TSXV: LOVE.V OTCBQ: LOVFF FRA: 8CB

CANNARA BIOTECH INC.

Consolidated Financial Statements

Years ended August 31, 2021 and 2020

CANNARA BIOTECH INC.

Table of Contents

KPMG LLP
600 de Maisonneuve Blvd. West
Suite 1500, Tour KPMG
Montréal (Québec) H3A 0A3
Canada

Telephone (514) 840-2100
Fax (514) 840-2187
Internet www.kpmg.ca

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, 2021 and August 31, 2020
- 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, 2021 and 2020, 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 7, 2021

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

CANNARA BIOTECH INC.

Consolidated Statements of Financial Position
As at August 31, 2021 and 2020

	2021	2020
Assets		
Current assets		
Cash	$ 8,159,305	$ 7,771,177
Accounts receivable	2,847,725	26,370
Sales tax receivable	47,756	251,728
Lease receivable (note 8)	72,680	30,608
Biological assets (note 5)	1,902,206	1,313,370
Inventory (note 6)	5,508,258	928,351
Prepaid expenses and other assets	708,803	208,252
	19,246,733	10,529,856
Lease receivable (note 8)	73,164	72,704
Deposits	396,114	352,153
Deposits on property, plant and equipment	556,803	89,319
Property, plant and equipment (note 7)	71,517,251	43,187,173
Right-of-use asset (note 8)	232,548	456,899
Intangible asset (note 9)	–	162,324
	$ 92,022,613	$ 54,850,428
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 6,263,201	$ 2,915,279
Current portion of long-term debt (note 10)	3,348	2,039
Deferred lease revenue	9,564	28,204
Current portion of deferred grant income (note 14)	32,043	22,162
Current portion of lease liabilities (note 8)	225,642	209,268
Current portion of mortgages payable (note 10)	300,000	300,000
	6,833,798	3,476,952
Other long-term liabilities	–	75,000
Long-term debt (note 10)	2,611	7,124
Lease liabilities (note 8)	216,854	442,496
Convertible debentures (note 10)	8,466,008	–
Deferred grant income (note 14)	705,079	509,732
Mortgages payable (note 10)	11,682,451	11,974,263
	27,906,801	16,485,567
Shareholders' equity		
Share capital (note 11)	83,208,150	58,361,592
Contributed surplus	9,412,746	7,034,550
Deficit	(28,605,149)	(27,077,006)
Accumulated other comprehensive income	100,065	45,725
Total equity	64,115,812	38,364,861
Contingencies (note 20)		
Subsequent events (note 24)		
	$ 92,022,613	$ 54,850,428

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, 2021 and 2020

	2021	2020
Revenue:		
Revenue from sale of goods (note 21)	$ 15,586,518	$ 117,921
Excise taxes	(2,417,355)	–
Net revenue from sale of goods	13,169,163	117,921
Lease revenues	3,120,882	2,356,820
Other income (note 14)	976,960	104,202
	17,267,005	2,578,943
Cost of sales:		
Cost of goods sold (note 6)	8,071,681	569,292
Lease operating costs	453,840	343,827
	8,525,521	913,119
Change in fair value of inventory sold (note 6)	(4,213,550)	–
Unrealized gain (loss) on changes in fair value of biological assets (note 5)	6,015,165	(413,315)
	10,543,099	1,252,509
Operating expenses		
General and administrative (note 16)	4,648,559	5,795,335
Research and development (note 15)	1,907,071	2,600,840
Selling, marketing and promotion	1,140,695	897,106
Professional fees and legal fees	1,191,138	1,534,277
Share-based compensation (note 12)	324,127	741,844
Amortization (notes 7, 8 and 9)	1,032,308	1,612,346
Impairment (note 7)	–	35,194
Gain on sublease (note 8)	(24,442)	(25,894)
Loss on disposal of property, plant and equipment	66,360	13,791
	10,285,816	13,204,839
Operating income (loss)	257,283	(11,952,330)
Net finance expense (note 17)	1,785,426	1,142,025
Net loss	(1,528,143)	(13,094,355)
Other comprehensive loss:		
Foreign currency translation adjustments	54,340	51,849
Comprehensive loss	$ (1,473,803)	$ (13,042,506)
Net loss attributable to:		
Shareholders of the Company	$ (1,528,143)	$ (12,482,610)
Non-controlling interest	–	(611,745)
Net loss	$ (1,528,143)	$ (13,094,355)
Comprehensive loss attributable to:		
Shareholders of the Company	$ (1,473,803)	$ (12,426,786)
Non-controlling interest	–	(615,720)
Comprehensive loss	$ (1,473,803)	$ (13,042,506)
Basic and diluted loss per share	$ (0.01)	$ (0.02)
Weighted average number of common shares, basic and diluted	765,151,586	713,332,778

See accompanying notes to consolidated financial statements.

CANNARA BIOTECH INC.

