)
Other comprehensive loss:						
Foreign currency translation adjustments	–	–	–	–	152,873	152,873
Comprehensive loss	–	–	–	(2,659,986)	152,873	(2,507,113)
Share-based compensation (note 10):						
Employee compensation	–	–	200,832	–	–	200,832
Other services	–	–	62,400	–	–	62,400
	–	–	263,232	–	–	263,232
Exercise of stock options	3,625,000	648,250	(285,750)	–	–	362,500
Issuance of shares to settle a liability (note 9)	117,506	11,750	–	–	–	11,750
As at May 31, 2021	\$ 741,481,321	\$ 59,021,592	\$ 7,012,032	\$ (29,736,992)	\$ 198,598	\$ 36,495,230

	Attributable to the shareholders of the Company						Accumulated other comprehensive loss	Total	Non-controlling interest	Total equity
	Shares	Share capital	Shares to be issued	Contributed surplus	Deficit					
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 and comprehensive loss	–	–	–	–	(8,623,108)	–	(8,623,108)	(562,067)	(9,185,175)	
Other comprehensive loss										
Foreign currency translation adjustments	–	–	–	–	–	(13,302)	(13,302)	(8,424)	(21,726)	
Comprehensive loss	–	–	–	–	(8,623,108)	(13,302)	(8,636,410)	(570,491)	(9,206,901)	
Share-based compensation (note 10)										
Employee compensation	–	–	–	367,075	–	–	367,075	–	367,075	
Other services	–	–	–	(41,198)	–	–	(41,198)	–	(41,198)	
	–	–	–	325,877	–	–	325,877	–	325,877	
Warrants exercised	4,856,000	748,968	–	(263,368)	–	–	485,600	–	485,600	
Warrants exercised - shares to be issued	–	–	104,880	(36,880)	–	–	68,000	–	68,000	
As at May 31, 2020	711,626,705	\$ 55,674,965	\$ 104,880	\$ 6,702,412	\$ (23,051,054)	\$ (23,401)	\$ 39,407,802	\$ 2,193,290	\$ 41,601,092	

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Cash Flows

For the three and nine-month periods ended May 31, 2021 and 2020

(Unaudited - in Canadian dollars)

	Three-month periods ended		Nine-month periods ended	
	May 31, 2021	May 31, 2020	May 31, 2021	May 31, 2020
Cash provided by (used in):				
Operating:				
Net income (loss)	\$ 1,697,802	\$ (2,507,103)	\$ (2,659,986)	\$ (9,185,175)
Items not involving cash:				
Changes in fair value				
of inventory sold (note 4)	1,526,050	–	2,177,245	–
Unrealized gain on changes in				
fair value of biological assets (note 3)	(2,438,896)	(69,113)	(2,893,533)	(69,113)
Amortization of property,				
plant and equipment (note 5)	686,957	525,115	1,973,952	1,647,815
Amortization of right-of-use assets				
(note 6)	45,535	52,994	136,603	146,296
Amortization of intangible asset (note 7)	38,642	28,027	119,407	65,527
Loss on disposal of property, plant				
and equipment	–	–	54,224	–
Gain on sublease on initial recognition	–	(25,894)	–	(25,894)
Interest on lease liabilities	24,894	39,812	81,539	111,003
Interest expense (note 12)	401,234	284,267	1,054,743	902,802
Interest income	(11,140)	(31,782)	(38,454)	(243,002)
Share-based compensation (note 10)	99,720	47,069	263,232	325,877
Amortization of financing costs (note 8)	5,979	20,552	20,373	34,890
Other	139	–	439	–
Net change in non-cash operating				
working capital items (note 17)	(568,254)	(415,127)	(3,777,415)	(572,271)
	1,508,662	(2,051,183)	(3,487,631)	(6,861,245)
Financing:				
Exercise of stock options	362,500	–	362,500	–
Warrants exercised	–	165,600	–	485,600
Warrants exercised - shares to be issued	–	68,000	–	68,000
Mortgage payments (note 8)	(75,000)	(75,000)	(225,000)	(6,175,000)
Proceeds from mortgage	–	–	–	6,000,000
Mortgage issuance costs	–	–	–	(26,739)
Proceeds from credit facilities (note 8)	–	–	4,000,000	–
Credit facilities issuance costs	–	–	(31,238)	–
Interest paid (note 8)	(399,019)	(353,199)	(942,893)	(814,859)
Lease payments (note 6)	(80,395)	(82,499)	(241,183)	(231,379)
Other long-term debt payments (note 8)	(886)	–	(2,364)	–
	(192,800)	(277,098)	2,919,822	(694,377)
Investing:				
Deposits on property, plant and equipment	(275,299)	(359,015)	(190,811)	11,458
Acquisitions of property, plant and				
equipment (note 5)	(320,371)	(791,177)	(1,812,579)	(7,892,574)
Disposal of property, plant and				
equipment (note 5)	–	–	169,653	–
Acquisition of intangible assets	–	20,319	–	(133,895)
Interest received	9,900	49,565	35,884	235,594
	(585,770)	(1,080,308)	(1,797,853)	(7,779,417)
Net change in cash	730,092	(3,408,589)	(2,365,662)	(15,335,039)
Effect of foreign exchange on cash	103,064	(11,710)	158,165	(31,457)
Cash, beginning of period	4,730,524	14,559,795	7,771,177	26,505,992
Cash, end of period	\$ 5,563,680	\$ 11,139,496	\$ 5,563,680	\$ 11,139,496

