# CANNARA BIOTECH INC.

Consolidated Financial Statements

Years ended August 31, 2020 and 2019

# 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, 2020 and August 31, 2019
- the consolidated statements of net loss and comprehensive loss for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- 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, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended 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.

- 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

December 15, 2020

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

# CANNARA BIOTECH INC.

Consolidated Statements of Financial Position
As at August 31, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash | $ 7,771,177 | $ 26,505,992 |
| Restricted cash - subscription agreement issued by a subsidiary | – | 211,000 |
| Accounts receivable | 26,370 | 146,113 |
| Sales tax receivable | 251,728 | 682,139 |
| Lease receivable (note 7) | 30,608 | – |
| Biological assets (note 4) | 1,313,370 | – |
| Inventory (note 5) | 928,351 | 186,707 |
| Prepaid expenses and other assets | 208,252 | 96,304 |
| | 10,529,856 | 27,828,255 |
| Lease receivable (note 7) | 72,704 | – |
| Deposits | 352,153 | 185,228 |
| Deposits on property, plant and equipment | 89,319 | 548,549 |
| Property, plant and equipment (note 6) | 43,187,173 | 38,650,377 |
| Right-of-use asset (note 7) | 456,899 | 609,709 |
| Intangible asset (note 8) | 162,324 | 281,020 |
| | $ 54,850,428 | $ 68,103,138 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | $ 2,915,279 | $ 4,739,820 |
| Liabilities for subscription agreements issued by a subsidiary | – | 211,000 |
| Current portion of long-term debt (note 9) | 2,039 | – |
| Deferred lease revenue | 28,204 | – |
| Current portion of deferred grant income (note 13) | 22,162 | – |
| Current portion of lease liabilities (note 7) | 209,268 | 139,807 |
| Current portion of mortgages payable (note 9) | 300,000 | – |
| | 3,476,952 | 5,090,627 |
| Other long-term liabilities | 75,000 | – |
| Long-term debt (note 9) | 7,124 | – |
| Deferred grant income (note 13) | 509,732 | – |
| Lease liabilities (note 7) | 442,496 | 557,528 |
| Mortgages payable (note 9) | 11,974,263 | 12,526,467 |
| | 16,485,567 | 18,174,622 |
| Shareholders' equity | | |
| Share capital (note 10) | 58,361,592 | 54,925,997 |
| Contributed surplus | 7,034,550 | 6,676,783 |
| Deficit | (27,077,006) | (14,427,946) |
| Accumulated other comprehensive gain (loss) | 45,725 | (10,099) |
| Equity attributable to the shareholders of the Company | 38,364,861 | 47,164,735 |
| Non-controlling interest (note 23) | – | 2,763,781 |
| Total equity | 38,364,861 | 49,928,516 |
| Contingencies (note 18) | | |
| Subsequent events (note 24) | | |
| | $ 54,850,428 | $ 68,103,138 |

See accompanying notes to consolidated financial statements.

On behalf of the Board:

*" Zohar Krivorot "* Director
*" Donald Olds "* Director

# CANNARA BIOTECH INC.

Consolidated Statements of Net Loss and Comprehensive Loss
Years ended August 31, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| Revenue: | | |
| Lease revenues | $ 2,356,820 | $ 2,096,974 |
| Revenue from sale of goods (note 19) | 117,921 | – |
| Other income (note 13) | 104,202 | – |
| | 2,578,943 | 2,096,974 |
| Cost of sales: | | |
| Lease operating costs | 343,827 | 403,895 |
| Cost of goods sold (note 5) | 569,292 | – |
| | 913,119 | 403,895 |
| Unrealized loss on changes in fair value of biological assets (note 4) | (413,315) | – |
| | 1,252,509 | 1,693,079 |
| Operating expenses | | |
| Salaries and benefits | 3,077,781 | 2,964,573 |
| General and administrative | 2,445,054 | 1,966,823 |
| Research and development (note 14) | 2,600,840 | – |
| Professional fees | 1,383,044 | 3,162,418 |
| Sales and marketing costs | 904,664 | 765,925 |
| Regulatory and Investor relations | 416,175 | 301,191 |
| Share-based compensation (note 11) | 741,844 | 2,189,039 |
| Amortization of property, plant and equipment (note 6) | 1,268,373 | 425,072 |
| Amortization of right-of-use asset (note 7) | 191,829 | 141,255 |
| Amortization of intangible asset (note 8) | 152,144 | – |
| Impairment (note 6) | 35,194 | – |
| Gain on sublease (note 7) | (25,894) | – |
| Loss on disposal of property, plant and equipment | 13,791 | – |
| | 13,204,839 | 11,916,296 |
| Operating loss | (11,952,330) | (10,223,217) |
| Listing expense related to the reverse acquisition of Dunbar Capital Corp. (note 22) | – | 1,875,243 |
| Net finance expense (note 15) | 1,142,025 | 873,345 |
| Loss before income taxes | (13,094,355) | (12,971,805) |
| Income tax expense (note 17) | – | – |
| Net loss | (13,094,355) | (12,971,805) |
| Other comprehensive loss: | | |
| Foreign currency translation adjustments | 51,849 | (16,494) |
| Total comprehensive loss | $ (13,042,506) | $ (12,988,299) |
| Net loss attributable to: | | |
| Shareholders of the Company | $ (12,482,610) | $ (12,315,049) |
| Non-controlling interest | (611,745) | (656,756) |
| | $ (13,094,355) | $ (12,971,805) |
| Total comprehensive loss attributable to: | | |
| Shareholders of the Company | $ (12,426,786) | $ (12,325,148) |
| Non-controlling interest | (615,720) | (663,151) |
| Total comprehensive loss | $ (13,042,506) | $ (12,988,299) |
| Basic and diluted loss per share | $ (0.02) | $ (0.02) |
| Weighted average number of common shares, basic and diluted | 713,332,778 | 614,842,226 |

See accompanying notes to consolidated financial statements.