Consolidated Statements of Changes in Equity
Years ended August 31, 2021 and 2020

	Attributable to the shareholders of the Company					
	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity
As at August 31, 2020	737,738,815	$ 58,361,592	$ 7,034,550	$ (27,077,006)	$ 45,725	$ 38,364,861
Net loss	–	–	–	(1,528,143)	–	(1,528,143)
Other comprehensive income:						
Foreign currency translation adjustment	–	–	–	–	54,340	54,340
Comprehensive loss	–	–	–	(1,528,143)	54,340	(1,473,803)
Share-based compensation (note 12)						
Employee compensation	–	–	242,074	–	–	242,074
Other services	–	–	89,504	–	–	89,504
	–	–	331,578	–	–	331,578
Private placement – common shares issuance (note 10)	135,000,000	24,300,000	–	–	–	24,300,000
Private placement – issuance costs (note 10)	–	(113,442)	–	–	–	(113,442)
Convertible debentures (note 10)	–	–	2,349,235	–	–	2,349,235
Convertible debentures – issuance costs (note 10)	–	–	(16,867)	–	–	(16,867)
Issuance of shares to settle a liability (note 11)	117,506	11,750	–	–	–	11,750
Exercise of stock options (note 11)	3,625,000	648,250	(285,750)	–	–	362,500
As at August 31, 2021	876,481,321	$ 83,208,150	$ 9,412,746	$ (28,605,149)	$ 100,065	$ 64,115,812

See accompanying notes to consolidated financial statements.

CANNARA BIOTECH INC.

Consolidated Statements of Changes in Equity
Years ended August 31, 2021 and 2020

	Attributable to the shareholders of the Company							
	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income (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	–	–	–	(12,482,610)	–	(12,482,610)	(611,745)	(13,094,355)
Other comprehensive income:								
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 12)								
Employee compensation	–	–	811,173	–	–	811,173	–	811,173
Other services	–	–	(29,121)	–	–	(29,121)	–	(29,121)
	–	–	782,052	–	–	782,052	–	782,052
Warrants exercised (note 11)	7,823,000	1,206,585	(424,285)	–	–	782,300	–	782,300
Change in ownership of a subsidiary (note 11)	23,145,110	2,314,511	–	(166,450)	–	2,148,061	(2,148,061)	–
Share issuance costs (note 11)	–	(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 Cash Flows
Years ended August 31, 2021 and 2020

	2021	2020
Cash provided by (used in):		
Operating		
Net loss	$ (1,528,143)	$ (13,094,355)
Items not involving cash:		
Change in fair value of inventory sold (note 6)	4,213,550	–
Unrealized (gain) loss on changes in fair value of biological assets (note 5)	(6,015,165)	413,315
Share-based compensation (note 12)	331,578	782,052
Amortization of property, plant and equipment (note 7)	2,700,589	2,238,940
Amortization of right-of-use asset (note 8)	167,489	191,829
Amortization of intangible asset (note 9)	158,211	152,144
Impairment (note 7)	–	35,194
Loss on disposal of property, plant and equipment	66,360	13,791
Gain on sublease (note 8)	(24,442)	(25,894)
Interest expense (note 17)	1,462,383	1,182,278
Interest on lease liabilities (note 17)	103,824	143,364
Accretion on financing and amortization of mortgage financing costs (note 10)	143,217	24,535
Interest income (note 17)	(52,786)	(265,771)
Other	225	165
Net change in non-cash operating working capital items (note 23)	(3,819,797)	(1,116,237)
	(2,092,907)	(9,324,650)
Financing		
Private placement - issuance of common shares (note 11)	24,300,000	–
Private placement issuance costs (note 11)	(88,192)	–
Proceeds from convertible debenture (note 10)	5,700,000	–
Convertible debenture issuance costs (note 11)	(51,934)	–
Proceeds from credit facilities (note 10)	5,000,000	–
Credit facilities issuance costs (note 10)	(31,238)	–
Stock options exercised (note 12)	362,500	–
Warrants exercised (note 13)	–	782,300
Share issuance costs (note 11)	–	(85,501)
Proceeds from mortgage (note 10)	–	6,000,000
Mortgage issuance costs (note 10)	–	(26,739)
Mortgage payments (note 10)	(300,000)	(6,250,000)
Lease payments (note 8)	(313,092)	(311,773)
Interest paid (note 10)	(1,322,792)	(1,022,217)
Long-term debt payments (note 10)	(3,250)	(886)
	33,252,002	(914,816)
Investing		
Interest received	26,994	262,400
Deposits on property, plant and equipment	(467,484)	459,230
Acquisition of property, plant and equipment (note 7)	(30,606,292)	(9,181,569)
Acquisition of intangible assets (note 9)	–	(133,865)
Proceeds from disposal of property, plant and equipment	217,362	42,955
	(30,829,420)	(8,550,849)
Net change in cash	329,675	(18,790,315)
Effect of foreign exchange on cash	58,453	55,500
Cash, beginning of year	7,771,177	26,505,992
Cash, end of year	$ 8,159,305	$ 7,771,177

See accompanying notes to consolidated financial statements.

1. Nature of operations

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

Cannara owns and operates two Quebec-based mega cultivation facilities spanning over 1,650,000 square feet. Cannara’s first purpose-built, modern indoor cultivation facility is located in Farnham, Quebec and measures 625,000 square feet, comprising 170,000 square feet of operational licensed cultivation area and 455,000 square feet of leased warehouse space ("Farnham Facility"). The second facility, acquired in June 2021 from The Green Organic Dutchman Holdings Ltd. (“TGOD”) through an all-cash offer of $27 million plus the funding of certain deposit requirements of approximately $5.7 million by a letter of credit, is a hybrid greenhouse facility that will be redesigned to replicate the indoor cultivation environment, including growing without utilizing the sun. The facility is comprised of 24 independent growing zones totaling 600,000 square feet, a 200,000 square feet cannabis 2.0 processing center and a 200,000 square feet rooftop greenhouse located in Valleyfield, Quebec (“Valleyfield Facility”). Cannara operates through its wholly-owned subsidiaries, Cannara Biotech (Quebec) Inc. and Cannara Biotech (Valleyfield) Inc., both holding active licenses issued by Health Canada under the Cannabis Act.