See accompanying notes to condensed interim consolidated financial statements.

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Notes to Condensed Interim Consolidated Financial Statements
For the three and nine-month periods ended May 31, 2021 and 2020
(Unaudited - in Canadian dollars)

1. Nature of operations

Cannara Biotech Inc. ("Cannara" or the "Company") is a vertically integrated producer of premium-grade cannabis and cannabis-derivative products for the Quebec and Canadian markets. The Company is domiciled in Canada and was incorporated under the laws of British Columbia on October 19, 2017. Its head office is located at 333 Décarie, Suite 200, Ville St-Laurent, Québec, H4N 3M9. The Company's common shares are listed under the symbol "LOVE.V" on the TSX Venture Exchange (the "TSXV") in Canada, "LOVFF" on the OTCQB Venture Market in the United States and "8CB" on the Frankfurt Stock Exchange in Germany.

Cannara owns and operates two Quebec-based facilities spanning over 1,650,000 square feet. Cannara's purpose-built, modern indoor cultivation facility is located in Farnham, Quebec and measures 625,000 square feet, comprising 170,000 square feet of licensed cultivation area and 455,000 square feet of leased warehouse space ("Farnham Facility"). Through its subsidiary, Cannara Biotech (Québec) Inc., the Company sells dried cannabis products to provincial retail distributors and other licenced producers across Canada under The Cannabis Act and is currently in process of obtaining its licence to sell derivative products. Subsequent to quarter-end, the Company acquired a 1,033,506 square foot facility located in Valleyfield, Quebec ("Valleyfield Facility") from Medican Organic Inc., a wholly-owned subsidiary of The Green Organic Dutchman Holdings Ltd. ("TGOD"), for a purchase price of \$27,000,000 plus the funding of certain deposit requirements of approximately \$5.7 million. The Valleyfield Facility is a hybrid greenhouse facility comprised of 24 independent growing zones totaling 600,000 sq. ft., capable of reproducing an indoor cultivation environment with fully automated blackout curtains, a 200,000 sq. ft. cannabis 2.0 processing center and a 200,000 sq. ft. rooftop greenhouse. The Company is preparing the new facility to be ready to launch cultivation operations once approval is received from Health Canada for the transfer of the cultivation license from the previous owner.

The Company began its first commercial retail sales at the end of February 2021 and continues to fulfill market demand with weekly reorders. The Company generated net income of \$1.7 million during the three-month period ended May 31, 2021 after its first complete quarter of revenues generated from retail and wholesale channels. On a cumulative basis, the Company incurred net losses of approximately \$2.7 million during the nine-month period ended May 31, 2021 (2020 - \$9.2 million) and has a deficit of \$29.7 million as at May 31, 2021 (August 31, 2020 - \$27.1 million). The Company expects that its existing cash resources of \$5.6 million as at May 31, 2021, along with the forecasted cash flows and financing that occurred subsequent to quarter-end, will enable it to fund its planned operating expenses for at least the next twelve months from May 31, 2021.