# CANNARA BIOTECH INC.

Consolidated Statements of Changes in Equity
Years ended August 31, 2020 and 2019

| | Attributable to the shareholders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Share capital | Contributed surplus | Deficit | Accumulated other comprehensive gain (loss) | Total | Non-controlling interest | Total equity |
| As at August 31, 2019 | 706,770,705 | $ 54,925,997 | $ 6,676,783 | $ (14,427,946) | $ (10,099) | $ 47,164,735 | $ 2,763,781 | $ 49,928,516 |
| Net loss and comprehensive loss | – | – | – | (12,482,610) | – | (12,482,610) | (611,745) | (13,094,355) |
| Other comprehensive loss: | | | | | | | | |
| Foreign currency translation adjustment | – | – | – | – | 55,824 | 55,824 | (3,975) | 51,849 |
| Comprehensive loss | – | – | – | (12,482,610) | 55,824 | (12,426,786) | (615,720) | (13,042,506) |
| Share-based compensation (note 11) | | | | | | | | |
| Employee compensation | – | – | 811,173 | – | – | 811,173 | – | 811,173 |
| Other services | – | – | (29,121) | – | – | (29,121) | – | (29,121) |
| | – | – | 782,052 | – | – | 782,052 | – | 782,052 |
| **Transaction with shareholders of the Company** | | | | | | | | |
| Warrants exercised (note 12) | 7,823,000 | 1,206,585 | (424,285) | – | – | 782,300 | – | 782,300 |
| **Changes in ownership interest** | | | | | | | | |
| Change in ownership of a subsidiary (note 10) | 23,145,110 | 2,314,511 | – | (166,450) | – | 2,148,061 | (2,148,061) | – |
| Share issuance costs (note 10) | – | (85,501) | – | – | – | (85,501) | – | (85,501) |
| As at August 31, 2020 | 737,738,815 | $ 58,361,592 | $ 7,034,550 | $ (27,077,006) | $ 45,725 | $ 38,364,861 | $ – | $ 38,364,861 |

See accompanying notes to consolidated financial statements.

# CANNARA BIOTECH INC.

Consolidated Statements of Changes in Equity
Years ended August 31, 2020 and 2019

| | Attributable to the shareholders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Share capital | Contributed surplus | Deficit | Accumulated other comprehensive loss | Total | Non-controlling interest | Total equity |
| As at August 31, 2018 | 476,667,330 | $ 15,853,968 | $ 1,001,350 | $ (2,112,897) | $ – | $ 14,742,421 | $ – | $ 14,742,421 |
| Net loss and comprehensive 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 11) | | | | | | | | |
| 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 12) | 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 | – | (2,322,103) | – | – | – | (2,322,103) | – | (2,322,103) |
| Issue of shares in connection with the reverse acquisition of Dunbar Capital Corp. (note 22) | 9,513,000 | 1,712,340 | – | – | – | 1,712,340 | – | 1,712,340 |
| **Changes in ownership interest** | | | | | | | | |
| Issuance of shares by a subsidiary (note 23) | – | – | 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
Years ended August 31, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating | | |
| Net loss | $ (13,094,355) | $ (12,971,805) |
| Items not involving cash: | | |
| Unrealized loss on changes in fair value of biological assets (note 4) | (413,315) | – |
| Amortization of property, plant and equipment (note 6) | 2,238,940 | 425,072 |
| Amortization of right-of-use asset (note 7) | 191,829 | 141,255 |
| Amortization of intangible asset (note 8) | 152,144 | – |
| Impairment (note 6) | 35,194 | – |
| Loss on disposal of property, plant and equipment | 13,791 | – |
| Gain on sublease (note 7) | (25,894) | – |
| Interest on lease liabilities (note 15) | 143,364 | 132,188 |
| Interest expense (note 15) | 1,182,278 | 1,380,501 |
| Interest income (note 15) | (265,771) | (679,615) |
| Share-based compensation (note 11) | 782,052 | 2,189,039 |
| Amortization of mortgage financing costs (note 9) | 24,535 | 17,747 |
| Other | 165 | – |
| Listing expense related to the reverse acquisition of Dunbar Capital Corp. (note 22) | – | 1,701,282 |
| Net change in non-cash operating: | | |
| Working capital items (note 21) | (289,607) | 255,042 |
| | (9,324,650) | (7,409,294) |
| Financing | | |
| Issuance of common shares (note 10) | – | 39,535,268 |
| Warrants exercised (note 12) | 782,300 | 95,000 |
| Share issuance costs | (85,501) | (2,052,102) |
| Issuance of shares by a subsidiary | – | 6,694,849 |
| Lease payments (note 7) | (311,773) | (235,454) |
| Proceeds from mortgage (note 9) | 6,000,000 | – |
| Mortgage payments (note 9) | (6,250,000) | – |
| Mortgage issuance costs | (26,739) | – |
| Interest paid (note 9) | (1,022,217) | (1,376,717) |
| Long-term debt payments (note 9) | (886) | – |
| | (914,816) | 42,660,844 |
| Investing | | |
| Interest received | 262,400 | 679,615 |
| Acquisition of property, plant and equipment (note 6) | (9,181,569) | (23,013,036) |
| Acquisition of intangible assets (note 8) | (133,865) | (281,020) |
| Deposits on property, plant and equipment | 459,230 | 974,647 |
| Proceeds from disposal of property, plant and equipment | 42,955 | – |
| | (8,550,849) | (21,639,794) |
| Net change in cash | (18,790,315) | 13,611,756 |
| Effect of foreign exchange on cash | 55,500 | (16,494) |
| Cash acquired from reverse acquisition of Dunbar Capital Corp. (note 22) | – | 11,058 |
| Cash, beginning of year | 26,505,992 | 12,899,672 |
| Cash, end of year | $ 7,771,177 | $ 26,505,992 |

See accompanying notes to consolidated financial statements.

## 1. Nature of operations

Cannara Biotech Inc. (hereafter the "Company" or "Cannara") is an emerging vertically integrated cannabis company focused on indoor cultivation, processing and sale of premium dried cannabis and cannabis derivates under The Cannabis Act, and will offer its product for sale to consumers in Québec and throughout Canada. The Company is domiciled in Canada and was incorporated under the laws of British Columbia on October 19, 2017. Its head office is located at 333 Décarie, Suite 200, Ville St-Laurent, Québec, H4N 3M9. The Company’s common shares are listed under the symbol "LOVE" on the Canadian Stock Exchange in Canada, "LOVFF" on the OTCQB Venture Market in the United States and "8CB" on the Frankfurt Stock Exchange in Germany.

The Company has completed the construction of 170,000 square feet of its purpose-built modern and secure 625,000 square feet indoor cultivation facility ("Farnham Facility") and, through its subsidiary, Cannara Biotech (Québec) Inc., has obtained its licence from Health Canada to cultivate and process cannabis effective January 31, 2020. The cannabis facility is now fully operational.

Cannara has only generated limited hemp-based CBD product revenues and limited ancillary cannabis revenues since cultivation activities were launched in February 2020 and has applied for an amendment to its license to begin selling its cannabis to provincial retail distributors. The Company has incurred net losses of approximately $13.1 million during the year ended August 31, 2020 (2019 - $13.0 million) and has a deficit of approximately $27.1 million as at August 31, 2020 (2019 - $14.4 million). The Company expects that its existing cash resources of $7.8 million as at August 31, 2020, along with cash received subsequent to year-end from its credit facilities and commercial sales, will enable it to fund its planned operating expenses for at least the next twelve months from August 31, 2020.

