Consolidated Financial Statements of

CANNARA BIOTECH INC.

Year ended August 31, 2019 and 191-day period ended August 31, 2018

CANNARA BIOTECH INC.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cannara Biotech Inc.

Opinion

We have audited the consolidated financial statements of Cannara Biotech Inc. (the "Entity"), which comprise:

- the consolidated statements of financial position as at August 31, 2019 and August 31, 2018
- the consolidated statements of net loss and comprehensive loss for the year ended August 31, 2019 and the 191-day period ended August 31, 2018
- the consolidated statements of changes in equity for the year ended August 31, 2019 and the 191-day period ended August 31, 2018
- the consolidated statements of cash flows for the year ended August 31, 2019 and the 191-day period ended August 31, 2018
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at August 31, 2019 and August 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year ended August 31, 2019 and the 191-day period ended August 31, 2018 in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"*Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*"** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP*

The engagement partner on the audit resulting in this auditors' report is Aaron Fima.

Montréal, Canada

November 25, 2019

*CPA auditor, CA, public accountancy permit No. A125211

CANNARA BIOTECH INC.

Consolidated Statements of Financial Position

August 31, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash	$ 26,505,992	$ 12,899,672
Restricted cash - subscription agreement issued by a subsidiary (note 11)	211,000	–
Accounts receivable	146,113	219,938
Sales tax receivable	682,139	365,108
Inventory (note 5)	186,707	–
Prepaid expenses	96,304	–
	27,828,255	13,484,718
Deposits (note 6)	733,777	1,551,451
Property, plant and equipment (note 6)	38,650,377	13,355,844
Right-of-use asset (note 7)	609,709	468,285
Intangible asset (note 8)	281,020	–
	$ 68,103,138	$ 28,860,298
Liabilities and Shareholders’ Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,739,820	$ 1,091,235
Current portion of lease liability (note 7)	139,807	72,651
Liabilities for subscription agreements issued by a subsidiary (note 11)	211,000	–
	5,090,627	1,163,886
Mortgage payable (note 9)	12,526,467	12,508,720
Lease liability (note 7)	557,528	445,271
	18,174,622	14,117,877
Shareholders’ equity:		
Share capital (note 10)	54,925,997	15,853,968
Contributed surplus	6,676,783	1,001,350
Deficit	(14,427,946)	(2,112,897)
Accumulated other comprehensive loss	(10,099)	–
Equity attributable to the shareholders of the Company	47,164,735	14,742,421
Non-controlling interest (note 11)	2,763,781	–
Total equity	49,928,516	14,742,421
Contingencies (note 17)		
Subsequent events (note 20)		
	$ 68,103,138	$ 28,860,298

See accompanying notes to consolidated financial statements.

On behalf of the Board:

______________________ Director

______________________ Director

CANNARA BIOTECH INC.

Consolidated Statements of Net Loss and Comprehensive Loss

Year ended August 31, 2019 and 191-day period ended August 31, 2018

	2019 (365 days)	2018 (191 days)
Lease revenues	$ 2,096,974	$ 432,637
Lease operating costs	403,895	273,580
Operating expenses:		
General and administrative	1,966,823	575,965
Investor relations	301,191	2,037
Marketing costs	765,925	271,353
Professional fees	3,162,418	651,716
Salaries and benefits	2,964,573	226,370
Share-based compensation (note 13)	2,189,039	139,073
Amortization of property, plant and equipment (note 6)	425,072	85,028
Amortization of right-of-use asset (note 7)	141,255	24,647
	11,916,296	1,976,189
Operating loss before undernoted items	(10,223,217)	(1,817,132)
Listing expense related to the reverse acquisition of Dunbar Capital Corp. (note 4)	1,875,243	–
Net finance expense (note 12)	873,345	295,765
Loss before income taxes	(12,971,805)	(2,112,897)
Income tax expense (note 15)	–	–
Net loss	(12,971,805)	(2,112,897)
Other comprehensive loss:		
Foreign currency translation adjustments	(16,494)	–
Total comprehensive loss	$ (12,988,299)	$ (2,112,897)
Net loss attributable to:		
Shareholders of the Company	$ (12,315,049)	$ (2,112,897)
Non-controlling interest	(656,756)	–
	$ (12,971,805)	$ (2,112,897)
Total comprehensive loss attributable to:		
Shareholders of the Company	$ (12,325,148)	$ (2,112,897)
Non-controlling interest	(663,151)	–
Total comprehensive loss	$ (12,988,299)	$ (2,112,897)
Basic and diluted loss per share	$ (0.02)	$ (0.01)
Weighted average number of common shares, basic and diluted	614,842,226	360,872,646

See accompanying notes to consolidated financial statements.

CANNARA BIOTECH INC.

Consolidated Statements of Changes in Equity

Year ended August 31, 2019 and 191-day period ended August 31, 2018

	Attributable to the shareholders of the Company							
	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total	Non-controlling interest	Total equity
As at February 21, 2018	15,000	$ 15	$ –	$ –	$ –	$ 15	$ –	$ 15
Net loss and comprehensive loss	–	–	–	(2,112,897)	–	(2,112,897)	–	(2,112,897)
Share-based compensation:								
Employee compensation	–	–	139,073	–	–	139,073	–	139,073
Transaction with shareholders of the Company:								
Issuance of common shares	476,652,330	17,665,533	–	–	–	17,665,533	–	17,665,533
Share issuance costs	–	(1,811,580)	862,277	–	–	(949,303)	–	(949,303)
As at August 31, 2018	476,667,330	15,853,968	1,001,350	(2,112,897)	–	14,742,421	–	14,742,421
Net loss	–	–	–	(12,315,049)	–	(12,315,049)	(656,756)	(12,971,805)
Other comprehensive loss:								
Foreign currency translation adjustment	–	–	–	–	(10,099)	(10,099)	(6,395)	(16,494)
Comprehensive loss	–	–	–	(12,315,049)	(10,099)	(12,325,148)	(663,151)	(12,988,299)
Share-based compensation (note 13):								
Employee compensation	–	–	1,951,410	–	–	1,951,410	–	1,951,410
Other services	–	–	507,630	–	–	507,630	–	507,630
	–	–	2,459,040	–	–	2,459,040	–	2,459,040
Transaction with shareholders of the Company:								
Warrants exercised (note 10)	950,000	146,524	(51,524)	–	–	95,000	–	95,000
Subscription receipts exercised (note 10)	207,640,375	37,375,268	–	–	–	37,375,268	–	37,375,268
Non-brokered private placement (note 10)	12,000,000	2,160,000	–	–	–	2,160,000	–	2,160,000
Share issuance costs (note 4)	–	(2,322,103)	–	–	–	(2,322,103)	–	(2,322,103)
Issue of shares in connection with the reverse acquisition of Dunbar Capital Corp. (note 4)	9,513,000	1,712,340	–	–	–	1,712,340	–	1,712,340
Changes in ownership interest:								
Issuance of shares by a subsidiary (note 11)	–	–	3,267,917	–	–	3,267,917	3,426,932	6,694,849
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

See accompanying notes to consolidated financial statements.