The ability of the Company to ultimately achieve future profitable operations is dependent upon the continued success of its product and brand pipeline in addition to maintaining the consistency of its grow operations and lean cost structure. The Company expects to finance its operations through its wholesale and retail sales, existing cash, and/or a combination of public or private equity and debt financing or other sources.

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(Unaudited - in Canadian dollars)

1. Nature of operations (continued)

COVID-19

Since the COVID-19 outbreak was declared a pandemic by the World Health Organization governments worldwide, including the Canadian and provincial governments, have enacted 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. 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 the Company's 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 consolidated financial statements were approved by the Board of Directors and authorized for issuance on July 27, 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.

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

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements
For the three and nine-month periods ended May 31, 2021 and 2020
(Unaudited - in Canadian dollars)

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

(b) Basis of preparation (continued)

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 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, 2020.

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		4,274,273
Net change in fair value due to biological transformation, less cost to sell		2,893,533
Transferred to cost of goods sold – sale of clones		(72,000)
Transferred to inventory upon harvest		(6,221,586)
Carrying amount, as at May 31, 2021	\$	2,187,590

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Notes to Condensed Interim Consolidated Financial Statements
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3. Biological assets (continued)

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 cannabis products, 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 May 31, 2021.

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

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Notes to Condensed Interim Consolidated Financial Statements
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(Unaudited - in Canadian dollars)

3. Biological assets (continued)

The income approach calculates the present value of expected future cash flows from the Company's biological assets using the following inputs for the nine-month period ended May 31, 2021:

Unobservable inputs	Input values	Sensitivity analysis
<i>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.	\$1.00 to \$4.80 per gram	An increase or decrease of 5% applied to the selling price would result in a change of approximately \$163,000 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.	67 grams per plant	An increase or decrease of 5% applied to the average yield per plant would result in a change of approximately \$109,000 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 \$106,000 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 May 31, 2021, it is expected that the Company's biological assets will yield approximately 2,166 kilograms of dried cannabis when harvested.

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4. Inventory

Inventory consists of the following:

	May 31, 2021		
	Capitalized cost	Fair value adjustment	Total
Raw materials - cultivation and supplies	\$ 755,091	\$ -	\$ 755,091
Harvested cannabis			
Dried cannabis and work-in-progress	1,374,492	597,163	1,971,655
Finished goods	234,232	221,178	455,410
Derivative products	185,853	(83,225)	102,628
Finished goods - U.S. hemp-based CBD products for resale	83,930	-	83,930
	\$ 2,633,598	\$ 735,116	\$ 3,368,714

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

The amounts of inventory expensed as cost of goods sold during the three and nine-month periods ended May 31, 2021 were \$3,562,739 and \$5,101,775 (2020 - \$29,607 and \$41,477), including an impairment loss on inventory of nil and \$428,643 for cannabis that exceeds its net realizable value for the three and nine-month periods. The realized fair value on inventory sold during the three and nine-month periods ended May 31, 2021 was \$1,526,050 and \$2,177,245, respectively (2020 - nil).

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Notes to Condensed Interim Consolidated Financial Statements
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5. Property, plant and equipment

	Land	Building	Facility production equipment	Computer equipment and software	Vehicles	Furniture and fixtures	Construction in progress	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	–	970,064	652,275	42,823	8,500	12,516	308,130	1,994,308
Disposals	(71,910)	(164,687)	–	–	–	–	–	(236,597)
Balance as at May 31, 2021	\$ 1,033,053	\$ 38,434,541	\$ 5,312,806	\$ 1,234,312	\$ 18,440	\$ 1,352,642	\$ 308,130	\$ 47,693,924
Accumulated depreciation								
Balance as at August 31, 2020	\$ –	\$ (2,038,419)	\$ (347,506)	\$ (211,813)	\$ (553)	\$ (150,749)	\$ –	\$ (2,749,040)
Amortization	–	(1,349,272)	(359,725)	(156,155)	(2,296)	(106,504)	–	(1,973,952)
Disposals	–	12,720	–	–	–	–	–	12,720
Balance as at May 31, 2021	\$ –	\$ (3,374,971)	\$ (707,231)	\$ (367,968)	\$ (2,849)	\$ (257,253)	\$ –	\$ (4,710,272)
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
Balance as at May 31, 2021	1,033,053	35,059,570	4,605,575	866,344	15,591	1,095,389	–	42,983,652