The Company anticipates that it will continue to incur losses until commercialization activities have been ramped up. The Company expects to finance its operations through existing cash, and/or a combination of public or private equity and debt financing or other sources. The ability of the Company to ultimately achieve future profitable operations is dependent upon the successful development of its product pipeline and the successful sale and commercialization of its products.

**1. Nature of operations (continued)**

*COVID-19*

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

**2. Basis of preparation**

(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 December 15, 2020.

(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*;

(ii) Right-of-use asset, lease receivable 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*; and

(iii) Biological assets, which have been recorded at the fair value less cost to sell pursuant to IAS 41, *Agriculture*.

## 2. Basis of preparation (continued)

(c) 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's and of most of its subsidiaries' functional currency is the Canadian dollar, with the exception of ShopCBD.com whose functional currency is the U.S. dollar.

(d) 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 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, 2020:

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

## 3. Significant accounting policies

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

(a) 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.

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.

When the Company is an intermediate lessor, it accounts for its interests in the lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the lease, not with reference to the underlying asset. A lease is classified as a finance lease if it transfers substantially all the risks and rewards from the right-of-use asset resulting from the lease; otherwise, it is classified as an operating lease.

**3. Significant accounting policies (continued)**

(a) Leases (continued)

For sublease classified as finance lease, the Company derecognises the right-of-use asset to the extent that it is subject to the sublease and a lease receivable is recognised to reflect the net investment in the finance lease. Any difference between the right-of-use assets and the net investment in the finance sublease is recognised in the consolidated statement of loss and comprehensive loss. On initial recognition, the net investment in the finance lease is measured at an amount equal to the present value of the lease payments for the underlying right-of-use assets during the lease term. The Company recognises finance income over the lease term, based on a pattern reflecting a constant period rate of return on the Company' net investment in the lease.

(b) Biological assets

The Company's biological assets consist of cannabis plants which are not yet harvested. These biological assets are measured at fair value less costs to sell, which becomes the initial basis for the cost of inventories after harvest. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour for personnel directly and indirectly related to growing cannabis plants, nutrients, supplies, materials, utilities, property taxes, insurance, security, share-based compensation expenses, depreciation and overhead costs to the extent it is related to the growing space. Unrealized fair value gains or losses on growth of biological assets are recorded in a separate line on the face of the statements of loss and comprehensive loss and subsequently transferred to inventory at the point of harvest.

(c) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

The inventory of harvested cannabis is transferred from biological assets at their fair value amount at harvest date, which becomes the initial deemed cost of the inventory. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. The capitalized cost also includes subsequent costs such as materials, labour and amortization expense on equipment involved in processing, packaging, labelling and inspection of the final product. The total cost of inventory also includes a fair value adjustment which represents the fair value of the biological asset at the time of harvest. All direct and indirect costs related to inventory are capitalized as they are incurred, and they are subsequently recorded within cost of good sold in the consolidated statements of loss and comprehensive loss at the time cannabis is sold. The realized fair value amounts included in inventory sold are recorded as a separate line in the statements of loss and comprehensive loss.

**3. Significant accounting policies (continued)**

(c) Inventory (continued)

Raw materials for cultivation and supplies are initially valued at cost.

Cost for hemp-based CBD products includes all expenses related to purchasing and transferring the finished goods to the ShopCBD.com's third party warehouse facility in the U.S. 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.

(d) 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.

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.

Repair and maintenance costs are expensed as incurred in the consolidated 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.

## 3. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

Amortization is calculated using the following useful life method over the estimated useful life of the assets as follows:

| Asset type | Useful life method | Term |
|---|---:|---:|
| Land | Indefinite | Indefinite |
| Building | Straight-line | 10-30 years |
| Facility production equipment | Straight-line | 10 years |
| Computer equipment and software | Straight-line | 3-6 years |
| Vehicles | Straight-line | 5 years |
| Furniture and fixtures | Straight-line | 5-10 years |

(e) 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.

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. The useful life and amortization method are reviewed at each reporting date and adjusted, if appropriate. During the year ended August 31, 2020, the Company reviewed the amortization period and revised it from 3 to 2 years.

(f) Government grants

Government grants are recognized when there is reasonable assurance that the Company has met the requirements of the approved grant program and there is reasonable certainty based on management’s judgment that the government grant will be received. Government grants are recognized in other income on a systematic basis as the Company recognizes the costs that the grants are intended to compensate.

**3. Significant accounting policies (continued)**

(g) Research and development

Research and development expenditures are recognized as an expense in the period in which they are incurred. Research and development expenditures include employee salaries and benefits, professional fees, materials and attributable indirect costs to the Company's initial harvests as the Company uses the data generated from these plants to adjust various factors in the cultivation process with the objective to maximize yield and streamline the production process.

(h) 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.

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.

(i) 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 purposes 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.

## 3. Significant accounting policies (continued)

(j) Revenue recognition

The Company generates revenue from the sale of cannabis and hemp-based CBD products.

Revenue is recognized when performance obligation under the terms of a contract with a customer is satisfied. The Company uses the following five-step contract-based analysis of transactions to determine if, when and how much revenue can be recognized:

1. Identify the contract with a customer;
2. Identify the performance obligation(s) in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligation(s) in the contract; and
5. Recognize revenue when or as the Company satisfies the performance obligation(s). Revenue from the sale of cannabis is generally recognized when control over the goods has been transferred to the customer. Payment for sales is typically due prior to shipment. In some cases, payment for wholesale transactions is due within a specified time period as permitted by the underlying agreement and the Company's credit policy upon the transfer of goods to the customer. The Company generally satisfies its performance obligation and transfers control to the customer upon shipment or upon receipt by the customer. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled.

(k) 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.

**3. Significant accounting policies (continued)**

(k) Financial instruments (continued)

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.

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 |
| Lease receivable | Amortized cost |
| Accounts receivable | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |
| Mortgages payable | Amortized cost |
| Long-term debt | Amortized cost |
| Liability for subscription agreements issued by a subsidiary | Amortized cost |

(l) 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.

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:

**3. Significant accounting policies (continued)**

(l) Determination of fair values (continued)

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;

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.

The fair value of the biological assets and lease liabilities on initial recognition was determined using Level 3 inputs.

(m) 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.

(n) 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)**

(n) 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 sell cannabis under *The Cannabis Act* to provincial retail distributors, the generation of future taxable income is dependent on the successful licensing and commercialization of its products. 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.