CANNARA BIOTECH INC.

Consolidated Statements of Cash Flows

Year ended August 31, 2019 and 191-day period ended August 31, 2018

	2019 (365 days)	2018 (191 days)
Cash provided by (used in):		
Operating:		
Net loss	$ (12,971,805)	$ (2,112,897)
Items not involving cash:		
Amortization of property, plant and equipment (note 6)	425,072	85,028
Amortization of right-of-use asset (note 7)	141,255	24,647
Interest on lease liability (note 12)	132,188	24,990
Interest expense (note 12)	1,380,501	294,944
Interest income (note 12)	(679,615)	–
Share-based compensation (note 13)	2,189,039	139,073
Amortization of mortgage financing costs (note 9)	17,747	–
Listing expense related to the reverse acquisition of Dunbar Capital Corp. (note 4)	1,701,282	–
Net change in non-cash operating working capital items:		
Accounts receivable	73,825	(365,108)
Sales tax receivable	(317,031)	(219,938)
Inventory	(186,707)	–
Deposits	(156,973)	–
Prepaid expenses	(96,304)	–
Accounts payables and accrued liabilities	938,232	976,907
	(7,409,294)	(1,152,354)
Financing:		
Issuance of common shares (note 10)	39,535,268	17,665,548
Warrants exercised (note 14)	95,000	–
Share issuance costs	(2,052,102)	(949,303)
Issuance of shares by a subsidiary (note 11)	6,694,849	–
Lease payments	(235,454)	–
Mortgage payable	–	12,550,000
Mortgage issuance costs	–	(41,280)
Interest paid	(1,376,717)	(180,616)
	42,660,844	29,044,349
Investing:		
Interest received	679,615	–
Acquisitions of property, plant and equipment (note 6)	(23,013,036)	(13,440,872)
Acquisition of intangible assets (note 8)	(281,020)	–
Deposits on property, plant and equipment (note 6)	974,647	(1,551,451)
	(21,639,794)	(14,992,323)
Net change in cash	13,611,756	12,899,672
Effect of foreign exchange on cash	(16,494)	–
Cash acquired from reverse acquisition of Dunbar Capital Corp. (note 4)	11,058	–
Cash, beginning of year	12,899,672	–
Cash, end of the year	$ 26,505,992	$ 12,899,672
Supplemental information to the statement of cash flows:		
Non-cash transactions:		
Initial recognition of right-of-use asset and lease liability	$ 282,679	$ 492,932
Property, plant and equipment included in accounts payable and accrued liabilities	2,706,569	–
Share issuance costs settled in shares	270,000	–

See accompanying notes to consolidated financial statements.

1. Nature of operations:

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

On December 31, 2018, Cannara Biotech (Ops) Inc. was acquired by Dunbar Capital Corp. ("Dunbar") and subsequently changed its name to Cannara Biotech Inc. For accounting purposes, the transaction was considered to be a reverse acquisition. As the former shareholders of Cannara Biotech (Ops) Inc. controlled Dunbar once the transaction was finalized, Dunbar was considered the accounting acquiree and Cannara Biotech (Ops) Inc. was the accounting acquirer (see Note 4). Accordingly, the information presented prior to the acquisition, including the comparative information for the 191-day period from inception of operations to August 31, 2018, represents those of Cannara Biotech (Ops) Inc., which is domiciled in Canada and was incorporated under the laws of this country on February 21, 2018.

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

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

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

The Company incurred net losses of approximately $13.0 million during the year ended August 31, 2019 and has a deficit of approximately $14.4 million as at August 31, 2019. The Company expects that its existing cash resources as at August 31, 2019 will enable it to fund its planned operating expenses for at least the next twelve months from August 31, 2019.

1. Nature of operations (continued):

The Company expects to incur continued operating losses until it receives approval for its license to cultivate and sell cannabis under *The Cannabis Act* and is able to commercialize its products. Until such time as significant revenue from product sales is generated, the Company expects to finance its operations through a combination of public or private equity, debt financings or other sources, which may include collaborations with third parties. The ability of the Company to ultimately achieve future profitable operations is dependent upon the successful development of its product pipeline, obtaining regulatory approvals, and the successful sale and commercialization of its products.

2. Basis of preparation:

(a) Statement of compliance:

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

The consolidated financial statements were approved for issuance by the Board of Directors on November 25, 2019.

(b) Basis of measurement:

These consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for the following:

(i) Equity-based share-based payment arrangements, which have been recorded at fair value at grant date pursuant to IFRS 2, *Share-based Payment*; and

(ii) Right-of-use and asset and related lease liability, which have been recorded at the present value of the lease payments that are not paid at lease commencement date of initial recognition pursuant to IFRS 16, *Leases*.

(c) Comparative information:

The comparative information is based on the consolidated financial position and performance of Cannara Biotech (Ops) Inc. as at and for the 191-day period from date of incorporation (February 21, 2018) to August 31, 2018.

The Company has reclassified certain items on the comparative consolidated statements of net loss and comprehensive loss, and consolidated statements of cash flows to improve clarity.

2. Basis of preparation (continued):

(d) Functional currency:

All figures presented in the consolidated financial statements are reflected in Canadian dollars.

Foreign currency transactions are translated to the respective functional currencies of the Company's subsidiaries at the exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate applicable at the statement of financial position date. Non-monetary items carried at historical cost denominated in foreign currencies are translated to the functional currency at the date of the transactions. Non-monetary items carried at fair value denominated in foreign currencies are translated to the functional currency at the date when the fair value was determined. Realized and unrealized exchange gains and losses are recognized through profit and loss.

On consolidation, the assets and liabilities of foreign operations reported in their functional currencies are translated into Canadian dollars at period-end exchange rates. Income and expenses, and cash flows of foreign operations are translated into Canadian dollars using average exchange rates. Exchange differences resulting from translating foreign operations are recognized in other comprehensive loss and accumulated in equity.

The Company and all of its subsidiaries functional currency is Canadian dollars, with the exception of ShopCBD.com whose functional currency is the U.S. dollar.

(e) Basis of consolidation:

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of the subsidiary are changed when necessary to align them with the policies adopted by the Company.