During the three and nine-month periods ended May 31, 2021, the Company recognized \$686,957 and \$1,973,952 as depreciation expense (2020 - \$525,115 and \$1,647,815, respectively), of which \$152,532 and \$506,822 have been recognized in the consolidated statement of loss and comprehensive loss (2020 - \$32,633 and \$1,155,333, respectively) and \$534,425 and \$1,467,130 have been included in the calculation of the cannabis valuation and for which some lots were used ultimately for research and development (2020 - \$492,482 and 492,482, respectively).

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

(a) Right-of-use assets

Cost		
Balance as at May 31, 2021 and August 31, 2020	\$	765,780
Accumulated depreciation		
Balance as at August 31, 2020		(308,881)
Amortization		(136,603)
Balance as at May 31, 2021	\$	(445,484)
Net book value		
Balance as at August 31, 2020	\$	456,899
Balance as at May 31, 2021		320,296

(b) Lease liabilities

	May 31, 2021	August 31, 2020
Maturity analysis - contractual undiscounted cash flows:		
Less than one year	\$ 287,415	\$ 312,867
One to five years	306,334	521,895
Total undiscounted lease liabilities	\$ 593,749	\$ 834,762
Current	\$ 214,180	\$ 209,268
Non-current	277,940	442,496
Lease liabilities included in the condensed interim consolidated statement of financial position	\$ 492,120	\$ 651,764
Balance as at August 31, 2020	\$	651,764
Lease payments		(241,183)
Interest on lease liabilities		81,539
Balance as at May 31, 2021	\$	492,120

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7. Intangible asset

Net carrying value, August 31, 2020	\$	162,324
Amortization		(119,407)
Foreign currency translation adjustments		(5,292)
Net carrying value, May 31, 2021	\$	37,625

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		(225,000)
Amortization of deferred financing costs		7,944
Net carrying value, May 31, 2021	\$	12,057,207

	May 31, 2021	August 31, 2020
Mortgage payable, bearing interest at 13% per annum due monthly, repayable entirely in a lump sum on March 6, 2023 ⁽ⁱ⁾	\$ 6,550,000	\$ 6,550,000
Less unamortized financing costs	–	(6,855)
Mortgage payable, bearing interest at prime plus 2% per annum, \$25,000 due monthly, repayable over 240 equal instalments, ending on October 9, 2039 ⁽ⁱⁱ⁾	5,525,000	5,750,000
Less unamortized financing costs	(17,793)	(18,882)
	12,057,207	12,274,263
Short-term portion of mortgages payable	(300,000)	(300,000)
	\$ 11,757,207	\$ 11,974,263

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8. Financing (continued)

(a) Mortgages payable (continued)

- (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 nine-month periods ended May 31, 2021, the Company recognized \$214,624 and \$636,875 as interest expense (2020 - \$214,624 and \$693,395) for this mortgage. As at May 31, 2021, accrued interest of \$72,319 was included in accounts payable and accrued liabilities (as at August 31, 2020 - \$144,638). On March 2, 2021, the Company obtained a letter to extend the maturity date of this mortgage payable from March 6, 2022 to March 6, 2023.
- (ii) Since March 2021, the interest rate on the mortgage is a combination of the prime rate + 2% and the banker acceptance rate. As at May 31, 2021, the interest rate related to this mortgage was 3.91%. 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, relating to its real estate operations. The Company was in compliance with the ratio at the last measurement date. During the three and nine-month periods ended May 31, 2021, the Company recognized \$55,542 and \$180,663 as interest expense (2020 - \$69,643 and \$209,407) for this mortgage. As at May 31, 2021, a prepaid interest of \$4,633 was included in prepaid expense and other assets (as at August 31, 2020 - \$15,423 in accounts payable).

(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 instalments, ending May 2023, and does not bear interest.