(o) 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)**

(p) 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.

(q) Change in an accounting policy

The Company changed the definition of its reportable segments to reflect a change to its internal reporting used by the chief operating decision maker to assess the performance of the Company. As such, reportable segments now included two segments: (1) Indoor cannabis operations and (2) Real estate operations (note 19). This change was made in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, resulting in a retrospective adjustment of prior figures (note 19).

(r) 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.

## 3. Significant accounting policies (continued)

(r) Critical accounting estimates and judgments (continued)

*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.

*Critical accounting judgments and assumptions*

Biological assets, consisting solely of plants, are measured at fair value less costs to sell up to the point of harvest. Determination of the fair values of the biological assets requires the Company to make a number of estimates, including estimating sales price, cost to complete and cost to sell, the stage of completion in the production process, expected plant loss and expected yield per cannabis plant. As the valuation of biological assets becomes the basis for the cost of finished inventory after harvest, this is also a significant estimate for the valuation of inventory.

## 4. 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:

| | | | August 31, 2020 |
|---|---|---|---|
| Carrying amount, beginning of year | | $ | – |
| Production costs capitalized | | | 2,104,212 |
| Net change in fair value due to biological transformation, less cost to sell before undernoted | | | 627,035 |
| Biological assets used for the enhancement of cultivation processes | (1,040,350) | | |
| Net change in fair value due to biological transformation, less cost to sell | | | (413,315) |
| Transferred to inventory upon harvest | | | (377,527) |
| Carrying amount, end of year | | $ | 1,313,370 |

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

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

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

Because there is no actively traded commodity market for cannabis plants and dried product, the valuation of the biological assets is obtained using valuations techniques where the inputs are based upon unobservable market data and are classified as level 3 in the fair market value hierarchy. There has been no transfer between levels as at August 31, 2020.

## 4. Biological assets (continued)

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

The income approach calculates the present value of expected future cash flows from the Company's biological assets using the following inputs for the year ended August 31, 2020:

| Unobservable inputs | Input values | Sensitivity analysis |
|---|---|---|
| *Average wholesale and retail selling price* Represents the average expecting 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 \$3.50 per gram | An increase or decrease of 5% applied to the average selling price would result in a change of approximately \$109,000 to the valuation. |
| *Yield per plant* Represents the average number of grams of dried cannabis expected to be harvested from each cannabis plant. | 60 grams per plant | An increase or decrease of 5% applied to the average yield per plant would result in a change of approximately \$65,000 to the valuation. |
| *Stage of completion* 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 \$65,000 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 August 31, 2020, it is expected that the Company's biological assets will yield approximately 1,997 kilograms of dried cannabis when harvested.

## 5. Inventory

| | Capitalized cost | Fair value adjustment | August 31, 2020 Total | August 31, 2019 Total |
|---|---|---|---|---|
| Raw materials - cultivation and supplies | $ 295,602 | $ – | $ 295,602 | $ – |
| Finished goods - U.S. hemp-based CBD products for resale | 168,387 | – | 168,387 | 186,707 |
| Harvested cannabis | | | | |
| Work-in-progress | 357,079 | (30,470) | 326,609 | – |
| Finished goods | 105,731 | 32,022 | 137,753 | – |
| | $ 926,799 | $ 1,552 | $ 928,351 | $ 186,707 |

The amounts of inventory expensed as cost of goods sold during the year ended August 31, 2020 for the sale of hemp-based CBD products totaled $95,547 (2019 - nil) and $473,745 for cannabis-based products as a result of tests, experiments and enhancements to the cultivation process.

## 6. Property, plant and equipment

| | Land | Buildings | Facility production equipment | Computer equipment and software | Vehicles | Furniture and fixtures | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance as at August 31, 2019 | $ 1,104,963 | $ 11,916,257 | $ – | $ 53,382 | $ – | $ 66,565 | $ 26,019,310 | $ 39,160,477 |
| Additions | – | 25,768,461 | 4,696,917 | 1,138,107 | 9,940 | 1,273,561 | (26,019,310) | 6,867,676 |
| Disposal | – | (27,956) | (28,790) | – | – | – | – | (56,746) |
| Impairment | – | (27,598) | (7,596) | – | – | – | – | (35,194) |
| Balance as at August 31, 2020 | $ 1,104,963 | $ 37,629,164 | $ 4,660,531 | $ 1,191,489 | $ 9,940 | $ 1,340,126 | $ – | $ 45,936,213 |
| **Accumulated depreciation** | | | | | | | | |
| Balance as at August 31, 2019 | $ – | $ (480,232) | $ – | $ (14,604) | $ – | $ (15,264) | $ – | $ (510,100) |
| Amortization | – | (1,558,187) | (347,506) | (197,209) | (553) | (135,485) | – | (2,238,940) |
| Balance as at August 31, 2020 | $ – | $ (2,038,419) | $ (347,506) | $ (211,813) | $ (553) | $ (150,749) | $ – | $ (2,749,040) |
| **Net book value** | | | | | | | | |
| Balance as at August 31, 2020 | $ 1,104,963 | $ 35,590,745 | $ 4,313,025 | $ 979,676 | $ 9,387 | $ 1,189,377 | $ – | $ 43,187,173 |

## 6. Property, plant and equipment (continued)

| | Land | Building | Computer equipment | Furniture and fixtures | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| 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** | | | | | | |
| 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, 2019 | $ 1,104,963 | $ 11,436,025 | $ 38,778 | $ 51,301 | $ 26,019,310 | $ 38,650,377 |

During the year ended August 31, 2020, the Company recognized $2,238,940 as depreciation expense (2019 - $425,072), of which $1,268,373 has been recognized in the consolidated statement of loss and comprehensive loss and $970,567 has been included in the calculation of the cannabis valuation and for which some lots were used ultimately for research and development (note 14) (2019 - $425,072 and nil, respectively).

## 7. Right-of-use asset and lease liabilities

(a) Right-of-use asset

| | | 2020 | | 2019 |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance, beginning of year | $ | 775,611 | $ | 492,932 |
| Additions | | 122,838 | | 282,679 |
| Derecognition of portion related to sublease agreement [i] | | (132,669) | | – |
| Balance, end of year | $ | 765,780 | $ | 775,611 |
| **Accumulated depreciation** | | | | |
| Balance, beginning of year | $ | (165,902) | $ | (24,647) |
| Amortization | | (191,829) | | (141,255) |
| Derecognition of portion related to sublease agreement [i] | | 48,850 | | – |
| Balance, end of year | $ | (308,881) | $ | (165,902) |
| **Net book value** | | | | |
| Balance, end of year | $ | 456,899 | $ | 609,709 |

[i] Sublease agreement

On May 21, 2020, the Company and a third party entered into a sublease agreement to lease a portion of the Company's head office location. The Company is entitled to equal monthly payment of $4,111 up to the term of the agreement on May 31, 2023.