The Company began its first commercial retail sales at the end of February 2021 and continues to fulfill market demand with weekly reorders. The Company incurred a net loss of approximately $1.5 million during the year ended August 31, 2021 (2020 - $13.1 million) and has a deficit of approximately $28.6 million as at August 31, 2021 (2020 - $27.1 million). The Company expects that its existing cash resources of $8.2 million as at August 31, 2021, along with the forecasted cash flows and financing that occurred subsequent to year-end (note 24), will enable it to fund its planned operating expenses for at least the next twelve months from August 31, 2021.

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

1. Nature of operations (continued)

COVID-19

The effects of COVID-19 have had limited impact on the business; however, the situation is dynamic, and the ultimate duration and magnitude of the impact on the economy and on the Company's business are not known at this time.

2. Basis of preparation

(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 7, 2021.

(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 on initial recognition at the present value of the lease payments that are not paid at lease commencement date 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*.

(iv) The convertible debenture has been initially recorded at fair value pursuant to IFRS 9, *Financial Instruments*.

(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.

2. Basis of preparation (continued)

(c) Functional currency (continued)

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.

The table below provides details of subsidiaries of the Company as at August 31, 2021:

Subsidiaries	Principal place of business/ Jurisdiction of incorporation	Ownership Interest
Cannara Biotech (Ops) Inc.	Canada	100%
Cannara Biotech (Québec) Inc.	Canada	100%
Cannara Biotech (Valleyfield) Inc.	Canada	100%
Global shopCBD.com Inc.	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

There is 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. 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.

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.

3. Significant accounting policies (continued)

(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 net 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 net 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.

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.

3. Significant accounting policies (continued)

(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.

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

3. Significant accounting policies (continued)

(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.

(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.

(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 cultivation process 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.

3. Significant accounting policies (continued)

(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. 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.

Amounts disclosed as net revenue from sale of goods are net of excise taxes.

(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
Lease receivable	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Other long-term liabilities	Amortized cost
Long-term debt	Amortized cost
Convertible debentures	Amortized cost
Mortgages payable	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, convertible debentures 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 and other finance income as well as foreign exchange gains.

Finance costs include interest expense on borrowings related to the mortgage payable and the lease liabilities, accretion expense related to the convertible debentures, 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. The generation of future taxable income is dependent on the successful 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. 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, warrants and convertible debentures. The number of additional shares is calculated by assuming that outstanding stock options and. For convertible debentures, the potential adjustment is based on the additional shares resulting from the assumed conversion. Conversion is assumed to have occurred at the beginning of the period, or, if later, on the date of issuance of the convertible instrument. Potentially dilutive instruments are not included in the calculation of earnings per share if they are anti-dilutive for the periods presented.

(q) Critical accounting estimates and judgments

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

These estimates and judgments are based on the circumstances and estimates at the date of the consolidated financial statements and affect the reported amounts of income and expenses during the reporting period.

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

Management estimates

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

3. Significant accounting policies (continued)

(q) Critical accounting estimates and judgments (continued)

Critical accounting judgments and assumptions

Valuation of Biological Assets and Inventory

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.

Allocation of purchase price to the relative fair value

Determination of relative fair value of assets acquired requires the use of estimated made by management. As the fair value determined becomes the basis to allocate the purchase price against all assets acquired, this is a significant estimate for the valuation of certain property, plant and equipment.

Determination of fair value of convertible debentures

Convertible debentures are financial instruments which are accounted for based on the nature of their components: a financial liability and an equity instrument. The identification of such components requires judgment given that it is based on the interpretation of the substance of the contractual arrangement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. The determination of the fair value is an area of judgment given the various inputs, assumptions and estimates including effective interest rate.

4. Valleyfield Facility acquisition

On June 22, 2021, the Company acquired a one million square foot licensed cultivation and manufacturing facility in Valleyfield, Quebec from Medican Organic Inc., a wholly-owned subsidiary of TGOD, for total consideration of $27 million and the funding of certain deposit requirements of $5.7 million by a letter of credit. The guarantee of the deposit was made by a related party. The Company incurred $34,365 in transaction costs for this acquisition. The acquisition was financed through cash and non-brokered private placements of $19.3 million and a $5.7 million convertible debenture *(notes 10 and 11)*.

The transaction was accounted for as an asset acquisition. As such, the assets acquired were recognized at cost and the purchase price was allocated based on the relative fair value of each asset acquired at the date of the purchase under IFRS 16, *Property, Plant and Equipment*.

4. Valleyfield Facility acquisition (continued)

The total consideration was allocated as follows:

Land	$	1,419,032
Building		20,743,548
Production equipment		4,871,785
Total		27,034,365

5. 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, 2021		August 31, 2020
Carrying amount, beginning of year	$	1,313,370	$	–
Production costs capitalized		6,164,853		2,104,212
Transferred to cost of goods sold – sale of clones		(72,000)		–
Transferred to inventory upon harvest		(11,519,182)		–
Change in fair value due to biological transformation, less cost to sell		6,015,165		627,035
Biological assets used for the enhancement of cultivation processes		–		(1,040,350)
Net change in fair value		6,015,165		(413,315)
Carrying amount, end of year	$	1,902,206	$	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.

5. Biological assets (continued)

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, 2021.

