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CANNARA BIOTECH INC.

Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended

February 28, 2022 and 2021
(Unaudited)

CANNARA BIOTECH INC.

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(Unaudited)

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Financial Position
As at February 28, 2022 and August 31, 2021
(Unaudited - in Canadian dollars)

		February 28, 2022		August 31, 2021
Assets				
Current assets				
Cash	$	8,258,006	$	8,159,305
Accounts receivable		3,098,917		2,847,725
Sales tax receivable		126,628		47,756
Lease receivable		106,353		72,680
Biological assets (note 3)		2,261,997		1,902,206
Inventory (note 4)		7,753,462		5,508,258
Prepaid expenses and other assets		1,050,300		708,803
		22,655,663		19,246,733
Lease receivable		35,815		73,164
Deposits		396,114		396,114
Deposits on property, plant and equipment		1,271,618		556,803
Property, plant and equipment (note 5)		77,157,438		71,517,251
Right-of-use asset (note 6)		174,382		232,548
	$	101,691,030	$	92,022,613
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	$	6,646,637	$	6,263,201
Deferred lease revenue		291,156		9,564
Current portion of long-term debt		3,423		3,348
Current portion of deferred grant income		38,101		32,043
Current portion of lease liabilities (note 6)		261,297		225,642
Current portion of mortgages payable (note 7)		669,815		300,000
		7,910,429		6,833,798
Long-term debt		880		2,611
Lease liabilities (note 6)		99,159		216,854
Derivative financial liabilities (note 12)		130,447		–
Convertible debentures (note 7)		9,005,975		8,466,008
Deferred grant income		819,617		705,079
Mortgages payable (note 7)		21,181,714		11,682,451
		39,148,221		27,906,801
Shareholders’ equity				
Share capital		83,208,150		83,208,150
Contributed surplus		9,529,946		9,412,746
Deficit		(30,281,471)		(28,605,149)
Accumulated other comprehensive gain		86,184		100,065
Total equity		62,542,809		64,115,812
Contingencies (note 13)				
Subsequent event (note 17)				
	$	101,691,030	$	92,022,613

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Net Loss and Comprehensive Loss
For the three and six-month periods ended February 28, 2022 and 2021
(Unaudited - in Canadian dollars)

	Three-month periods ended		Six-month periods ended	
	February 28, 2022	February 28, 2021	February 28, 2022	February 28, 2021
Revenue				
Revenue from sale of goods (note 14)	$ 6,686,811	$ 1,239,778	$ 13,654,129	$ 2,017,184
Excise taxes	(1,450,812)	(23,132)	(2,989,799)	(23,132)
Net revenue from sale of goods	5,235,999	1,216,646	10,664,330	1,994,052
Lease revenues (note 14)	827,187	752,457	1,726,191	1,309,389
Services revenues (note 14)	1,208,873	–	1,208,873	–
Other income	150,295	288,651	387,536	322,494
	7,422,354	2,257,754	13,986,930	3,625,935
Cost of revenues				
Cost of goods sold (note 4)	3,741,594	765,848	7,221,717	1,539,036
Cost of services	969,289	–	969,289	–
Lease operating costs	75,864	193,645	146,292	292,492
Gross profit before fair value adjustments	2,635,607	1,298,261	5,649,632	1,794,407
Changes in fair value of inventory sold	(1,269,679)	(447,885)	(3,136,159)	(651,195)
Unrealized gain on changes in fair value of biological assets (note 3)	1,649,649	1,244,832	3,122,146	454,637
Gross profit	3,015,577	2,095,208	5,635,619	1,597,849
Operating expenses (income)				
General and administrative (note 10)	2,132,004	869,651	3,737,261	2,013,186
Research and development	305,824	682,899	562,319	1,233,293
Selling, marketing and promotion	302,686	242,824	602,278	507,903
Professional and legal fees	185,215	354,962	417,595	678,306
Share-based compensation (note 9)	151,324	49,819	117,200	153,540
Amortization (notes 5 and 6)	304,907	251,634	536,808	526,123
Gain on sublease agreement	–	–	(12,876)	–
Loss on disposal of property, plant and equipment (note 5)	6,444	54,224	31,106	54,224
	3,388,404	2,506,013	5,991,691	5,166,575
Operating loss	(372,827)	(410,805)	(356,072)	(3,568,726)
Net finance expense (note 11)	772,996	451,951	1,320,250	789,062
Net loss	(1,145,823)	(862,756)	(1,676,322)	(4,357,788)
Other comprehensive loss:				
Foreign currency translation adjustments	15,499	38,825	(13,881)	52,612
Total comprehensive loss	$ (1,130,324)	$ (823,931)	$ (1,690,203)	$ (4,305,176)
Basic and diluted loss per share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)
Weighted average number of outstanding shares	876,481,321	737,842,039	876,481,321	737,749,067