The Company has classified the sublease as a finance lease because the sub-lease is for the whole of the remaining term on the head lease.

On initial recognition, the portion of the original right-of-use asset subleased for a net total of $83,819 has been derecognized and a lease receivable was recognized of $109,713, which resulted in a gain of $25,894.

## 7. Right-of-use asset and lease liabilities (continued)

(b) Lease liabilities

| | 2020 | 2019 |
|---|---|---|
| Maturity analysis - contractual undiscounted cash flows: | | |
| Less than one year | $ 312,867 | $ 263,327 |
| One to five years | 521,895 | 735,065 |
| Total undiscounted lease liabilities | $ 834,762 | $ 998,392 |
| Current | $ 209,268 | $ 139,807 |
| Non-current | 442,496 | 557,528 |
| Lease liabilities included in the consolidated statement of financial position | $ 651,764 | $ 697,335 |

| | 2020 | 2019 |
|---|---|---|
| Balance, beginning of year | $ 697,335 | $ 517,922 |
| Additions | 122,838 | 282,679 |
| Lease payments | (311,773) | (235,454) |
| Interest on lease liabilities | 143,364 | 132,188 |
| Balance, end of year | $ 651,764 | $ 697,335 |

## 8. Intangible asset

| | 2020 | 2019 |
|---|---|---|
| Net carrying value, beginning of year | $ 281,020 | $ – |
| Additions | 37,099 | 281,020 |
| Amortization | (152,144) | – |
| Foreign currency translation adjustments | (3,651) | – |
| Net carrying value, end of year | $ 162,324 | $ 281,020 |

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

## 9. Mortgages payable and other long-term debt

(a) Mortgages payable

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Net carrying value, beginning of year | $ | 12,526,467 | $ | – |
| Proceeds from mortgage | | 6,000,000 | | 12,550,000 |
| Payments | | (6,250,000) | | – |
| Addition of deferred mortgage issuance costs | | (26,739) | | (41,280) |
| Amortization of deferred financing costs | | 24,535 | | 17,747 |
| Net carrying value, end of year | $ | 12,274,263 | $ | 12,526,467 |

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Mortgage payable, bearing interest at 13% per annum due monthly, repayable entirely in a lump sum on March 6, 2022 (i) | $ | 6,550,000 | $ | 12,550,000 |
| Less: unamortized financing costs | | 6,855 | | 23,533 |
| Mortgage payable, bearing interest at prime plus 2% per annum, $25,000 due monthly, repayable over 240 equal installments, ending on October 9, 2039 (ii) | | 5,750,000 | | – |
| Less: unamortized financing costs | | 18,882 | | – |
| | | 12,274,263 | | 12,526,467 |
| Short-term portion of mortgages payable | | (300,000) | | – |
| | $ | 11,974,263 | $ | 12,526,467 |

(i) The mortgage is secured by a second ranking hypothec on the land and building and by an additional hypothec equal to 20% of the balance of purchase of the land and building. During the year ended August 31, 2020 the Company recognized $908,020 as interest expense (2019 - $1,380,501) for this mortgage. As at August 31, 2020, accrued interest of $144,638 was included in accounts payable and accrued liabilities (2019 - $117,248). On November 26, 2020, the Company obtained a letter to extend the maturity date from September 6, 2021 to March 6, 2022.

(ii) On October 9, 2019, the Company obtained a first ranking mortgage against its Farnham Facility at the value of $6,000,000 with a Canadian financial institution at an interest rate of prime plus 2%. As at August 31, 2020, the interest rate related to this mortgage was 4.45%. The funds received from the mortgage were applied to reduce the principal amount owing under the existing mortgage bearing an interest rate of 13%. The mortgage is secured by a guarantee executed by a related party. The mortgage also contains a financial covenant requiring the Company to maintain a debt service ratio of no less than 1.25 to 1.0 at each year-end. The Company is in compliance with the covenant as at August 31, 2020. During the year ended August 31, 2020, the Company recognized $274,258 as interest expense (2019 - nil) for this mortgage. As at August 31, 2020, accrued interests of $15,423 were included in accounts payable and accrued liabilities (2019 - nil).

## 9. Mortgages payable and other long-term debt (continued)

(b) Long-term debt

In May 2020, the Company also entered into a long-term agreement for the purchase of certain equipment, to be reimbursed monthly over 36 equal installments and which does not bear any interest. The fair value of the long-term debt on initial recognition has been determined using the Company's incremental borrowing rate of 4.45%.

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Maturity analysis - contractual undiscounted cash flows: | | | | |
| Less than one year | $ | 3,546 | $ | – |
| One to five years | | 6,205 | | – |
| Total undiscounted long-term debt | $ | 9,751 | $ | – |
| Current | $ | 2,039 | $ | – |
| Non-current | | 7,124 | | – |
| Long-term debt included in the consolidated statement of financial position | $ | 9,163 | $ | – |

(c) Credit facility

On July 17, 2020, the Company signed a term sheet with a related-party lender providing it access to an initial credit facility of $1,000,000 to be used for working capital purposes bearing interest at 13%. The Company was also granted an additional credit facility of $4,000,000 to be disbursed in four monthly tranches subject to meeting certain sales conditions. Repayment of the credit facilities is required within eighteen months of disbursement. As at August 31, 2020, the credit facilities were undrawn. Subsequent to year-end, funds were drawn from the credit facilities (note 24).

## 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) Transactions on share capital

*Year ended August 31, 2020*

On July 6, 2020, pursuant to the terms of a share exchange agreement dated May 26, 2020 between Cannara, Global and the shareholders of Global, Cannara acquired substantially all of the issued and outstanding shares of Global that it did not already own in consideration for the issuance of 23,145,110 common shares of Cannara pro rata to the shareholders of Global at a deemed price of $0.10 per share. As part of this transaction, the Company incurred $85,501 in transaction fees that were recorded directly to equity.

During the year ended August 31, 2020, 7,823,000 warrants were exercised at a price of $0.10 per warrant for an aggregate consideration of $782,300.

*Year ended August 31, 2019*

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 18, 2018, as a result of the reverse acquisition as described in Note 23, 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.