Management's identified significant unobservable inputs, their values and sensitivity analysis are presented in the tables below. 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. 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, 2021:

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.	\$1.30 to \$4.80 per gram (2020 - \$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 \$161,000 to the valuation (2020 - \$109,000).
Yield per plant Represents the average number of grams of dried cannabis expected to be harvested from each cannabis plant.	86 grams per plant (2020 – 60 grams per plant)	An increase or decrease of 5% applied to the average yield per plant would result in a change of approximately \$97,000 to the valuation (2020 - \$65,000).
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% (2020 – 47%)	An increase or decrease of 5% applied to the average stage of growth per plant would result in a change of approximately \$92,000 to the valuation (2020 - \$65,000).

As at August 31, 2021, it is expected that the Company's biological assets will yield approximately 1,926 kilograms of dried cannabis when harvested (2020 – 1,997 kilograms of dried cannabis when harvested).

6. Inventory

						August 31, 2021
		Capitalized cost		Fair value adjustment[1]		Total
Raw materials - cultivation and supplies	$	656,027	$	–	$	656,027
Harvested cannabis						
Dried cannabis and work-in-progress		2,065,248		2,058,053		4,123,301
Finished goods		247,373		173,180		420,553
Derivative products		349,742		(122,712)		227,030
Finished goods - U.S. hemp-based CBD products for resale		81,347		–		81,347
	$	3,380,856	$	2,127,401	$	5,508,258

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

[1] Fair value adjustment represent the fair value adjustment transferred from biological assets at harvest.

The amounts of inventory expensed as cost of goods sold during the year ended August 31, 2021 were $8,071,681, including an impairment loss on inventory of $539,790 for cannabis that exceeds its net realizable value.

The amounts of inventory expensed as cost of goods sold during the year ended August 31, 2020 were $569,292, including $473,745 for cannabis-based products as a result of tests, experiments and enhancements to the cultivation process.

7. Property, plant and equipment

	Land	Buildings	Facilities production equipment	Computer equipment and software	Vehicles	Furniture and fixtures	Construction in progress	Total
Cost								
Balance as at August 31, 2020	$ 1,104,963	$ 37,629,164	$ 4,660,531	$ 1,191,489	$ 9,940	$ 1,340,126	$ –	$ 45,936,213
Additions	1,419,032	7,327,991	1,240,969	70,854	8,500	12,516	21,234,527	31,314,389
Disposal	(71,910)	(164,687)	(68,046)	–	–	–	–	(304,643)
Balance as at August 31, 2021	$ 2,452,085	$ 44,792,468	$ 5,833,454	$ 1,262,343	$ 18,440	$ 1,352,642	$ 21,234,527	$ 76,945,959
Accumulated depreciation								
Balance as at August 31, 2020	$ –	$ (2,038,419)	$ (347,506)	$ (211,813)	$ (553)	$ (150,749)	$ –	$ (2,749,040)
Amortization	–	(1,855,733)	(489,536)	(209,840)	(3,218)	(142,262)	–	(2,700,589)
Disposal	–	12,720	8,201	–	–	–	–	20,921
Balance as at August 31, 2021	$ –	$ (3,881,432)	$ (828,841)	$ (421,653)	$ (3,771)	$ (293,011)	$ –	$ (5,428,708)
Net book value								
Balance as at August 31, 2021	$ 2,452,085	$ 56,343,288	$ 9,876,398	$ 840,690	$ 14,669	$ 1,109,163	$ 21,234,527	$ 71,517,251

For the year ended August 31, 2021, the assets included in construction in progress represent the improvements at the Farnham Facility for the expansion of phase 1.5 and the assets in construction at the Valleyfield Facility. Those assets will be available for use in the first half of 2022.

For the year ended August 31, 2020, the assets included in construction in progress represent the construction of the Farnham Facility in anticipation of the launch of cultivation activities that occurred during 2020.

7. Property, plant and equipment (continued)

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

During the year ended August 31, 2021, the Company recognized $2,700,589 as depreciation expense (2020 - $2,238,940), of which $706,608 has been recognized in the consolidated statement of net loss and comprehensive loss and $1,993,981 has been included in the calculation of the cannabis valuation and for which some lots were used ultimately for research and development (note 15) (2020 - $1,268,373 and $970,567, respectively).

8. Right-of-use asset and lease liabilities

(a) Right-of-use asset

		2021		2020
Cost				
Balance, beginning of year	$	765,780	$	775,611
Additions		–		122,838
Derecognition of portion related to sublease agreement [(i)]		(135,756)		(132,669)
Balance, end of year	$	630,024	$	765,780
Accumulated depreciation				
Balance, beginning of year	$	(308,881)	$	(165,902)
Amortization		(167,489)		(191,829)
Derecognition of portion related to sublease agreement [(i)]		78,894		48,850
Balance, end of year	$	(397,476)	$	(308,881)
Net book value				
Balance, end of year	$	232,548	$	456,899

[(i)] Sublease agreement

On June 1, 2021, 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 payments of $4,207 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 original lease.

On initial recognition, the portion of the original right-of-use asset subleased for a net total of $56,862 has been derecognized and a lease receivable was recognized of $81,304, which resulted in a gain of $24,442.

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 payments 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 original 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.