All intercompany balances and transactions, revenue and expenses, or any unrealized gains or losses resulting from transactions with jointly controlled entities are eliminated to the extent of the Company's interest in the entity when preparing the consolidated financial statements.

The Company treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Company. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to the owners of the Company.

2. Basis of preparation (continued):

(e) Basis of consolidation (continued):

The table below provides details of subsidiaries of the Company as at August 31, 2019:

Subsidiaries	Principle place of business/ Jurisdiction of incorporation	Ownership Interest
Cannara Biotech (Ops) Inc.	Canada	100%
Cannara Biotech (Québec) Inc.	Canada	100%
Global shopCBD.com Inc.	Canada	61.23%
ShopCBD.com	United States	61.23%

3. Significant accounting policies:

A summary of the significant accounting policies applied in the preparation of these consolidated financial statements are as follows:

(a) Inventory:

Inventory is valued at the lower of cost and net realizable value. Cost includes all expenses related to purchasing and transferring the finished goods to the ShopCBD.com's third party warehouse facility in the U.S.A. Cost is determined by use of the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. The Company periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory based on its assessment of market conditions.

(b) Property, plant and equipment:

Property, plant and equipment are carried at the historical cost less accumulated amortization and accumulated impairment losses. Where an item of property, plant or equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Cost includes expenditures that are directly attributable to the acquisition, the development and the construction of the asset including borrowing costs on qualifying assets. Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Assets under construction are transferred to the appropriate category of property, plant and equipment when the assets are ready for their intended use at which point amortization of these assets commences.

3. Significant accounting policies (continued):

(b) Property, plant and equipment (continued):

Start-up costs are expensed as incurred.

The carrying amount of an asset is derecognized when the asset is replaced. Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the disposed asset. Gains and losses on disposals are recognized in general and administrative expenses in the statement of net loss and comprehensive loss.

Residual values, method of depreciation and useful lives of the assets are reviewed at the end of each period and adjusted if appropriate.

Repairs and maintenance costs are expensed as incurred in the statement of net loss and comprehensive loss. Costs which increase future benefits associated with the item are allocated to the assets and depreciated over their residual useful lives.

Amortization is calculated using the straight-line method, over the estimated useful life of the assets as follows:

Asset type	Term
Building	30 years
Computer equipment	3 years
Furniture and fixtures	5 years

(c) Intangibles:

Capitalized intangibles relate to website costs and are measured at cost less accumulated amortization and accumulated impairment losses. Internal and external expenditures related to the development of websites are recognised as an asset only if the Company can demonstrate the technical feasibility to complete the development of the website, its intention and the availability of resources to complete the development and to use the website, and its ability to use the website in a manner that will generate probable future economic benefits and to measure the expenditures reliably. Subsequent costs related to the development of the websites are capitalized only when it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditures, including costs incurred during the planning stage (pre-development) and costs of developing content for advertising and promotional purposes, are recognized in the statement of loss as incurred.

3. Significant accounting policies (continued):

(c) Intangibles (continued):

Amortization is calculated using the straight-line method over the estimated useful life of three years and is recognized in the consolidated statement of net loss and comprehensive loss. As at August 31, 2019, the website is still in the development stage and will commence to be amortized once it is substantially complete and ready for use. The useful life and amortization method are reviewed at each reporting date and adjusted if appropriate.

(d) Impairment of non-financial assets:

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purpose of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit, or "CGU"). An impairment loss is recognized for the amount, if any, by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset’s fair value less cost to sell and the value in use (being the present value of expected future cash flows of the asset or CGU). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized.

(e) Impairment of financial assets:

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired and also whether the credit risk on a financial asset has increased significantly since initial recognition.

The Company has adopted the simplified approach for accounts receivable. For accounts receivable that do not contain a significant financing component, the loss allowance is measured at initial recognition and throughout the life of the receivable at an amount equal to the lifetime expected credit losses ("ECL").

ECL is a probability-weighted estimate of credit losses. A credit loss is the difference between the cash flows that are due to the Company in accordance with the contract and the cash flows that the Company expects to receive discounted at the original effective interest rate. Because ECL considers the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full but later than when contractually due.

3. Significant accounting policies (continued):

(e) Impairment of financial assets (continued):

Losses are recognized as an expense in general and administrative expenses in the statement of net loss and comprehensive loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of net loss and comprehensive loss.

(f) Revenue recognition:

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which provides a single five-step model that applies to contracts with customers and two approaches to recognizing revenue: over time or at a point in time. The Company does not currently derive any revenues from contracts with customers at this time.

(g) Leases:

In January 2016, the IASB issued IFRS 16, *Leases*, which specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset has a low monetary value. Lessors continue to classify leases as operating or finance, with IFRS's 16 approach to lessor accounting substantially unchanged from the prior standard. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

<u>As a lessee:</u>

The Company has a lease for its head office premises. The Company recognized a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which generally comprises the initial amount of the lease liability, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

3. Significant accounting policies (continued):

(g) Leases (continued):

As a lessee (continued):

The right-of-use asset is amortized using the straight-line method over the initial lease term (five years).

As a lessor:

The Company has leased 333,551 square feet of its 625,000 square-foot facility while it constructs and develops its various planned phases for the Farnham Facility. These leases have been classified as operating leases. Lease revenue is recorded on a straight-line basis, which takes into effect any rent escalations and rent holidays. Lease terms are from the inception of the purchase of the building (June 15, 2018) until the end of the initial lease term and exclude renewal periods. Renewal periods have been excluded as they are not reasonably assured.

(h) Financial instruments:

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, when the contractual right to receive the cash flows is transferred or when the contractual rights to receive the cash flows are retained but the Company assumes contractual obligation to pay the cash flows to one or more recipients.

Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Upon initial recognition, financial assets and financial liabilities are measured at fair value plus or minus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial assets are subsequently measured at amortized cost, using the effective interest method and net of any impairment losses of:

– the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows;

– the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payment of principal and for interest.

3. Significant accounting policies (continued):

(h) Financial instruments (continued):

The classification of financial instruments by the Company is as follows:

Financial instrument	Measurement
Cash	Amortized cost
Restricted cash - subscription agreement issued by a subsidiary	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Mortgage payable	Amortized cost
Lease liability	Amortized cost
Liability for subscription agreements issued by a subsidiary	Amortized cost

(i) Determination of fair values:

Certain of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes as explained below. When applicable, further information about the assumptions made in determining fair values is disclosed in the note specific to that asset or liability.