## 10. Share capital (continued)

(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 $12,181,529 (2019 - $12,315,049) and a weighted average number of common shares outstanding of 713,332,778 (2019 - 614,842,226), calculated as follows:

| | 2020 | 2019 |
|---|---|---|
| Issued common shares as at September 1 | 706,770,705 | 476,667,330 |
| Effect of issuance of common shares | – | 1,019,178 |
| 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 | 3,020,745 | 549,404 |
| Effect of the shares issued for Global Shares exchange | 3,541,328 | – |
| Weighted average number of common shares, basic and diluted | 713,332,778 | 614,842,226 |

For the year ended August 31, 2020, a number of 24,045,827 share options 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 (2019 - 22,019,444 share options and 14,948,710 warrants).

## 11. 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.

## 11. Share-based compensation (continued)

The activity of outstanding share options for the year ended August 31, 2020 was as follows:

| | Number | | 2020 Weighted average exercise price | Number | | 2019 Weighted average exercise price |
|---|---|---|---|---|---|---|
| Outstanding, beginning of year | 39,029,424 | $ | 0.20 | 13,000,001 | $ | 0.10 |
| Granted | 10,486,000 | | 0.18 | 32,029,423 | | 0.18 - 0.30 |
| Forfeited | (629,184) | | 0.18 | – | | – |
| Expired | (6,956,447) | | 0.18 | (6,000,000) | | 0.18 |
| Outstanding, end of year | 41,929,793 | | 0.20 | 39,029,424 | | 0.20 |
| Exercisable, end of year | 24,045,827 | $ | 0.23 | 22,019,444 | $ | 0.25 |

During the year ended August 31, 2020, the Company granted 10,086,000 share options that vest in accordance with the employee share option plan (2019 - 13,801,645 share options) and 400,000 share options that vest immediately (2019 - 18,327,778 share options).

During the year ended August 31, 2020, the Company recorded a share-based compensation expense of $454,087 (2019 - $2,189,039), for which $413,879 was recognized in the consolidated statement of loss and comprehensive loss and $40,208 was classified in the calculation of the cannabis valuation and in research and development.

During the year ended August 31, 2020, the Company extended the term life by 2 years of 15,000,000 share options. As a result, a share-based compensation expense of $327,965 was recognized in the consolidated statement of loss and comprehensive loss.

The share options forfeited relate to the share options held by directors and/or employees that are no longer part of the Company and by consultants that do not continue to provide services to the Company.

During the year ended August 31, 2019, the Company recorded $ 270,000 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 share 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.

## 11. 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 weighted average inputs and assumptions:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Share price | $ | 0.10 | $ | 0.17 |
| Exercise price | $ | 0.18 | $ | 0.18 |
| Risk-free interest rate [(i)] | | 0.53% | | 1.67% |
| Expected life [(ii)] | | 5 years | | 2-5 years |
| Expected price volatility [(iii)] | | 1.08% | | 1.18% |
| Fair value of the option | $ | 0.07 | $ | 0.28 |
| Expected dividend yield [(iv)] | | Nil | | Nil |

The share price is based on the market price on the date of the grant, except for the share price of the options granted on September 4, 2018 and December 17, 2018 which was based on the subscription receipts price of $0.18 per subscription right.

(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.

## 12. Warrants

| | | | 2020 | | | 2019 |
|---|---|---|---|---|---|---|
| | Number | | Exercise price | Number | | Exercise price |
| Outstanding, beginning of year | 14,948,710 | $ | 0.10 | 15,898,710 | $ | 0.10 |
| Exercised | (7,823,000) | | 0.10 | (950,000) | | 0.10 |
| Expired | (7,125,710) | | 0.10 | – | | – |
| Outstanding, end of year | – | | – | 14,948,710 | | 0.10 |
| Exercisable, end of year | – | | – | 14,948,710 | $ | 0.10 |

During the year ended August 31, 2020, the Company recorded an increase to share capital of $1,206,585 and a decrease of $424,285 in contributed surplus as a result of the exercise of 7,823,000 warrants.

## 13. Other income

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Ancillary cannabis revenues [(i)] | $ | 58,609 | $ | – |
| Government grants [(ii)] | | 28,093 | | – |
| Other | | 17,500 | | – |
| | $ | 104,202 | $ | – |

(i) As part of its research and development activities (note 14), the Company had generated ancillary cannabis revenues from the sale of cannabis that was recorded as other income.

(ii) The Company has received various government grants related to the matters described below.

As part of its environmental initiatives incorporated into the operations at the Farnham facility, the Company received the first tranche of a government grant of $416,458 for assets purchased in exchange for a 10-year commitment on its environmental footprint reduction initiatives. In addition, the Company may be granted an additional tranche that would be estimated to be up to 25% of the initial amount received if certain requirements of the application are satisfied. The amount has been recognized as deferred income and is being recognized as other income based on the useful life of the assets related to this grant. In June 2020, as part of the COVID-19 incentives provided to companies, the government of Québec enhanced some of its government grants previously applied for by the Company. As such, the Company had been granted an additional amount of approximately $27,000.

The Company had also been granted a total of $96,691 in government grants for the assets purchased in relation to other energy savings initiatives at the Farnham facility. The amount has been recognized as deferred income and is being recognized as other income based on the useful life of the assets related to this grant.

Other government incentives have also been granted for a total of $10,906, which has been recognized as other income.

There are no remaining unfulfilled conditions regarding those other grants.

## 14. Research and development

As part of its Cannabis Operations (note 19), the Company had conducted certain activities related to research and development.

During the year ended August 31, 2020, the Company's cultivation and compliance staff researched, tested and developed cultivation methodologies that are expected to generate increased yield and quality which will facilitate the commercialization of a premium cannabis product.

The Company received its license to cultivate and process cannabis on January 31, 2020 and, as a result, planted its first crops in February 2020 which were harvested during the third quarter of 2020. These initial research and cultivation activities in addition to ongoing experimentation on lots have been considered as research and development. All costs related to these activities, including material and labor costs related to plant inventory, have been expensed as incurred.

## 15. Net finance expense

| | 2020 | 2019 |
|---|---|---|
| Interest income | $ 265,771 | $ 679,615 |
| Other income | – | 4,233 |
| Finance income | 265,771 | 683,848 |
| Interest on mortgages payable | 1,182,278 | 1,380,501 |
| Amortization of mortgage financing costs | 24,535 | 17,747 |
| Interest on lease liabilities | 143,364 | 132,188 |
| Other finance expense | 13,414 | 1,341 |
| Foreign exchange loss | 44,205 | 25,416 |
| Finance expense | 1,407,796 | 1,557,193 |
| Net finance expense | $ 1,142,025 | $ 873,345 |

## 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.

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 until commercialization activities have been ramped up. 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, accounts receivable, prepaid expenses and other assets, 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 and mortgages payable approximates their 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, prepaid expenses, lease 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. As at August 31, 2020, none of the rental receivables were past due. The allowance for expected credit loss was nil as at August 31, 2020 (2019 - 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.