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

(b) Lease liabilities

		2021		2020
Maturity analysis - contractual undiscounted cash flows:				
Less than one year	$	288,306	$	312,867
One to five years		233,589		521,895
Total undiscounted lease liabilities	$	521,895	$	834,762
Current	$	225,642	$	209,268
Non-current		216,854		442,496
Lease liabilities included in the consolidated statement of financial position	$	442,496	$	651,764

		2021		2020
Balance, beginning of year	$	651,764	$	697,335
Additions		–		122,838
Lease payments		(313,092)		(311,773)
Interest on lease liabilities		103,824		143,364
Balance, end of year	$	442,496	$	651,764

9. Intangible asset

		2021		2020
Net carrying value, beginning of year	$	162,324	$	281,020
Additions		–		37,099
Amortization		(158,211)		(152,144)
Foreign currency translation adjustments		(4,113)		(3,651)
Net carrying value, end of year	$	–	$	162,324

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

10. Financing

(a) Mortgages payable

		2021		2020
Net carrying value, beginning of year	$	12,274,263	$	12,526,467
Proceeds from mortgage		–		6,000,000
Payments		(300,000)		(6,250,000)
Addition of mortgage issuance costs		–		(26,739)
Amortization of deferred financing costs		8,188		24,535
Net carrying value, end of year	$	11,982,451	$	12,274,263

		2021		2020
Mortgage payable, bearing interest at 13% per annum due monthly, repayable entirely in a lump sum on March 6, 2023 (i)	$	6,550,000	$	6,550,000
Less: unamortized financing costs		–		(6,855)
Mortgage payable, bearing interest at prime plus 2% per annum, $25,000 due monthly, repayable over 240 equal installments, ending on October 9, 2039 (ii)		5,450,000		5,750,000
Less: unamortized financing costs		(17,549)		(18,882)
		11,982,451		12,274,263
Short-term portion of mortgages payable		(300,000)		(300,000)
	$	11,682,451	$	11,974,263

(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, at the Farnham Facility. During the year ended August 31, 2021, the Company recognized $851,500 as interest expense (2020 - $908,020) for this mortgage. As at August 31, 2021, accrued interest of $72,319 was included in accounts payable and accrued liabilities (2020 - $144,638). On March 2, 2021, the Company obtained a letter to extend the maturity date from March 6, 2022 to March 6, 2023 and further extended on May 25, 2021 from March 25, 2022 to March 25, 2023.

(ii) The mortgage is secured by a first ranking mortgage against its Farnham Facility and a guarantee executed by a related party. Since March 2021, the interest rate on the mortgage is a combination of the prime rate +2% and the banker acceptance rate. As at August 31, 2021, the interest rate related to this mortgage was 3.91%. The mortgage also contains a financial covenant requiring a wholly owned subsidiary of the Company to maintain a debt service ratio of no less than 1.25 to 1.0 at each year-end. The Company was in compliance with the covenant as at August 31, 2021. During the year ended August 31, 2021, the Company recognized $234,614 as interest expense (2020 - $274,258) for this mortgage. As at August 31, 2021, prepaid interests of $4,476 were included in prepaid expenses and other assets (2020 – accrued interests of $15,423, included in accounts payable and accrued liabilities).

10. Financing (continued)

(b) Credit facilities and conversion into a convertible debenture

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. During the year ended August 31, 2021, the Company has drawn $5 million on its credit facilities which were subsequently exchanged for a convertible debenture (note 10 c)).

	2021	2020
Net carrying value, beginning of year	$ –	$ –
Credit facilities	5,000,000	–
Addition of credit facilities issuance costs	(31,238)	–
Extinguishment of debt (note 10 c))	(5,000,000)	–
amortization of deferred financing costs	31,238	–
Net carrying value, end of year	$ –	$ –

(c) Convertible debentures

During the year ended August 31, 2021, the Company issued convertible debentures for which the total consideration was allocated as follows:

	Convertible debenture A	Convertible debenture B
Financial liability	$ 4,448,551	$ 3,902,214
Equity component	1,251,449	1,097,786
Total consideration	5,700,000	5,000,000

On June 21, 2021, the Company entered in a $5.7 million unsecured convertible debenture ("Convertible debenture A") with a related party for the purpose of the Valleyfield Facility acquisition (note 4). The convertible debenture term is 3 years and bears interest at 4% per annum, compounded semi-annually, payable at term or at conversion. Subject to certain conditions being met, the holder can convert the debenture into common shares at a price of $0.18 per share. The effective rate of this convertible debenture is 12.54%.

On July 12, 2021, the Company renegotiated the terms if its credit facilities with a related party to exchange them for a $5 million unsecured convertible debenture ("Convertible debenture B"). The convertible debenture term is 3 years and bears interest at 4% per annum, compounded semi-annually, payable at term or at conversion. Subject to certain conditions being met, the holder can convert the debenture into common shares at a price of $0.18 per share. The effective rate of this convertible debenture is 12.51%.

10. Financing (continued)

(c) Convertible debentures (continued)

In connection with those transactions, the Company incurred a total of $76,822 in transaction costs, of which $16,867 was recognized in contributed surplus in the consolidated statement of equity and $59,955 against the convertible debenture. As at August 31, 2021, transaction costs of $24,888 were recorded in account payable and accrued liabilities.

The rollforward of the financial liability component of the convertible debentures is as follows:

	2021	2020
Net carrying value, beginning of year	$ –	$ –
Convertible debenture A	4,448,551	–
Convertible debenture B	3,902,214	–
Issuance costs	(59,955)	–
Interest expense	71,748	–
Accretion and amortization of deferred issuance costs	103,450	–
Net carrying value, end of year	$ 8,466,008	$ –

(d) Long-term debt

In May 2020, the Company 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%.

11. 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

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

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

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

On June 18, 2021, the Company closed a $19.3 million private placement with a related party for the purpose of the Valleyfield Facility acquisition (note 4), resulting in the issuance of 107,222,222 common shares at $0.18 per share.

On July 9, 2021, the Company closed a $5 million private placement with a third party, resulting in the issuance of 27,777,778 common shares at $0.18 per share.