Fair value is the price that would be received in selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or a liability, the Company considers the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

The fair value hierarchy of the Company's financial instruments is as follows:

Level 1 - quoted market prices in active markets for identical assets or liabilities;

3. Significant accounting policies (continued):

(i) Determination of fair values (continued):

The fair value hierarchy of the Company's financial instruments is as follows (continued):

Level 2 - inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3 - unobservable inputs, such as inputs for the asset or liability, which are not based on observable market data.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data and rely as little as possible on the Company's specific estimates. If all significant inputs required to fair value instruments are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

The Company has no financial assets and liabilities recorded at fair value on a recurring basis measured using Level 3 inputs, however, the fair value of the lease liability on initial recognition was determined using Level 3 inputs.

(j) Finance income and costs:

Finance income includes interest income on available cash balances.

Finance costs include interest expense on borrowings related to the mortgage payable and the lease liability, other finance expense as well as foreign exchange losses.

(k) Income taxes:

Income tax expense represents the sum of the tax currently payable and deferred.

Current tax

Income tax is recognized in the consolidated statement of net loss and comprehensive loss, except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years, if any.

3. Significant accounting policies (continued):

(k) Income taxes (continued):

Deferred tax

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the date of the statement of financial position and will apply when the deferred tax assets or liabilities are expected to be settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. In assessing whether deferred tax assets may be realized, management considers the likelihood that some portion or all of the tax assets will be realized. The ultimate use of net deferred tax assets is dependent upon the generation of future taxable income or available tax planning strategies in making this assessment. Since the Company is a development stage company and currently awaiting approval for its license to cultivate and sell cannabis under *The Cannabis Act*, the generation of future taxable income is dependent on the successful licensing and commercialization of its products along with the successfully launch of shopcbd.com. As a result, management has determined that it is not "probable" that the benefits of the deferred tax assets will be recovered, and therefore has not recognized its deferred tax assets for accounting purposes.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(l) Share-based payments:

The Company has a share-based payment plan that grants stock options to employees, directors and consultants. Accordingly, awards are measured on the grant date at fair value and recorded as a stock-based compensation expense with a corresponding increase to contributed surplus. The expense is recognized over the vesting period of the options granted and is recognized as an expense in earnings with a corresponding credit to contributed surplus. At the end of each reporting period, the Company re-assesses its estimate of the number of stock options expected to vest and recognizes the impact of the revisions in the consolidated statement of net loss and comprehensive loss. Any consideration paid by employees, directors and consultants on exercise of stock options is credited to share capital combined with any related share-based compensation expense originally recorded in contributed surplus. The fair value of awards is measured using the Black-Scholes model. Measurement inputs include the underlying share price, exercise price of the instrument, expected price volatility, expected life of the instrument, expected dividends, and the risk-free interest rate.

3. Significant accounting policies (continued):

(m) Loss per share:

Loss per share is determined using the weighted average number of common shares outstanding during the year.

Diluted loss per share is determined by adjusting the loss and the weighted average number of common shares for the effects of all potential dilutive common shares, related to stock options and warrants. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised, and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting period. Potentially dilutive instruments are not included in the calculation of earnings per share if they are anti-dilutive for the periods presented.

(n) Critical accounting estimates and judgments:

Estimates and judgments are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates, judgments and assumptions. The carrying amounts of assets, liabilities, accruals, provisions, contingent liabilities and other financial obligations, as well as the determination of fair values and reported income and expense in these consolidated financial statements, depend on the use of estimates and judgments. IFRS also require management to exercise judgment in the process of choosing and applying the Company’s accounting policies. These estimates and judgments are based on the circumstances and estimates at the date of the consolidated financial statements and affect the reported amounts of income and expenses during the reporting period.

Given the uncertainty regarding the determination of these factors, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant items impacted by such estimates and judgments are outlined below.

Management estimates

Management estimates the useful lives of property, plant and equipment in the period during which the assets become available for use. The amounts and timing of recorded expenses for amortization of property, plant and equipment for any period are affected by these estimated useful lives. The estimates are reviewed each period and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. Changes in these factors may cause significant changes in the estimated useful lives of the Company’s property, plant and equipment and the related amortization expense in the future.

3. Significant accounting policies (continued):

(n) Critical accounting estimates and judgments (continued):

Management estimates (continued)

Other areas of estimates relate to the identification and measurement of the individual components of property, plant and equipment, the measurement of share-based compensation and warrants (Notes 13 and 14) and the fair value of the consideration transferred as part of the reverse acquisition of Dunbar Capital Corp. (Note 4).

Critical accounting judgments and assumptions

The judgments and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities relate to the valuation of property, plant and equipment. At each reporting date, management determines whether the property, plant and equipment present indicators of impairment or recovery of an impairment loss. For the purposes of this analysis, management uses its judgment considering factors such as the economic environment and the market in which the Company operates, budget, forecasts and physical obsolescence. If there is any such indication, the recoverable value of the asset is estimated. When assessing expected future cash flows, the Company makes assumptions regarding future operating results and the forecasted period for which the assets will generate cash flows. Although the Company determines the assumptions based on the market information available at the time of the assessment, actual results may differ.

4. Reverse acquisition of Dunbar by Cannara Biotech (Ops) Inc.:

On October 17, 2018, Cannara Biotech (Ops) Inc. signed an agreement with Dunbar whereby Dunbar acquired 100% of the issued and outstanding shares of Cannara Biotech (Ops) Inc. 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 Biotech (Ops) Inc. gained voting control of Dunbar pursuant to the issuance of Dunbar common shares to the shareholders of Cannara Biotech (Ops) Inc., representing a significant majority interest, Cannara Biotech (Ops) Inc. was determined to be the accounting acquirer and, consequently, the transaction has been accounted for as a reverse acquisition of Dunbar by Cannara Biotech (Ops) Inc. 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*.

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

The acquisition-date fair value of the consideration transferred by the accounting acquirer, Cannara Biotech (Ops) Inc., for its interest in the accounting acquiree, Dunbar, of $1,712,340, was determined based on the fair value of the equity interest Cannara Biotech (Ops) Inc. 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 was reflected as a listing expense related to the reverse acquisition of Dunbar in the 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 Biotech (Ops) Inc. for the year ended August 31, 2019:

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

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.

Financing costs, consisting of legal and other advisory costs in the amount of $373,887, were allocated to new share capital issued in conjunction with the reverse acquisition and are reflected as share issuance costs resulting in a reduction of share capital, along with investment banking costs of $1,948,216.

5. Inventory:

Inventory consists of the following:

		2019		2018
Finished goods - U.S. hemp CBD products for resale	$	186,707	$	–

5. Inventory (continued):

The Company did not expense any amount of inventory during the year ended August 31, 2019 and the 191-day period ended August 31, 2018, as it had not yet officially launched its e-commerce platform, ShopCBD.com. Subsequent to year-end, shopCBD.com was officially launched in November 2019.