## 16. Financial instruments (continued)

(e) Liquidity risk (continued)

The contractual maturities of financial liabilities as at August 31, 2020 were as follows:

| | Carrying amount | Contractual cash flows | Less than 1 year | 1 to 5 years |
|---|---|---|---|---|
| Financial liabilities | | | | |
| Accounts payable and accrued liabilities | $ 2,915,279 | $ 2,915,279 | $ 2,915,219 | $ – |
| Mortgages payable | 12,274,263 | 12,300,000 | 300,000 | 8,050,000 |
| Lease liabilities | 651,764 | 834,762 | 312,867 | 521,895 |
| Other long-term liabilities | 75,000 | 75,000 | – | 75,000 |
| | $ 15,916,306 | $ 16,125,041 | $ 3,528,086 | $ 8,646,895 |

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 |
| Lease liabilities | 697,335 | 998,392 | 263,327 | 735,065 |
| | $ 18,174,622 | $ 18,499,212 | $ 5,214,147 | $ 13,285,065 |

## 17. 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:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Loss before income taxes | $ | (13,094,355) | $ | (12,971,805) |
| Statutory income tax rate | | 27 % | | 26.6 % |
| Combined federal and provincial income tax | | (3,535,476) | | (3,450,500) |
| Adjustment in income taxes resulting from: | | | | |
| Unrecorded tax benefits on tax losses and other deductible temporary differences | | 3,318,891 | | 2,578,552 |
| Accounting charges not deducted for tax and other | | 216,585 | | 871,948 |
| Income taxes | $ | – | $ | – |

As at August 31, 2020, 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.

| | | | | 2020 |
|---|---|---|---|---|
| | | Federal | | Provincial/State |
| **Canadian** | | | | |
| Non capital losses carried forward, expiring: | | | | |
| August 31, 2036 | $ | 1,270,920 | $ | 1,274,111 |
| August 31, 2037 | | 2,224,941 | | 2,089,499 |
| August 31, 2038 | | 22,354 | | 22,354 |
| August 31, 2039 | | 5,161,128 | | 5,151,103 |
| August 31, 2040 | | 16,114,909 | | 16,118,682 |
| | | 24,794,252 | | 24,655,749 |
| **Non-Canadian** | | | | |
| Non capital losses carried forward, expiring: | | | | |
| August 31, 2039 | | 1,535,266 | | 1,535,266 |
| August 31, 2040 | | 1,902,182 | | 1,902,182 |
| | | 3,437,448 | | 3,437,448 |
| | $ | 28,231,700 | $ | 28,093,197 |
| **Canadian** | | | | |
| Other tax attributes carried forward, expiring: | | | | |
| August 31, 2021 | $ | 300,745 | $ | – |
| August 31, 2022 | | 124,000 | | – |
| August 31, 2024 | | 407,307 | | – |
| August 31, 2025 | | 67,375 | | – |
| August 31, 2026 | | – | | 300,745 |
| August 31, 2027 | | – | | 124,000 |
| August 31, 2029 | | – | | 407,307 |
| August 31, 2030 | | – | | 67,375 |
| | $ | 899,427 | $ | 899,427 |

## 17. Income taxes (continued)

Deferred tax assets (liabilities) have not been recognized in respect of:

| | Unrecognized in profit or loss | Unrecognized in equity | Balance August 31, 2020 |
|---|---|---|---|
| Net operating loss carryforwards | $ 28,231,700 | $ – | $ 28,231,700 |
| Financing costs | 173,435 | 1,765,058 | 1,938,493 |
| Other tax attributes | 899,427 | – | 899,427 |
| Biological assets and inventory | (788,836) | – | |
| | (788,836) | | |
| Property, plant and equipment | (4,457,597) | – | (4,457,597) |
| Lease liabilities | 194,864 | – | 194,864 |
| Deferred grant income | 531,895 | – | 531,895 |
| | $ 24,784,888 | $ 1,765,058 | $ 26,549,946 |

| | 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 |
| Other tax attributes | 832,052 | – | 832,052 |
| Property, plant and equipment | 357,137 | – | 357,137 |
| Lease liabilities | 83,350 | – | 83,350 |
| | $ 11,790,641 | $ 2,303,652 | $ 14,094,293 |

## 18. Contingencies

In the normal course of business, the Company may be involved in various legal and regulatory proceedings, the outcomes of which cannot be determined, or outflow of economic benefit is not probable, and, accordingly, no provision has been recorded. The Company believes that the resolution of these proceedings will not have a material favourable or unfavourable effect on its consolidated financial position or financial performance. As at August 31, 2020, there are no material claims in favor or against the Company, as such, no contingencies have been recorded in the consolidated financial position or financial performance.

## 19. Segment disclosures

(a) Reportable segments

The Company operates in two segments: (1) Indoor cannabis operations which encompasses the cultivation, processing and sale of dried cannabis and cannabis derivatives exclusively for the Quebec and Canadian market ("Cannabis operations") and (2) Real estate operations related to the Farnham building ("Real estate operations").

The chief operating decision-maker assesses performance based on segment operating results which were defined as segment loss before share-based compensation, net finance expense, amortization and impairment, gain on sublease, loss on disposal of property, plant and equipment, listing expense related to the reverse acquisition of Dunbar Capital Corp. 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 these consolidated financial statements.