In connection with those transactions, the Company incurred transaction costs totalling $113,442, which were recognized as a reduction of equity in the consolidated statement of equity. As at August 31, 2021, transaction costs of $25,250 were recorded in account payable and accrued liabilities.

On July 6, 2021, pursuant to the terms of a share exchange agreement dated May 26, 2021 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.

11. Share capital

(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 $1,528,143 (2020 - $12,482,610) and the weighted average number of common shares outstanding calculated as follows:

	2021	2020
Issued common shares as at September 1	737,738,815	706,770,705
Effect of issuance of common shares	25,789,141	–
Effect of stock options exercised for common shares	1,623,630	–
Effect of warrants exercised for common shares	–	3,020,745
Effect of the shares issued for Global Shares exchange	–	3,541,328
Weighted average number of common shares, basic and diluted	765,151,586	713,332,778

For the year ended August 31, 2021, 26,302,054 share options and 59,444,444 shares as-if the convertible debentures were converted 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 (2020 - 24,045,827 share options).

12. 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.

12. Share-based compensation (continued)

The activity of outstanding share options for the year ended August 31, 2021 was as follows:

		2021		2020
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of year	41,929,793	$ 0.20	39,029,424	$ 0.20
Granted	2,742,000	0.18	10,486,000	0.18
Exercised	(3,625,000)	0.10	–	–
Forfeited	(4,026,413)	0.16	(629,184)	0.18
Expired	(481,043)	0.18	(6,956,447)	0.18
Outstanding, end of year	36,539,337	0.21	41,929,793	0.20
Exercisable, end of year	26,302,754	$ 0.23	24,045,827	$ 0.23

During the year ended August 31, 2021, the Company granted 2,492,000 share options that vest in accordance with the employee share option plan (2020 - 10,086,000 share options) and 250,000 share options that vest immediately (2020 - 400,000 share options).

During the year ended August 31, 2021, the Company recorded a share-based compensation expense of $331,578 (2020 - $454,087), for which $324,127 was recognized in the consolidated statement of net loss and comprehensive loss and $7,451 was classified in the calculation of the cannabis valuation and in research and development (2020 - $413,879 and $40,208).

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 net loss and comprehensive loss arising from this change.

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.

12. 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:

	2021	2020
Share price (i)	$ 0.11	$ 0.10
Exercise price	$ 0.18	$ 0.18
Risk-free interest rate (ii)	0.45%	0.53%
Expected life (iii)	5 years	5 years
Expected price volatility (iv)	100%	108%
Fair value of the option	$ 0.08	$ 0.07
Expected dividend yield (v)	Nil	Nil

(i) The share price is based on the market price on the date of the grant.

(ii) 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.

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

(iv) Expected price volatility was estimated based on historical volatility of the Company's shares.

(v) 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.

13. Warrants

	2021 Number	2021 Exercise price	2020 Number	2020 Exercise price
Outstanding, beginning of year	–	$ –	14,948,710	$ 0.10
Exercised	–	–	(7,823,000)	0.10
Expired	–	–	(7,125,710)	0.10
Outstanding, end of year	–	–	–	–
Exercisable, end of year	–	–	–	–

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.

14. Other income

		2021		2020
Ancillary cannabis revenues (i)	$	730,362	$	58,609
Government grants (ii)		246,598		28,093
Other		–		17,500
	$	976,960	$	104,202

(i) As part of its research and development activities (note 15), 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 $416,458 in 2020 totalling 75% of the government grant for assets purchased in exchange for a 10-year commitment on its environmental footprint reduction initiatives. The Company may be granted an additional tranche that would be estimated to be up to 25% of the total grant if certain requirements of the application are satisfied. In June 2021, 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 $27,764. 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. The remaining 25% totalling $138,819 was granted subsequent to year-end.

During the year ended August 31, 2021, the Company was also granted a total of $233,844 in government grants for the assets purchased in relation to other energy savings initiatives at the Farnham facility (2020 - $96,691). 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, including various tax credits, have also been granted for a total of $246,598, which has been recognized as other income (2020 - $10,906).

There are no remaining unfulfilled conditions regarding any of these grants.

15. Research and development

As part of its Cannabis Operations (note 21), the Company had conducted certain activities related to research and development.

The Company is pursing its research and development activities in parallel with its commercial activities. The Company’s cultivation and compliance staff continuously research, test and develop new and improved cultivation methodologies that are expected to generate increased yield and quality which will facilitate the commercialization of a premium cannabis product.

16. General and administrative

	2021	2020
Salaries and benefits	$ 2,056,357	$ 3,155,281
Administrative and regulatory expenses	1,151,471	1,225,340
Facilities expense	1,363,316	1,182,661
Travel costs	77,415	232,053
	$ 4,648,559	$ 5,795,335

17. Net finance expense

	2021	2020
Interest income	$ 52,786	$ 265,771
Interest on mortgages payable	1,086,114	1,182,278
Interest on credit facilities	304,521	–
Interest on lease liabilities	103,824	143,364
Interest on convertible debentures	71,748	–
Accretion and amortization of financing costs	143,217	24,535
Other finance expense	16,173	13,414
Foreign exchange loss	112,615	44,205
Finance expense	1,838,212	1,407,796
Net finance expense	$ 1,785,426	$ 1,142,025

18. Financial instruments

(a) Capital management

The Company defines capital as total equity and any other financing instrument it has issued, principally mortgages payable and convertible debentures. 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 ability of the Company to ultimately achieve future profitable operations is dependent upon the continued success of its product and brand pipeline in addition to maintaining the consistency of its grow operations and lean cost structure. The Company expects to finance its operations through its wholesale and retail sales, existing cash, and/or a combination of public or private equity and debt financing or other sources.