6. Property, plant and equipment:

	Land	Buildings	Computer equipment	Furniture and fixtures	Construction in progress	Total
Cost						
February 21, 2018	$ –	$ –	$ –	$ –	$ –	$ –
Additions	1,032,940	11,700,895	36,752	57,595	612,690	13,440,872
Balance as at August 31, 2018	1,032,940	11,700,895	36,752	57,595	612,690	13,440,872
Additions	72,023	215,362	16,630	8,970	25,406,620	25,719,605
Balance as at: August 31, 2019	$ 1,104,963	$ 11,916,257	$ 53,382	$ 66,565	$ 26,019,310	$ 39,160,477
Accumulated depreciation						
February 21, 2018	$ –	$ –	$ –	$ –	$ –	$ –
Amortization	–	(80,076)	(2,552)	(2,400)	–	(85,028)
Balance as at August 31, 2018	–	(80,076)	(2,552)	(2,400)	–	(85,028)
Amortization	–	(400,156)	(12,052)	(12,864)	–	(425,072)
Balance as at: August 31, 2019	$ –	$ (480,232)	$ (14,604)	$ (15,264)	$ –	$ (510,100)
Net book value						
Balance as at: August 31, 2018	$ 1,032,940	$ 11,620,819	$ 34,200	$ 55,195	$ 612,690	$ 13,355,844
Balance as at: August 31, 2019	1,104,963	11,436,025	38,778	51,301	26,019,310	38,650,377

6. Property, plant and equipment (continued):

As at August 31, 2019, there are approximately $548,549 (2018 - $1.5 million) of deposits for property, plant and equipment purchased but for which the Company has yet to receive control over the assets. These amounts, which have been included in the "Deposits" on the consolidated statement of financial position, will be included in property, plant and equipment when control of the related asset is transferred to the Company.

Construction in progress relates to costs incurred for the phased build out of the Company's 625,000 square foot facility. The current Phase 1 construction was substantially completed in September 2019.

The Company has no outstanding commitments related to the build out of its Farnham Facility.

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

Right-of-use asset:

Cost		
February 21, 2018 (inception of operations)	$	–
Additions		492,932
Balance as at August 31, 2018		492,932
Additions		282,679
Balance as at August 31, 2019	$	775,611
Accumulated depreciation		
February 21, 2018	$	–
Amortization		(24,647)
Balance as at August 31, 2018		(24,647)
Amortization		(141,255)
Balance as at August 31, 2019	$	(165,902)
Net book value		
Balance as at August 31, 2018	$	468,285
Balance as at August 31, 2019		609,709

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

Lease liability:

	2019	2018
Maturity analysis - contractual undiscounted cash flows:		
Less than one year	$ 263,327	$ 169,772
One to five years	735,065	636,647
Total undiscounted lease liability	$ 998,392	$ 806,419
Current	$ 139,807	$ 72,651
Non-current	557,528	445,271
Lease liability included in the consolidated statement of financial position	$ 697,335	$ 517,922

February 21, 2018 (inception of operations)	$ –
Additions	492,932
Lease payments	–
Interest on lease liability	24,990
Balance as at August 31, 2018	517,922
Additions	282,679
Lease payments	(235,454)
Interest on lease liability	132,188
Balance as at August 31, 2019	$ 697,335

8. Intangible asset:

	Website in development
Net carrying value, August 31, 2018	$ –
Additions	281,020
Amortization	–
Net carrying value, August 31, 2019	$ 281,020

The intangible asset relates to the development of an e-commerce platform, ShopCBD.com, by a third-party consultant which is currently being developed to be the leading online retailer of a variety of premium U.S. hemp-based CBD products directly to customers in the United States. Subsequent to year-end, shopCBD.com was officially launched during November 2019.

9. Mortgage payable:

	Mortgage payable
Net carrying value, February 21, 2018	$ –
Issuance of mortgage	12,550,000
Deferred financing costs	(41,280)
Net carrying value, August 31, 2018	12,508,720
Payments	–
Amortization of deferred financing costs	17,747
Net carrying value, August 31, 2019	$ 12,526,467

9. Mortgage payable (continued):

	2019	2018
Mortgage payable bearing interest at 11% per annum due monthly, repayable entirely in a lump sum on April 6, 2021 [i]	$ 12,550,000	$ 12,550,000
Less: unamortized financing costs	23,533	41,280
	$ 12,526,467	$ 12,508,720

[i] The mortgage is secured by a first-ranking hypothec on the land and building and by an additional hypothec equal to 20% of the balance of purchase of the land and building. For the year ended August 31, 2019, the Company recognized $1,380,501 (2018 - $297,863) as interest expense on the mortgage.

10. Share capital:

The share capital represents the amount received upon issuance of common shares. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from the proceeds in equity in the period in which the transaction occurs.

(a) Authorized:

The Company has an unlimited number of voting and participating common shares authorized for issuance without par value.

(b) Issued and outstanding common shares:

	2019		2018	
	Number of shares	Amount	Number of shares	Amount
Class A shares	–	$ –	15,000	$ 15
Class B shares	–	–	476,652,330	15,853,953
Common Shares	706,770,705	54,925,997	–	–
	706,770,705	$ 54,925,997	476,667,330	$ 15,853,968

10. Share capital (continued):

(b) Issued and outstanding common shares (continued):

On October 12, 2018, October 19, 2018, and November 28, 2018, the Company issued a total of 207,640,375 subscription receipts at a price of $0.18 per subscription receipt on a private placement basis, with each subscription receipt representing the right to receive one common share without payment of additional consideration, subject to certain conditions, which include the successful listing of the Company on the Canadian Securities Exchange. On January 14, 2019, the Company had met all the conditions and the Company issued 207,640,375 common shares in exchange for cash consideration of $37,375,268. Furthermore, 9,513,000 common shares, having an estimated fair value of $1,712,340, were deemed to be issued to the equity owners of Dunbar prior to the reverse acquisition.

On December 31, 2018, as a result of the reverse acquisition as described in Note 4, the Company's Class A and Class B shares common shares were converted to ordinary common shares.

On July 12, 2019, the Company raised $2,160,000 by way of non-brokered private placement of common shares of the Company at a price of $0.18 per common share.

During the year ended August 31, 2019, 950,000 warrants were exercised at a price of $0.10 per warrant for an aggregate consideration of $95,000.