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Changes in Equity
For the six-month periods ended February 28, 2022 and 2021
(Unaudited - in Canadian dollars)

	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive gain	Total equity
As at August 31, 2021	876,481,321	$ 83,208,150	$ 9,412,746	$ (28,605,149)	$ 100,065	$ 64,115,812
Net loss	–	–	–	(1,676,322)	–	(1,676,322)
Other comprehensive loss:						
Foreign currency translation adjustments	–	–	–	–	(13,881)	(13,881)
Comprehensive loss	–	–	–	(1,676,322)	(13,881)	(1,690,203)
Share-based compensation (note 9)						
Employee compensation	–	–	115,822	–	–	115,822
Other services	–	–	1,378	–	–	1,378
	–	–	117,200	–	–	117,200
As at February 28, 2022	876,481,321	$ 83,208,150	$ 9,529,946	$ (30,281,471)	$ 86,184	$ 62,542,809

	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive gain	Total equity
As at August 31, 2020	737,738,815	$ 58,361,592	$ 7,034,550	$ (27,077,006)	$ 45,725	$ 38,364,861
Net loss	–	–	–	(4,357,788)	–	(4,357,788)
Other comprehensive loss:						
Foreign currency translation adjustments	–	–	–	–	52,612	52,612
Comprehensive loss	–	–	–	(4,357,788)	52,612	(4,305,176)
Share-based compensation (note 9)						
Employee compensation	–	–	125,140	–	–	125,140
Other services	–	–	38,372	–	–	38,372
	–	–	163,512	–	–	163,512
Transaction with shareholders of the Company						
Issuance of shares to settle a liability	117,506	11,750	–	–	–	11,750
As at February 28, 2021	737,856,321	$ 58,373,342	$ 7,198,062	$ (31,434,794)	$ 98,337	$ 34,234,947

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Cash Flows
For the three and six-month periods ended February 28, 2022 and 2021
(Unaudited - in Canadian dollars)

	Three-month periods ended		Six-month periods ended	
	February 28, 2022	February 28, 2021	February 28, 2022	February 28, 2021
Cash provided by (used in):				
Operating:				
Net loss	$ (1,145,823)	$ (862,755)	$ (1,676,322)	$ (4,357,788)
Items not involving cash:				
Changes in fair value of inventory sold	1,269,679	447,885	3,136,159	651,195
Unrealized gain on changes in fair value of biological assets (note 3)	(1,649,649)	(1,244,832)	(3,122,146)	(454,637)
Amortization of property, plant and equipment (note 5)	928,809	665,774	1,674,064	1,286,995
Amortization of right-of-use assets (note 6)	26,983	45,534	56,779	91,068
Amortization of intangible asset	–	39,718	–	80,765
Loss on disposal of property, plant and equipment	6,444	54,224	31,106	54,224
Gain on sublease	–	–	(12,876)	–
Change in fair value of derivative financial instrument (note 12)	130,447	–	130,447	–
Interest on lease liabilities	16,948	26,960	36,590	56,645
Interest expense (note 7)	357,121	354,042	733,491	653,509
Interest income (note 11)	(29,308)	(10,368)	(45,147)	(27,314)
Share-based compensation (note 9)	151,324	27,788	117,200	163,512
Accretion and amortization of financing costs (note 7)	170,590	7,722	348,681	14,394
Other	55	146	113	300
Net change in non-cash operating working capital items (note 16)	(1,558,655)	(1,056,754)	(2,619,714)	(3,209,161)
	(1,325,035)	(1,504,916)	(1,211,575)	(4,996,293)
Financing:				
Private placement issuance costs	–	–	(25,250)	–
Convertible debenture issuance costs	–	–	(24,888)	–
Proceeds from credit facilities	–	3,000,000	–	4,000,000
Credit facilities costs	–	–	–	(31,238)
Proceeds from mortgage (note 7)	–	–	22,000,000	–
Mortgage costs (note 7)	–	–	(98,372)	–
Mortgage repayment (note 7)	(54,771)	(75,000)	(12,054,771)	(150,000)
Interest paid (note 7)	(288,520)	(352,786)	(558,183)	(543,874)
Lease payments (note 6)	(71,910)	(80,394)	(143,820)	(160,788)
Other long-term debt payments	(1,182)	(592)	(1,773)	(1,478)
	(416,383)	2,491,228	9,092,943	3,112,622
Investing:				
Deposits on property, plant and equipment	116,359	115,963	(714,815)	84,488
Acquisitions of property, plant and equipment (note 5)	(4,300,415)	(664,286)	(7,117,759)	(1,492,208)
Disposal of property, plant and equipment (note 5)	7,000	169,653	40,956	169,653
Interest received	17,668	10,870	22,832	25,984
	(4,159,388)	(367,800)	(7,768,786)	(1,212,083)
Net change in cash	(5,900,806)	618,512	112,582	(3,095,754)
Effect of foreign exchange on cash	15,499	41,260	(13,881)	55,101
Cash, beginning of period	14,143,313	4,070,752	8,159,305	7,771,177
Cash, end of period	$ 8,258,006	$ 4,730,524	$ 8,258,006	$ 4,730,524