	May 31, 2021	August 31, 2020
Maturity analysis - contractual undiscounted cash flows:		
Less than one year	\$ 3,546	\$ 3,546
One to five years	3,545	6,205
Total undiscounted long-term debt	\$ 7,091	\$ 9,751
Current	\$ 3,311	\$ 2,039
Non-current	3,462	7,124
Long-term debt included in the condensed consolidated statement of financial position	\$ 6,773	\$ 9,163

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8. Financing (continued)

(c) Credit facilities

Net carrying value, August 31, 2020	\$	–
Proceeds from credit facilities		4,000,000
Deferred financing costs		(31,238)
Amortization of deferred financing costs		12,429
Net carrying value, May 31, 2021	\$	3,981,191

		May 31, 2021
Credit facility A, bearing interest at 13% per annum due monthly, repayable entirely in a lump sum on March 25, 2023 ⁽ⁱ⁾	\$	1,000,000
Credit facility B, bearing interest at 13% per annum due monthly, repayable entirely in a lump sum on March 25, 2023 ⁽ⁱ⁾		3,000,000
Less unamortized financing costs		(18,809)
	\$	3,981,191

⁽ⁱ⁾ The credit facilities are secured by a first-ranking movable hypothec over the universality of movable property, present and future, corporeal and incorporeal. As at May 31, 2021, the Company had \$1,000,000 available that can be withdrawn on the credit facilities in one tranche of \$1,000,000, which was withdrawn in June 2021 for the purpose of the Valleyfield facility acquisition. On May 29, 2021, the Company obtained a letter to extend the maturity date of the Credit Facility A and B from March 25 and May 6, 2022, respectively, to March 25, 2023 (note 18).

During the three and nine-month periods ended May 31, 2021, the Company recognized \$131,068 and \$237,205 as interest expense (2020 - nil). As at May 31, 2021, an accrued interest of \$44,164 was included in accounts payable and accrued liabilities (2020 - nil).

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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9. Share capital (continued)

(b) Transactions on share capital (continued)

On February 1, 2021, the Company issued a total of 16,786 shares to settle a liability to a third party in the amount of \$1,678.

During the three-month period ended May 31, 2021, a total of 3,625,000 stock options were exercised at a price of \$0.10 per share for a total consideration of \$362,500, resulting in the issuance of 3,625,000 new common shares of the Company.

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 instalments and expire five years from the date of issue. The plan provides for the issuance of common shares at an exercise price determined by the Board of Directors which is not lower than the fair value of the common shares on the grant date. Outstanding options under the plan are granted with service requirements (or service conditions) and become exercisable upon vesting. The share options granted to third parties for services have vesting terms determined on a case-by-case basis.

The activity of outstanding share options for the nine-month period ended May 31, 2021 was as follows:

	Number	Weighted average exercise price
Outstanding, beginning of period	41,929,793	\$ 0.20
Granted	2,317,000	0.18
Exercised	(3,625,000)	0.10
Forfeited	(3,588,749)	0.16
Expired	(481,043)	0.18
Outstanding, end of period	36,552,001	0.21
Exercisable, end of period	24,137,402	\$ 0.23

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10. Share-based compensation (continued)

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

During the second quarter ended February 28, 2021, the Company granted 1,957,000 options that vest accordingly with the employee share option plan.

During the third quarter ended May 31, 2021, the Company granted 110,000 options that vest accordingly with the employee share option plan.

The share options forfeited relate to the share 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 weighted average inputs and assumptions:

	Nine-month period ended May 31, 2021	
Share price	\$	0.10
Exercise price	\$	0.18
Risk-free interest rate ⁽ⁱ⁾		0.38%
Expected life ⁽ⁱⁱ⁾		5 years
Expected price volatility ⁽ⁱⁱⁱ⁾		101%
Fair value of the option	\$	0.07
Expected dividend yield ^(iv)		—

(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 and nine-month periods ended May 31, 2021, the Company recorded a share-based compensation expense of \$99,720 and \$263,232, respectively (2020 - \$47,069 and \$325,877), for which amounts of \$88,796 and \$242,336 were recognized, respectively, in the consolidated statement of loss and comprehensive loss (2020 - \$25,064 and \$303,872) and \$10,924 and \$20,896 were classified, respectively, in the calculation of the cannabis valuation (2020 - \$7,945 and \$7,945).