(c) Earnings per share:

The calculation of basic earnings per share was based on the net loss attributable to common shareholders of the Company of $12,315,049 (2018 - $2,112,897) and a weighted average number of common shares outstanding of 614,842,226 (2018 - 360,872,646), calculated as follows:

	2019	2018
Issued common shares as at September 1 (2018 - February 21)	476,667,330	15,000
Effect of issuance of common shares	1,019,178	360,857,646
Effect of the shares issued as part of the consideration transferred to Dunbar Capital Corp.	6,333,312	–
Effect of subscription receipts exercised for common shares	130,273,002	–
Effect of warrants exercised for common shares	549,404	–
Weighted average number of common shares, basic and diluted	614,842,226	360,872,646

10. Share capital (continued):

(c) Earnings per share (continued):

For the year ended August 31, 2019, a number of 22,019,444 (2018 - nil) share options, 14,948,710 (2018 - 15,898,710) warrants, that may potentially dilute earnings per share in the future, were excluded from the weighted average number of diluted common shares calculation as their effect would have been anti-dilutive.

11. Non-controlling interest (NCI):

The following table summarizes the information about the Company's subsidiaries that have NCI, before any intragroup eliminations as at August 31, 2019:

	Global shopCBD.com Inc. (Consolidated)
Cash	$ 7,600,794
Restricted cash - subscription agreement	211,000
Accounts receivable	12,147
Sales tax receivable	63,368
Inventory	186,707
Prepaid expenses	25,773
Intangible asset	281,020
Accounts payable and accrued liabilities	(395,680)
Liabilities for subscription agreements	(211,000)
Amount due to the parent company	(645,649)
Net assets	$ 7,128,480
Expenses	$ 1,693,939
Net loss	(1,693,939)
Foreign currency translation adjustment	(16,494)
Comprehensive loss	$ (1,710,433)
Non-controlling interest	38.77%
Carrying amount of NCI	$ 2,763,781
Net loss allocated to NCI	(656,757)
Comprehensive loss allocated to NCI	(663,151)

11. Non-controlling interest (NCI) (continued):

Cash flows from operating activities	$ (1,578,955)
Cash flows from financing activities	9,477,263
Cash flows from investing activities	(281,020)
Effect of foreign exchange on cash	(16,494)
Net increase in cash and cash equivalents	$ 7,600,794

On February 20, 2019, Global shopCBD.com Inc. issued a total of 50,000,000 common shares to Cannara Biotech (Ops) Inc. for gross proceeds of $250,000.

On February 22, 2019, Global shopCBD.com Inc. issued a total of 95,900,000 common shares to Cannara Biotech (Ops) Inc. for gross proceeds of $1,918,000. In addition, 50,000,000 common shares were issued to a company controlled by a member of key management for proceeds of $1,000,000 and 5,100,000 common shares were issued to other investors for gross proceeds of $102,000.

During February 2019, Global shopCBD.com Inc., entered into share subscription agreements to issue 38,184,334 common shares at a price of $0.15 per common share on a private placement basis to third parties that include shareholders of Cannara, with each share subscription agreement representing the right to receive common shares without payment of additional consideration subject to certain terms and conditions. On March 11, 2019, the Company fulfilled the terms and conditions and issued 37,285,660 common shares resulting in the Company's ownership interest decreasing to 61.23% from 72.60% as at August 31, 2019. Any share subscription agreements that did not result in issuance of common shares were cancelled and related cash, if provided, was returned to the potential investors.

During August, 2019, Global shopCBD.com Inc. entered into a share subscription agreements to issue 1,406,667 common shares at a price of $0.15 per common share on a private placement basis to an employee of the company, with each share subscription agreement representing the right to receive a common share without payment of additional consideration subject to certain terms and conditions. Subsequent to year end, the subscription agreements were cancelled and the related cash was returned to the potential investor.

12. Net finance expense:

	2019 (365 days)	2018 (191 days)
Interest income	$ 679,615	$ 27,088
Other income	4,233	–
Finance income	683,848	27,088
Interest on mortgage payable	1,380,501	294,944
Amortization of mortgage financing costs	17,747	2,919
Interest on lease liability	132,188	24,990
Other finance expense	1,341	–
Foreign exchange loss	25,416	–
Finance expense	1,557,193	322,853
Net finance expense	$ 873,345	$ 295,765

13. 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.

13. Share-based compensation (continued):

The activity of outstanding share options for the year ended August 31, 2019 was as follows:

	Number	Weighted average exercise price
Outstanding, February 21, 2018 (inception of operations)	–	$ –
Granted June 1, 2018	13,000,001	0.10
Outstanding, August 31, 2018	13,000,001	0.10
Granted on September 4, 2018	2,777,778	0.18
Granted on December 17, 2018	13,497,645	0.18
Granted on May 1, 2019	854,000	0.18
Expired on June 12, 2019	(100,000)	0.18
Granted on July 24, 2019	15,000,000	0.30
Expired on August 13, 2019	(6,000,000)	0.18
Outstanding, August 31, 2019	39,029,424	0.1995
Exercisable, end the year	22,019,444	$ 0.2480

The share options granted on September 4, 2018 vested immediately upon issuance and were granted to a third party for services performed related to the reverse acquisition.

The share options granted on December 17, 2018 included 450,000 options that vested immediately upon issuance and 13,047,645 options that vest based on the employee share option plan.

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

The share options granted on July 24, 2019 vested immediately upon issuance and were granted to the newly appointed Chief Operating Officer.

13. 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	September 4, 2018	December 17, 2018	May 1, 2019	July 24, 2019
Share price	$ 0.18	$ 0.18	$ 0.18	$ 0.15
Exercise price	$ 0.18	$ 0.18	$ 0.18	$ 0.30
Risk-free interest rate	1.88%	1.93%	1.48%	1.41%
Expected life	2 years	2-5 years	5 years	2 years
Expected price volatility of the Company's shares	103%	103%	125%	134%
Fair value of the option	$ 0.0976	$ 0.977 - 0.1372	$ 0.1517	$ 0.0793
Expected dividend yield	Nil	Nil	Nil	Nil

The share price, for options granted on September 4, 2018 and December 17, 2018, was based on the subscription receipts price of $0.18 per subscription right. The share price for the options granted on May 1, 2019 and July 24, 2019 were based on the market price on the grant date.

The risk-free interest rate was based on the Bank of Canada rates in effect at grant date for time periods approximately equal to the expected life of the option.

The expected life of the options reflects the assumption of future exercise patterns that may occur.

Expected price volatility was estimated based on historical volatility of comparable publicly traded companies in a similar industry.

The expected dividend yield has been estimated at nil as the Company has never paid cash dividends and does not expect to do so in the foreseeable future.

During the year ended August 31, 2019, the Company recorded a share-based compensation expense of $2,189,039 (2018 - $139,073) with a corresponding increase in contributed surplus.