See accompanying notes to condensed interim consolidated financial statements.

1. Nature of operations

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

Cannara owns and operates two Quebec-based 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 area and 455,000 square feet of leased warehouse space ("Farnham Facility"). The second facility, acquired in June 2021 is a hybrid greenhouse facility that is being redesigned by zone 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 235,000 square feet cannabis 2.0 processing center and a 200,000 square feet rooftop greenhouse located in Valleyfield, Quebec ("Valleyfield Facility"). The redesign of its three first zones have been completed to date and are now operational. 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 commenced its first commercial retail sale at the end of February 2021 and continues to fulfill market demand with weekly reorders. The Company is currently focused on its expansion with the Valleyfield Facility in order to be able to respond to current market demand for its products. During the first six months of 2022, capital expenditures and start-up costs were incurred to render the Valleyfield Facility operational. The Company harvested its first room from the Valleyfield Facility at the end of the second quarter of 2022 and its first finished product were available for sale in March 2022. The Company incurred a net loss of approximately $1.7 million during the six-month period ended February 28, 2022 (2021 – net loss of $4.4 million). The Company has a deficit of approximately $30.3 million as at February 28, 2022 (August 31, 2021 - $28.6 million). The Company expects that its existing cash resources of $8.3 million as at February 28, 2022, along with the forecasted cash flows that occurred subsequent to quarter-end, will enable it to fund its planned operating expenses for at least the next twelve months from February 28, 2022.

The ability of the Company to ultimately achieve future profitable operations is dependent upon the continued success of its product from its two facilities 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 and significant accounting policies

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB").

These condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issuance on April 26, 2022.

(b) Basis of preparation

The condensed interim consolidated financial statements were prepared using the same accounting policies as set forth in Notes 2 and 3 in the audited financial statements of the Company for the year ended August 31, 2021, except for new accounting policies described in 2(c). These condensed interim consolidated financial statements do not include all the notes required in annual consolidated financial statements. Therefore, these condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto of the Company for the year ended August 31, 2021.

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

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

(b) Basis of preparation (continued)

On an ongoing basis, estimates and judgements are evaluated. The Company bases its estimates on the most probable set of economic conditions and planned course of action, historical experience, known trends and events, and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Uncertainty about these assumptions and estimates could result in outcome that requires material adjustments to the carrying amount of the asset or liability affected in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which these estimates are revised and in any future periods affected.

The critical accounting judgments and key sources of estimation uncertainty are consistent with those in the audited consolidated financial statements and notes thereto to the Company for the year ended August 31, 2021.

(c) New accounting policies

Revenue recognition

In addition to the sale of goods, the Company also generates revenue under a manufacturing services agreement for certain cannabis production services (including both cultivation and processing) within one of the Company's facilities.

Revenue is recognized when performance obligations under the terms of a contract with a customer is satisfied. Revenue from manufacturing services agreement is generally recognized over time when the services are provided to the customer.