18. Financial instruments (continued)

(b) Fair value measurements

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

The fair value of the long-term debt, convertible debentures 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 and accounts 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 that the Company deals with meet these qualifications.

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, 2021, none of the receivables were past due. The allowance for expected credit loss was nil as at August 31, 2021 (2020 - 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 and by maintaining cash flow forecasts and long-term operating and strategic plans.

18. Financial instruments (continued)

(e) Liquidity risk (continued)

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 and by maintaining cash flow forecasts and long-term operating and strategic plans.

The contractual maturities of financial liabilities as at August 31, 2021 were as follows:

	Carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years
Financial liabilities				
Accounts payable and accrued liabilities	$ 6,263,201	$ 6,263,201	$ 6,263,201	$ –
Lease liabilities	442,496	521,895	288,306	233,589
Convertible debentures	8,466,008	10,700,000	–	10,700,000
Mortgages payable	11,982,451	12,000,000	300,000	8,050,000
	$ 27,154,156	$ 29,485,096	$ 6,851,507	$ 18,983,589

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	$ –
Lease liabilities	651,764	834,762	312,867	521,895
Other long-term liabilities	75,000	75,000	–	75,000
Mortgages payable	12,274,263	12,300,000	300,000	8,050,000
	$ 15,916,306	$ 16,125,041	$ 3,528,086	$ 8,646,895

19. 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:

	2021	2020
Loss before income taxes	$ (1,528,143)	$ (13,094,355)
Statutory income tax rate	27 %	27 %
Combined federal and provincial income tax	(412,598)	(3,535,476)
Adjustment in income taxes resulting from:		
Unrecorded tax benefits on tax losses and other deductible temporary differences	325,765	3,318,891
Accounting charges not deducted for tax and other	86,833	216,585
Income taxes	$ –	$ –

As at August 31, 2021, 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, the actual amounts may vary from management's estimates.

		2021
	Federal	Provincial/State
Canadian		
Non capital losses carried forward, expiring:		
August 31, 2039	$ 56,398	$ 56,398
August 31, 2040	13,541,665	13,396,545
August 31, 2041	16,485,079	16,348,386
	30,083,142	29,801,329
Non-Canadian		
Non capital losses carried forward, expiring:		
August 31, 2039	1,535,266	1,535,266
August 31, 2040	1,800,860	1,800,860
August 31, 2041	488,391	488,391
	3,824,517	3,824,517
	$ 33,907,659	$ 33,625,845
Canadian		
Other tax attributes carried forward, expiring:		
August 31, 2025	$ 3,000	$ –
August 31, 2026	150	–
August 31, 2030	–	3,000
August 31, 2031	–	150
	$ 3,150	$ 3,150

The Company also had unclaimed scientific research and experimental development expenditures that do not expire that can be carried forward totalling $332,105.

19. 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, 2021
Net operating loss carryforwards	$ 33,907,659	$ –	$ 33,907,659
Financing costs	205,933	1,274,863	1,480,796
Other tax attributes	3,150	–	3,150
Biological assets and inventory	(3,562,706)	–	(3,562,706)
Property, plant and equipment	(5,681,708)	–	(5,681,708)
Lease liabilities	209,948	–	209,948
Deferred grant income	737,122	–	737,122
	$ 25,819,398	$ 1,274,863	$ 27,094,261

	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

20. 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.

21. Segment disclosures

(a) Reportable segments

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

The chief operating decision-maker assesses performance based on segment operating results which were defined as segment operating income (loss) before share-based compensation, amortization, net finance expense, gain on sublease initial recognition, loss on disposal of property, plant and equipment and income tax. Categorized as "Other" are items related to U.S. hemp-based CBD products revenues and related operating costs. The accounting policies of the segments are the same as those described in Note 3 of these consolidated financial statements.

21. Segment disclosures (continued)

(a) Reportable segments (continued)

	2021 Cannabis operations	2021 Real estate operations	2021 Other	2021 Total	2020 Cannabis operations	2020 Real estate operations	2020 Other	2020 Total
Revenue								
Revenue from sale of goods	$ 15,407,596	$ –	$ 178,922	$ 15,586,518	$ –	$ –	$ 117,921	$ 117,921
Excise taxes	(2,417,355)	–	–	(2,417,355)	–	–	–	–
Net revenue from sale of goods	12,990,241	–	178,922	13,169,163	–	–	117,921	117,921
Lease revenue	–	3,120,882	–	3,120,882	–	2,356,820	–	2,356,820
Other income (note 14)	976,960	–	–	976,960	104,202	–	–	104,202
	13,967,201	3,120,882	178,922	17,267,005	104,202	2,356,820	117,921	2,578,943
Cost of revenues								
Cost of goods sold	7,925,024	–	146,657	8,071,681	473,745	–	95,547	569,292
Lease operating costs	–	453,840	–	453,840	–	343,827	–	343,827
Segment gross profit (loss) before fair value adjustments	6,042,177	2,667,042	32,265	8,741,484	(369,543)	2,012,993	22,374	1,665,824
Changes in fair value of inventory sold	(4,213,550)	–	–	(4,213,550)	–	–	–	–
Unrealized gain (loss) on changes in fair value of biological assets	6,015,165	–	–	6,015,165	(413,315)	–	–	–
Segment gross profit (loss)	7,843,792	2,667,042	32,265	10,543,099	(782,858)	2,012,993	22,374	1,252,509
Operating expenses	8,464,756	–	422,707	8,887,463	9,076,183	–	1,751,375	10,827,558
Segment operating income (loss)	(620,964)	2,667,042	(390,442)	1,655,636	(9,859,041)	2,012,993	(1,729,001)	(9,575,049)
Share-based compensation	–	–	324,127	324,127	–	–	741,844	741,844
Amortization	–	–	1,032,308	1,032,308	–	–	1,647,540	1,647,540
Net finance expense	–	–	1,785,426	1,785,426	–	–	1,142,025	1,142,025
Gain on sublease on initial recognition	–	–	(24,442)	(24,442)	–	–	(25,894)	(25,894)
Loss on disposal of property, plant and equipment	–	–	66,360	66,360	–	–	13,791	13,791
Net income (loss)	$ (620,964)	$ 2,667,042	$ (3,574,221)	$ (1,528,143)	$ (9,859,041)	$ 2,012,993	$ (5,248,307)	$ (13,094,355)