During the year ended August 31, 2019, the Company recorded $270,000 (2018 - nil), of share-based compensation granted to a third party related to the Company's reverse acquisition. These share issuance costs were applied against share capital once the subscription receipts were exercised on January 14, 2019 to obtain the common shares.

In addition, the Company granted 4,172,645 options to a third party on December 17, 2018 and recorded a share-based compensation expense of $237,630 with a corresponding increase in contributed surplus.

14. Warrants:

Outstanding warrants were issued as part of services received related to issuance of common shares. The warrants become exercisable immediately upon issuance and expire on the second anniversary after the date of issuance and will expire between June 20, 2020 and July 12, 2020.

As at August 31, 2019, the Company has the following warrants outstanding with the corresponding exercise price:

	Number	Exercise price
Outstanding, February 21, 2018	15,898,710	$ –
Exercised	–	0.10
Outstanding, August 31, 2018	15,898,710	0.10
Exercised	950,000	0.10
Outstanding, August 31, 2019	14,948,710	0.10
Exercisable, end the year	14,948,710	$ 0.10

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

Share price	$ 0.10
Risk-free interest rate	1.88%
Expected life	2 years
Expected price volatility of the Company's shares	103%
Fair value of the warrants	$ 0.054

The share price was based on the cash consideration received upon issuance of shares in the round of financing that occurred during 2018.

The risk-free interest rate was based on the Bank of Canada rates in effect at grant date for time periods approximately equal to the expected life of the option.

The expected life of the warrants reflects the assumption of future exercise patterns that may occur.

Expected price volatility was estimated based on historical volatility of comparable publicly traded companies in a similar industry.

14. Warrants (continued):

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 year ended August 31, 2019, the Company recorded an increase to share capital of $51,524 with a corresponding increase in contributed surplus as a result of the exercise of 950,000 warrants.

15. Income taxes:

The effective tax rate on the Company's net loss differs from the expected amount that would arise using the statutory income tax rates. A reconciliation of the difference is as follows:

	2019 (365 days)	2018 (191 days)
Loss before income taxes	$ (12,971,805)	$ (2,112,897)
Statutory income tax rate	26.6%	26.7%
Combined federal and provincial income tax	(3,450,500)	(564,143)
Adjustment in income taxes resulting from:		
Unrecorded tax benefits on tax losses and other deductible temporary differences	2,578,552	549,352
Accounting charges not deducted for tax and other	871,948	14,791
Income taxes	$ –	$ –

15. Income taxes (continued):

As at August 31, 2019, the Company had the following loss carryforwards and other tax attributes available for carryforward. Loss carryforwards and other tax attributes are based on management estimates and are subject to verification by taxation authorities. Accordingly, these amounts may vary significantly.

		2019
	Federal	Provincial/State
Canadian		
Non capital losses carried forward, expiring:		
August 31, 2036	$ 1,270,920	$ 1,198,888
August 31, 2037	2,224,941	2,227,687
August 31, 2039	5,296,453	5,296,453
	8,792,314	8,723,028
Non-Canadian		
Non capital losses carried forward, expiring:		
August 31, 2039	1,559,801	1,559,801
	$ 10,352,115	$ 10,282,829

	Federal	Provincial/State
Canadian		
Other tax attributes carried forward, expiring:		
August 31, 2021	$ 300,745	$ –
August 31, 2022	124,000	–
August 31, 2024	407,307	–
August 31, 2026	–	300,745
August 31, 2027	–	124,000
August 31, 2029	–	407,307
	$ 832,052	$ 832,052

15. Income taxes (continued):

Deferred tax assets have not been recognized in respect of:

	Unrecognized in profit or loss	Unrecognized in equity	Balance August 31, 2019
Net operating loss carryforwards	$ 10,352,115	$ –	$ 10,352,115
Financing costs	165,987	2,303,652	2,469,639
Lease liability	83,350	–	83,350
Other tax attributes	832,052	–	832,052
Property, plant and equipment	357,137	–	357,137
	$ 11,790,641	$ 2,303,652	$ 14,094,293

	Unrecognized in profit or loss	Unrecognized in equity	Balance August 31, 2018
Net operating loss carryforwards	$ 1,213,550	$ –	$ 1,213,550
Financing costs	–	849,431	849,431
Lease liability	49,636	–	49,636
Other tax attributes	354,300	–	354,300
Property, plant and equipment and other	455,537	–	455,537
	$ 2,073,023	$ 849,431	$ 2,922,454

16. Financial instruments:

(a) Capital management:

The Company's primary objective when managing capital is to ensure its ability to continue as a going concern in order to pursue the development of its businesses and products. The Company is not subject to externally imposed capital requirements.

16. Financial instruments (continued):

(a) Capital management (continued):

Cash in excess of immediate working capital requirements is invested in accordance with the Company's investment policy, primarily with a view to liquidity and capital preservation. The Company monitors its cash requirements and market conditions to anticipate the timing of requiring additional capital to finance the development of its businesses and products. The Company has incurred losses and cumulative negative operating cash flows since its inception. The Company anticipates that it will continue to incur losses for at least the next several months while it awaits its license to cultivate, process and sell cannabis under *The Cannabis Act*, and becomes able to commercialize its products. Until such time as significant revenue from product sales is generated, the Company expects to finance its operations through a combination of public or private equity, debt financings, working capital or other sources, which may include collaborations with third parties. To date, the Company has financed its cash requirements primarily from the issuance of common shares and mortgage debt.

(b) Fair value measurements:

The fair value of cash, restricted cash, accounts receivable, prepaid expenses, accounts payables and accrued liabilities and liabilities for the subscription agreement issued by a subsidiary, 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.

(c) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company’s cash balances, restricted cash, prepaid expenses, rental receivables from customers and deposits.

Cash balances in an asset position expose the Company to credit risk arising from the potential default by counterparties that carry the Company’s cash balances or agree to deliver currencies. The Company attempts to mitigate this risk by dealing only with large financial institutions with good credit ratings. All of the financial institutions within the bank syndicate providing the Company’s credit facility meet these qualifications.

16. Financial instruments (continued):

(c) Credit risk (continued):

The carrying amount of the accounts receivable in the consolidated statement of financial position is presented net of an allowance for expected credit losses, estimated by the Company's management based, in part, on the age of the specific receivable balance and the current and expected collection trends. A provision is established when the likelihood of collecting the account has significantly diminished. As at August 31, 2019, none of the rental receivables were past due. The allowance for expected credit loss was nil as at August 31, 2019 (2018 - nil).

The Company's maximum credit exposure corresponds to the carrying amount of these financial assets.

(d) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not use derivative financial instruments to reduce its interest rate exposure as management does not believe the Company's exposure is significant.