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11. General and administrative

	Three-month periods ended		Nine-month periods ended	
	May 31, 2021	May 31, 2020	May 31, 2021	May 31, 2020
Salaries and benefits	\$ 445,937	\$ 554,643	\$ 1,620,137	\$ 2,513,823
Administrative and regulatory expense	307,033	239,168	738,899	1,033,768
Facility expense	53,781	99,929	424,068	890,814
Travel	21,754	58,298	58,587	213,525
General and administrative	\$ 828,505	\$ 952,038	\$ 2,841,691	\$ 4,651,930

12. Net finance expense

	Three-month periods ended		Nine-month periods ended	
	May 31, 2021	May 31, 2020	May 31, 2021	May 31, 2020
Interest income	\$ 11,140	\$ 31,317	\$ 38,454	\$ 242,537
Foreign exchange gain	–	72,082	–	99,225
Finance income	11,140	103,399	38,454	341,762
Interest on mortgages	270,166	284,267	817,538	902,802
Interest on credit facilities	131,068	–	237,205	–
Amortization of financing costs	5,979	20,552	20,373	34,890
Interest on lease liabilities	24,894	39,812	81,539	111,003
Other finance expense	640	7,111	8,320	11,194
Foreign exchange loss	139,906	–	224,054	–
Finance expense	572,653	351,742	1,389,029	1,059,889
Net finance expense	\$ 561,513	\$ 248,343	\$ 1,350,575	\$ 718,127

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 approximate their carrying amounts, as the interest rate approximates the current market rate.

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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.

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 Québec 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 operating income (loss) before share-based compensation, amortization, net finance expense, gain on sublease initial recognition, loss on disposal of property, plant and equipment 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 May 31, 2021				Three-month period ended May 31, 2020			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Revenue								
Revenue from sale of goods	\$ 6,992,153	\$ –	\$ 23,322	\$ 7,015,475	\$ –	\$ –	\$ 41,237	\$ 41,237
Excise taxes	(1,108,790)	–	–	(1,108,790)	–	–	–	–
Net revenue from sale of goods	5,883,363	–	23,322	5,906,685	–	–	41,237	41,237
Lease revenue	–	809,913	–	809,913	–	710,272	–	710,272
Other income	442,733	–	–	442,733	12,397	–	–	12,397
	6,326,096	809,913	23,322	7,159,331	12,397	710,272	41,237	763,906
Cost of revenues								
Cost of goods sold	3,544,009	–	18,730	3,562,739	–	–	29,607	29,607
Lease operating costs	–	90,314	–	90,314	–	87,671	–	87,671
Segment gross profit before fair value adjustments	2,782,087	719,599	4,592	3,506,278	12,397	622,601	11,630	646,628
Changes in fair value of inventory sold	(1,526,050)	–	–	(1,526,050)	–	–	–	–
Unrealized gain on changes in fair value of biological assets	2,438,896	–	–	2,438,896	69,113	–	–	69,113
Segment gross profit	3,694,933	719,599	4,592	4,419,124	81,510	622,601	11,630	715,741
Operating expenses	1,549,818	–	284,486	1,834,304	2,260,708	–	600,969	2,861,677
Segment operating income (loss)	2,145,115	719,599	(279,894)	2,584,820	(2,179,198)	622,601	(589,339)	(2,145,936)
Share-based compensation	–	–	88,796	88,796	–	–	25,064	25,064
Amortization	–	–	236,709	236,709	–	–	113,654	113,654
Net finance expense	–	–	561,513	561,513	–	–	248,343	248,343
Gain on sublease on initial recognition	–	–	–	–	–	–	(25,894)	(25,894)
Net income (loss)	\$ 2,145,115	\$ 719,599	\$ (1,166,912)	\$ 1,697,802	\$ (2,179,198)	\$ 622,601	\$ (950,506)	\$ 2,507,103

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15. Segment disclosures (continued)

(a) Reportable segments (continued)