21. Segment disclosures (continued)

(b) Entity-wide disclosures

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

(c) Sources of lease revenues

The Company leased 425,480 square feet of the total 625,000 available square feet at its Farnham Facility to third parties. For the year ended August 31, 2021, the Company realized 100% of its lease revenue with two lessees:

- Tenant A's lease term is until September 30, 2022. Lease revenues from this tenant for the year ended August 31, 2021 amounted to $269,943.
- Tenant B's lease term is until October 31, 2022, if renewal clauses are not exercised. Lease revenues from this tenant for the year ended August 31, 2021 amounted to $1,900,202.

  Starting January 1, 2021, Tenant B rented additional space until October 31, 2022, if renewal clauses are not exercised. Lease revenues from this tenant for the year ended August 31, 2021 amounted to $459,645.
- Tenant C's lease terminated on October 31, 2020. Lease revenues from this tenant for the year ended August 31, 2021 amounted to nil and $299,426.

In addition, the Company leased 80,000 square feet at its Valleyfield Facility to a third party. Subsequent to year-end, Tenant' lease agreement was converted into a cannabis manufacturing agreement as of September 24, 2021. For the year ended August 31, 2021, lease revenues amounted to $191,666.

Income is generated from customers domiciled in Canada.

(d) Source of cannabis revenues

	2021	2020
Revenue from Canadian retailers	$ 10,222,574	$ –
Excise taxes	(2,417,355)	–
	7,805,219	117,921
Revenue from wholesale	5,185,022	–
	$ 12,990,241	$ 117,921

For the years ended August 31, 2021, the Company has generated 66% of its cannabis revenues from one provincial distributor, and 31% from its wholesale channel with another licenced producer, respectively.

22. 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, 2021, was as follows:

	2021	2020
Salaries and benefits	$ 323,583	$ 556,500
Share-based compensation	138,810	232,094
Board of director fees	63,750	77,000
	$ 526,143	$ 865,594

(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:

	2021	2020
Nature of transactions		
Management fees and other expenses [(i)]	$ 11,343	$ 40,010
Acquisition of property, plant and equipment	291,125	–
Interest on financing instruments [(i)]	1,227,769	908,020
	1,530,237	948,030
Balance with related parties are as follows:		
Accounts payable and accrued interests [(i)]	(434,609)	(144,638)
Accounts payable to key management personnel	(27,867)	(29,808)
Accounts payable to Board of Directors members	(15,189)	(12,500)
Convertible debentures[(i)]	(10,700,000)	–
Mortgage payable [(i)]	(6,550,000)	(6,550,000)

[(i)] A Director is a shareholder of an entity in which the Company entered into various transactions related to the Farnham Facility, the convertible debentures 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.

23. Cash flow information

Net change in non-cash working capital items:

		2021		2020
Accounts receivable	$	(2,815,403)	$	28,711
Sales tax receivable		203,972		430,411
Lease receivable		61,957		13,262
Biological assets		(6,164,853)		(1,349,158)
Inventory		2,816,606		(1,119,171)
Prepaid expenses and other assets		(496,075)		(23,787)
Deposits		(43,961)		(166,925)
Accounts payable and accrued liabilities		2,453,823		510,322
Deferred lease revenue		(18,640)		28,204
Deferred grant income		205,228		531,894
	$	(3,797,346)	$	(1,116,237)

Supplemental information in the statement of cash flows:

		2021		2020
Variation of intangible assets included in accounts payable and accrued liabilities	$	–	$	96,766
Variation of property, plant and equipment included in accounts payable and accrued liabilities		(708,097)		2,323,833
Addition to right-of-use assets and lease liabilities		–		122,838
Issuance costs on private placement included in account payables and accrued liabilities		25,250		–
Issuance costs on convertible debentures included in account payables and accrued liabilities		24,888		–

24. Subsequent events

Cannabis and derivatives licenses

On September 2, 2021, Cannara Biotech (Quebec) Inc. received its amended license from Health Canada for the sale of cannabis 2.0 products (“derivative products”).

On September 27, 2021, Cannara Biotech (Valleyfield) Inc. received from Health Canada its processing and cultivation license for the Valleyfield Facility.

Financing

On November 22, 2021, the Company amended its existing credit agreement with CIBC, increasing its current installment loan from $5.4 million to $22 million, for which the proceeds will be used to repay the existing mortgages payable and for capital expenditures required to redesign and render the Valleyfield Facility operational. The term of the loan is 3 years, with included monthly installments plus accrued interest. The loan bears an interest rate calculate on prime rate plus 2%. The loan is secured by a first ranking mortgage against the Farnham Facility.

Share options

Subsequent to year-end, the Company granted a total of 7,935,000 stock options.