## 19. Segment disclosures (continued)

| | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Cannabis operations | Real estate operations | Other | Total | Cannabis operations | Real estate operations | Other | Total |
| Revenues | | | | | | | | |
| Lease revenues | $ – | $ 2,356,820 | $ – | $ 2,356,820 | $ – | $ 2,096,974 | $ – | $ 2,096,974 |
| Product revenues | – | – | 117,921 | 117,921 | – | – | – | – |
| Other income | 86,702 | – | 17,500 | 104,202 | – | – | – | – |
| | 86,702 | 2,356,820 | 135,421 | 2,578,943 | – | 2,096,974 | – | 2,096,974 |
| Cost of sale | | | | | | | | |
| Lease operating costs | – | 343,827 | – | 343,827 | – | 403,895 | – | 403,895 |
| Cost of goods sold | 473,745 | – | 95,547 | 569,292 | – | – | – | – |
| | 473,745 | 343,827 | 95,547 | 913,119 | – | 403,895 | – | 403,895 |
| Unrealized loss on changes in fair value of biological assets | (413,315) | – | – | (413,315) | – | – | – | – |
| Segment gross (loss) profit | (800,358) | 2,012,993 | 39,874 | 1,252,509 | – | 1,693,079 | – | 1,693,079 |
| Operating expenses | 9,076,183 | – | 1,751,375 | 10,827,558 | 7,423,540 | – | 1,737,390 | 9,160,930 |
| Segment operating income (loss) | (9,876,541) | 2,012,993 | (1,711,501) | (9,575,049) | (7,423,540) | 1,693,079 | (1,737,390) | (7,467,851) |
| Share-based compensation | – | – | 741,844 | 741,844 | – | – | 2,189,039 | 2,189,039 |
| Amortization and impairment | – | – | 1,647,540 | 1,647,540 | – | – | 566,327 | 566,327 |
| Net finance expense | – | – | 1,142,025 | 1,142,025 | – | – | 873,345 | 873,345 |
| Gain on sublease | – | – | (25,894) | (25,894) | – | – | – | – |
| Loss on disposal of assets | – | – | 13,791 | 13,791 | – | – | – | – |
| Listing expense related to the reverse acquisition of Dunbar Capital Corp. | – | – | – | – | – | – | 1,875,243 | 1,875,243 |
| Net income (loss) | $ (9,876,541) | $ 2,012,993 | $ (5,230,807) | $ (13,094,355) | $ (7,423,540) | $ 1,693,079 | $ (7,241,344) | $ (12,971,805) |

## 19. Segment disclosures (continued)

(b) Entity-wide disclosures

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

(c) Sources of lease revenues

The Company leased 423,551 square feet of the total 625,000 available square feet to third parties. For the year ended August 31, 2020, the Company realized 100% of its lease revenue with three lessees:

- Tenant A's lease term is until September 30, 2022. Lease revenues from this tenant for year ended August 31, 2020 amounted to $269,942 (2019 - $300,419).
- Tenant B's lease term is until September 30, 2020. Lease revenues from this tenant for the year ended August 31, 2020 amounted to $1,796,555. Starting November 2020, a new Tenant will rent the exact same space as previous tenant until October 31, 2022, if renewal clauses are not exercised.
- Tenant C's lease term is until May 31, 2020. Lease revenues from this tenant for the year ended August 31, 2020 amounted to $290,323.

Income is generated from customers domiciled in Canada.

## 20. 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, 2020, was as follows:

| | 2020 | 2019 |
|---|---|---|
| Salaries and benefits | $ 556,500 | $ 1,012,747 |
| Share-based compensation | 232,094 | 1,725,673 |
| Board of director fees | 77,000 | 34,339 |
| | $ 865,594 | $ 2,772,759 |

## 20. 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:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Nature of transactions | | | | |
| Management fees [i] | $ | 40,010 | $ | 264,945 |
| Interest on mortgage payable [i] | | 908,020 | | 1,381,174 |
| | | 948,030 | | 1,646,119 |
| Balance with related parties are as follows: | | | | |
| Accounts receivable [i] | | – | | 5,090 |
| Accounts payable [i] | | (144,638) | | (118,904) |
| Accounts payable to key management personnel | | 29,808 | | (74,939) |
| Accounts payable to Board of Directors members | | 12,500 | | – |
| Liabilities for subscription agreement issued by a subsidiary - payable to an executive of the Company | | – | | (211,000) |
| Mortgage payable [i] | | 6,550,000 | | (12,550,000) |

[i] A 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.

## 21. Cash flow information

Net change in non-cash working capital items:

| | 2020 | 2019 |
|---|---|---|
| Accounts receivable | $ 28,711 | $ 161,986 |
| Sales tax receivable | 430,411 | (317,031) |
| Lease receivable | 13,262 | – |
| Biological assets | (522,528) | – |
| Inventory | (1,119,171) | (186,707) |
| Prepaid expenses and other assets | (23,787) | (184,465) |
| Deposits | (166,925) | (156,973) |
| Accounts payable and accrued liabilities | 510,322 | 938,232 |
| Deferred lease revenue | 28,204 | – |
| Deferred grant income | 531,894 | – |
| | $ (289,607) | $ 255,042 |

Supplemental information in the statement of cash flows:

| | 2020 | 2019 |
|---|---|---|
| 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 | 2,323,833 | 2,706,569 |
| Addition to right-of-use assets and lease liabilities | 122,838 | 282,679 |
| Share issuance costs settled in shares | – | 270,000 |

## 22. 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*.

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.

### 23. Subsidiaries and non-controlling interest (NCI)

During the year ended August 31, 2020, Cannara acquired substantially all of the issued and outstanding shares of Global that it did not already own (note 10).

The following table summarizes the information about the Company's subsidiaries that have NCI, before any intragroup eliminations in the prior year:

| As at August 31, 2019 | Global ShopCBD.com Inc. (consolidated) |
|---|---|
| NCI percentage | 38.77% |
| Cash | $ 7,600,794 |
| Accounts receivable | 223,147 |
| Sales tax receivable | 63,368 |
| Inventory | 186,707 |
| Prepaid expenses | 25,773 |
| Intangible asset | 281,020 |
| Accounts payable and accrued liabilities | (606,680) |
| Loans from parent company | (645,649) |
| Net assets | 7,128,480 |
| Carrying amount of NCI | $ 2,763,781 |
| Expenses | $ 1,693,939 |
| Net loss | (1,693,939) |
| Foreign currency translation adjustment | (16,494) |
| Comprehensive loss | $ (1,710,433) |
| Net loss allocated to NCI | $ (656,757) |
| Comprehensive loss allocated to NCI | (663,151) |
| 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 |

## 23. Subsidiaries and non-controlling interest (NCI) (continued)

On February 20 and 22, 2019, Global issued a total of 145,900,000 common shares to Cannara Biotech (Ops) Inc. for gross proceeds of $2,168,000. 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 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 investor.

Financing costs, consisting of legal and other advisory costs, in the amount of $23,938, were allocated to share capital in conjunction with the share financing in Global.

## 24. Subsequent events

*Financing*

Subsequent to year-end, the Company received $2,000,000 from its credit facilities with a related party (note 9c)).

*Wholesale Supply Agreement*

On November 27, 2020, the Company entered into a one-year wholesale supply agreement with a licensed producer for which the Company agreed to sell 200 kg of cannabis per month commencing January 1, 2021.

*Additional Lease*

In September 2020, the Company entered into a new lease agreement with a new tenant for its Farnham Facility which coincided with the termination of a current lease agreement. The new tenant will occupy the same space as the previous tenant, starting November 2020. On November 30, 2020, the Company entered into an additional lease agreement with the same tenant for the last remaining space available for lease at its Farnham Facility. The additional lease agreement will commence on January 1, 2021.

*Share options*

During November 2020, the Company granted a total of 250,000 stock options.