	Nine-month period ended May 31, 2021				Nine-month period ended May 31, 2020			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Revenue								
Revenue from sale of goods	\$ 8,875,210	\$ –	\$ 157,449	\$ 9,032,659	\$ –	\$ –	\$ 54,312	\$ 54,312
Excise taxes	(1,131,922)	–	–	(1,131,922)	–	–	–	–
Net revenue from sale of goods	7,743,288	–	157,449	7,900,737	–	–	54,312	54,312
Lease revenue	–	2,119,302	–	2,119,302	–	1,879,280	–	1,879,280
Other income	765,227	–	–	765,227	31,996	–	–	31,996
	8,508,515	2,119,302	157,449	10,785,266	31,996	1,879,280	54,312	1,965,588
Cost of revenues								
Cost of goods sold	4,970,393	–	131,382	5,101,775	–	–	41,477	41,477
Lease operating costs	–	382,806	–	382,806	–	307,655	–	307,655
Segment gross profit before fair value adjustments	3,538,122	1,736,496	26,067	5,300,685	31,996	1,571,625	12,835	1,616,456
Changes in fair value of inventory sold	(2,177,245)	–	–	(2,177,245)	–	–	–	–
Unrealized gain on changes in fair value of biological assets	2,893,533	–	–	2,893,533	69,113	–	–	69,113
Segment gross profit	4,254,410	1,736,496	26,067	6,016,973	101,109	1,571,625	12,835	1,685,569
Operating expenses	5,882,549	–	384,443	6,266,992	6,989,199	–	1,518,284	8,507,483
Segment operating income (loss)	(1,628,139)	1,736,496	(358,376)	(250,019)	(6,888,090)	1,571,625	(1,505,449)	(6,821,914)
Share-based compensation	–	–	242,336	242,336	–	–	303,872	303,872
Amortization	–	–	762,832	762,832	–	–	1,367,156	1,367,156
Net finance expense	–	–	1,350,575	1,350,575	–	–	718,127	718,127
Gain on sublease agreement	–	–	–	–	–	–	(25,894)	(25,894)
Loss on disposal of property, plant and equipment	–	–	54,224	54,224	–	–	–	–
Net income (loss)	\$ (1,628,139)	\$ 1,736,496	\$ (2,768,343)	\$ (2,659,986)	\$ (6,888,090)	\$ 1,571,625	\$ (3,868,710)	\$ (9,185,175)

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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 425,480 square feet of the total 625,000 available square feet to third parties. For the period ended May 31, 2021, 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 and nine-month periods ended May 31, 2021 amounted to \$67,486 and \$202,457.
- Tenant B's lease term is until October 31, 2022, if renewal clauses are not exercised. Lease revenues from this tenant for the three and nine-month periods ended May 31, 2021 amounted to \$570,061 and \$1,330,141.

Starting January 1, 2021, Tenant B rented additional space until October 31, 2022, if renewal clauses are not exercised. Lease revenues from this tenant for the three and nine-month periods ended May 31, 2021 amounted to \$172,366 and \$287,278.

- Tenant C's lease terminated on October 31, 2020. Lease revenues from this tenant for the three and nine-month periods ended May 31, 2021 amounted to nil and \$299,426.

Income is generated from customers domiciled in Canada.

(d) Source of cannabis revenues

	<u>Three-month periods ended</u>		<u>Nine-month periods ended</u>	
	May 31, 2021	May 31, 2020	May 31, 2021	May 31, 2020
Revenue from retail	\$ 4,463,093	\$ –	\$ 4,567,185	\$ –
Excise taxes	(1,108,790)	–	(1,131,922)	–
	3,354,303	–	3,435,263	–
Revenue from wholesale	2,529,060	–	4,308,025	–
	\$ 5,883,363	\$ –	\$ 7,743,288	\$ –

For the three and nine-month periods ended May 31, 2021, the Company has generated 64% and 51% of its cannabis revenues from one provincial distributor, and 29% and 42% from its wholesale channel with another licenced producer, respectively.