(e) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due or can only do so at an excessive cost. The Company manages this risk by reviewing its capital requirements on an ongoing basis by maintaining cash flow forecasts and long-term operating and strategic plans.

The contractual maturities of financial liabilities as at August 31, 2019 were as follows:

	Carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years
Financial liabilities:				
Accounts payable and accrued liabilities	$ 4,739,820	$ 4,739,820	$ 4,739,820	$ –
Liability for subscription agreement issued by a subsidiary	211,000	211,000	211,000	–
Mortgage payable	12,526,467	12,550,000	–	12,550,000 (i)
Lease liability	697,335	998,392	263,327	735,065
	$ 18,174,622	$ 18,499,212	$ 5,214,147	$ 13,285,065

(i) The mortgage payable is due in April 2021 (see Note 9).

16. Financial instruments (continued):

(e) Liquidity risk (continued):

The contractual maturities of financial liabilities as at August 31, 2018 were as follows:

	Carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years
Financial liabilities:				
Trade and accrued liabilities	$ 1,091,235	$ 1,091,235	$ 1,091,235	$ –
Mortgage payable	12,508,720	12,550,000	–	12,550,000
Lease liability	517,922	806,419	169,772	636,647
	$ 14,117,877	$ 14,447,654	$ 1,261,007	$ 13,186,647

17. Contingencies:

In the normal course of business, the Company may be involved in various legal proceedings, the outcomes of which cannot be determined, or outflow of economic benefit is not probable, and, accordingly, no provision has been recorded. The Company believes that the resolution of these proceedings will not have a material favourable or unfavourable effect on its consolidated financial position or financial performance. As at August 31, 2019, there are no material claims in favor or against the Company, as such, no contingencies have been recorded in its consolidated financial position or financial performance.

18. Segment disclosures:

(a) Reportable segments:

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

The chief operating decision-maker assesses performance based on segment operating results which were defined as segment loss before share-based compensation, amortization, listing expense related to the reverse acquisition of Dunbar Capital Corp., net finance expense and income tax. These items, including ancillary lease revenues and lease operating costs have been categorized as Other. The accounting policies of the segments are the same as those described in Note 3 of these consolidated financial statements.

18. Segment disclosures (continued):

(a) Reportable segments (continued):

	2019				2018			
	Canadian operations	U.S. operations	Other	Total	Canadian operations	U.S. operations	Other	Total
Lease revenues	$ –	$ –	$ 2,096,974	$ 2,096,974	$ –	$ –	$ 432,637	$ 432,637
Lease operating costs	–	–	403,895	403,895	–	–	273,580	273,580
Segment net revenues	–	–	1,693,079	1,693,079	–	–	159,057	159,057
Operating expenses	7,423,540	1,737,390	–	9,160,930	1,727,441	–	–	1,727,441
Segment operating income (loss)	(7,423,540)	(1,737,390)	1,693,079	(7,467,851)	(1,727,441)	–	159,057	(1,568,384)
Share-based compensation	–	–	2,189,039	2,189,039	–	–	139,073	139,073
Amortization	–	–	566,327	566,327	–	–	109,675	109,675
Listing expense related to the reverse acquisition of Dunbar Capital Corp.	–	–	1,875,243	1,875,243	–	–	–	–
Net finance expense (income)	–	–	873,345	873,345	–	–	295,765	295,765
Net loss	$ (7,423,540)	$ (1,737,390)	$ (3,810,875)	$ (12,971,805)	$ (1,727,441)	$ –	$ (385,456)	$ (2,112,897)

18. 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.

Other sources of revenue

In order to increase cash flow while building out its Farnham Facility, the Company leased 333,551 square feet of the total 625,000 available square feet to two tenants. During the year ended August 31, 2019, the Company realized 100% of its lease revenue with two lessees. Tenant A's initial lease term is until September 30, 2022. Lease revenues from this tenant in the year ended August 31, 2019 was approximately $300,419 and is expected to be approximately $290,290 for the year ended August 31, 2020. Tenant B's renewal lease term is until November 30, 2019. Lease revenues from this tenant were approximately $1,796,555 in the year ended August 31, 2019 and is expected to generate $449,139 until November 30, 2019. Tenant B lease renewals are typically renewed every six months.

For the year ended August 31, 2019, ancillary leasing revenues, operating costs and allocated amortization of property, plant and equipment totaled $2,096,974, $403,895 and $208,150, respectively (2018 - $432,637, $273,580 and $61,220, respectively). Income is generated from customers domiciled in Canada.

19. Related parties:

(a) Key management personnel compensation:

Key management personnel are those people having the authority and responsibility for planning, directing and controlling the business activities of the Company and include all of its directors along with certain executives. The compensation of key management personnel, including directors' fees, salaries and benefits and share-based compensation for the year ended August 31, 2019, was as follows:

	2019	2018
Salaries and benefits	$ 1,012,747	$ 111,507
Share-based compensation	1,725,673	128,375
Board of director fees	34,339	–
	$ 2,772,759	$ 239,882

19. 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:

	2019	2018
Nature of transactions:		
Management fees [i]	$ 264,945	$ 22,493
Interest on mortgage payable [i]	1,381,174	297,863
	1,646,119	320,356
Balance with related parties are as follows:		
Receivables [i]	5,090	219,623
Payables [i]	(118,904)	(318,816)
Liabiltities for subscription agreement issued by a subsidiary - payable to an executive of the Company	(211,000)	–
Payable to controlling shareholder	–	(78,012)
Payable to key management personnel	(74,939)	(9,886)
Payable to a Board member	–	(56,000)
Mortgage payable [i]	(12,550,000)	(12,550,000)

[i] A Board of Director is a shareholder of an entity in which the Company entered into various transactions related to the Farnham Facility and the related mortgage payable.

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

20. Subsequent events:

(a) Submission of Site Evidence Package to Health Canada for the Farnham Facility:

On September 12, 2019, the Company announced that it has submitted to Health Canada its Site Evidence Package for Phase 1 of the Farnham Facility which will permit the Company to cultivate, process and sell premium cannabis and cannabis-infused products under *The Cannabis Act*. The submission of the site evidence package marks the substantial completion of the Phase 1 construction of the Farnham Facility.

20. Subsequent events (continued):

(b) Mortgage financing facility with Canadian Imperial Bank of Commerce:

On October 10, 2019, the Company announced that it has secured a first mortgage against its Farnham Facility in the value of $6 million with a Canadian financial institution at an interest rate of prime plus 2%. As of August 31, 2019, the interest rate related to the mortgage was 5.95%. These funds will be applied to reduce the existing mortgage payable.