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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:

	Three-month periods ended		Nine-month periods ended	
	May 31, 2021	May 31, 2020	May 31, 2021	May 31, 2020
Salaries and benefits	\$ 85,833	\$ 136,500	\$ 219,833	\$ 472,500
Share-based compensation	42,447	43,926	89,996	185,492
Board of Directors' fees	17,500	21,000	46,250	64,500
	<u>\$ 145,780</u>	<u>\$ 201,426</u>	<u>\$ 356,079</u>	<u>\$ 722,492</u>

(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:

Nature of transactions:	Three-month periods ended		Nine-month periods ended	
	May 31, 2021	May 31, 2020	May 31, 2021	May 31, 2020
Management fees ⁽ⁱ⁾	\$ —	\$ 5,388	\$ 10,126	\$ 40,010
Interest on mortgage ⁽ⁱ⁾	345,693	214,624	874,080	693,395
	<u>\$ 345,693</u>	<u>\$ 220,012</u>	<u>\$ 884,206</u>	<u>\$ 733,405</u>

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16. Related parties (continued)

(b) Other transactions with related parties (continued)

	May 31, 2021	August 31, 2020
Balances due from (due to) related parties are as follows:		
Accounts payable and accrued liabilities ⁽ⁱ⁾	\$ (116,483)	\$ (144,638)
Accounts payable to key management personnel ⁽ⁱⁱ⁾	(14,605)	(29,808)
Accounts payable to Board of Directors members	(15,189)	(12,500)
Credit facilities ⁽ⁱ⁾	(4,000,000)	-
Mortgage payable ⁽ⁱ⁾	(6,550,000)	(6,550,000)

(i) The Company has a Board of Director member 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 relate 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.

17. Cash flow information

Net change in non-cash working capital items:

	Three-month periods ended		Nine-month periods ended	
	May 31, 2021	May 31, 2020	May 31, 2021	May 31, 2020
Accounts receivable	\$ (1,651,690)	\$ (33,777)	\$ (2,380,051)	\$ 28,771
Sales tax receivable / payable	206,071	65,158	431,737	202,703
Lease receivable	12,334	-	37,002	-
Biological assets	(1,562,711)	(831,400)	(4,274,273)	(831,400)
Inventory	1,586,094	(122,787)	1,675,978	(376,379)
Prepaid expenses and other assets	13,225	(31,603)	(99,904)	(25,389)
Deposits	(99,050)	(70,000)	(43,961)	(166,925)
Accounts payable and accrued liabilities	907,279	99,724	653,144	58,586
Deferred lease revenue	28,204	28,204	9,674	28,204
Deferred income	(8,010)	481,354	213,239	509,558
	\$ (568,254)	\$ (415,127)	\$ (3,777,415)	\$ (572,271)

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17. Cash flow information (continued)

Supplemental information in the condensed interim consolidated statement of cash flows:

	Three-month periods ended		Nine-month periods ended	
	May 31, 2021	May 31, 2020	May 31, 2021	May 31, 2020
Variation of intangible assets included in accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 96,766
Variation of property, plant and equipment Included in accounts payable and accrued liabilities	(509,159)	(458,711)	(181,729)	2,130,222
Addition to right-of-use assets and lease liabilities	-	28,548	-	122,838

18. Subsequent events

Acquisition of Valleyfield Facility and New Equity Financings

On June 22, 2021, the Company acquired a one million square foot licensed cultivation and manufacturing facility in Valleyfield, Quebec ("Valleyfield Facility") from Medican Organic Inc., a wholly-owned subsidiary of TGOD, through an all-cash offer of \$27 million plus the funding of certain deposit requirements of approximately \$5.7 million. The funding of the deposit was made by a related party.

In order to finance this acquisition, the Company secured non-brokered private placements of (i) \$19.3 million resulting in the issuance of 107,222,222 new common shares at a price of \$0.18 per share and (ii) \$5.7 million in the form of an unsecured convertible debenture bearing interest at 4% per annum. The sole subscriber to the Offerings is a company owned/controlled by a current member of the Board of Directors. Subject to certain conditions being met, the holder can convert the debenture at any time into common shares at a price of \$0.18 per share.

On July 9, 2021, the Company secured an additional non-brokered private placement \$5 million at a price of \$0.18 per share with an existing shareholder, resulting in the issuance of 27,777,778 new common shares.

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18. Subsequent events (continued)

Conversion of the credit facilities into a convertible debenture

On July 12, 2021, the Company renegotiated the terms of its credit facilities to exchange them for an unsecured convertible debenture bearing interest at 4% per annum, with a term of 3 years. Subject to certain conditions being met, the holder can convert the debenture at a price of \$0.18 per share.

Issuance of stock options

On July 27, 2021, the Company issued a total of 425,000 stock options to employees, subject to certain vesting conditions.