Financial instruments

The Company uses derivative financial instruments to manage risks related to interest rate exposures. The Company does not utilize derivative financial instruments for speculative or trading purposes. The Company enters into interest-rate swap contracts in order to reduce the financial risk related to its exposure to fluctuations in interest rates related to certain long-term debts. Contracts are not treated as hedges for accounting purposes.

Derivative financial instruments that do not meet the criteria for hedge accounting are marked-to-market as at the date of the condensed interim consolidated statement of financial position with the corresponding gain or loss recorded in the period in which the change occurs.

(Unaudited - in Canadian dollars)

3. Biological assets

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

Carrying amount, August 31, 2020	$	1,313,370
Production costs capitalized		6,164,853
Net change in fair value due to biological transformation, less cost to sell		6,015,165
Transferred to cost of good sold – sale of clones		(72,000)
Transferred to inventory upon harvest		(11,519,182)
Carrying amount, August 31, 2021	$	1,902,206
Production costs capitalized		3,707,959
Change in fair value due to biological transformation, less cost to sell		3,122,146
Transferred to inventory upon harvest		(6,470,314)
Carrying amount, February 28, 2022	$	2,261,997

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

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

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

Because there is no actively traded commodity market for cannabis plants and dried cannabis products, the valuation of the biological assets is obtained using valuations techniques where the inputs are based upon unobservable market data and are classified as level 3 in the fair market value hierarchy. There has been no transfer between levels as at February 28, 2022.

(Unaudited - in Canadian dollars)

3. Biological assets (continued)

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

The income approach calculates the present value of expected future cash flows from the Company's biological assets using the following inputs for the period ended February 28, 2022:

Unobservable inputs	Input values	Sensitivity analysis
Wholesale and retail selling price Represents the average expected wholesale and retail selling price per gram of dried cannabis, excluding excise taxes, where applicable, which is expected to approximate future wholesale and retail selling prices.	$1.90 to $4.80 per gram (August 31, 2021 - $1.30 to $4.80 per gram)	An increase or decrease of 5% applied to the selling price would result in a change of approximately $196,000 to the valuation (August 31, 2021 - $161,000).
Yield per plant Represents the average number of grams of dried cannabis expected to be harvested from each cannabis plant from the two facilities.	77 grams per plant (August 31, 2021 – 86 grams per plant)	An increase or decrease of 5% applied to the average yield per plant would result in a change of approximately $104,000 to the valuation (August 31, 2021 - $97,000).
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 49% (August 31, 2021 – 47%)	An increase or decrease of 5% applied to the average stage of growth per plant would result in a change of approximately $104,000 to the valuation (August 31, 2021 - $92,000).

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

As at February 28, 2022, it is expected that the Company's biological assets will yield approximately 2,794 kilograms of dried cannabis when harvested (August 31, 2021 – 1,926 kilograms of dried cannabis).

(Unaudited - in Canadian dollars)

4. Inventory

Inventory consists of the following:

	Capitalized cost	Fair value adjustment[1]	February 28, 2022 Total
Raw materials - cultivation and supplies	$ 1,439,588	$ –	$ 1,439,588
Harvested cannabis			
Dried cannabis and work-in-progress	2,596,638	1,969,006	4,565,644
Finished goods	791,219	347,287	1,138,506
Derivative products			
Work-in-progress	414,940	(11,815)	403,125
Finished goods	136,838	(1,819)	135,019
Finished goods - U.S. hemp-based CBD products for resale	71,580	–	71,580
	$ 5,450,803	$ 2,302,659	$ 7,753,462

	Capitalized cost	Fair value adjustment[1]	August 31, 2021 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
	$ 3,399,737	$ 2,108,521	$ 5,508,258

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

The amount of inventory expensed as cost of goods sold during the three and six-month periods ended February 28, 2022 was $3,741,594 and $7,221,717 (2021 – $765,848 and $1,539,036), including an impairment loss on inventory of $185,757 and $204,649 (2021 - $225,333 and $428,643) for cannabis that cost exceeds its net realizable value for the three and six-month periods.

(Unaudited - in Canadian dollars)

5. Property, plant and equipment

	Land	Buildings	Facility production equipment	Computer equipment and software	Vehicles	Furniture and fixtures	Construction in progress	Total
Cost								
Balance as at August 31, 2021	$ 2,452,085	$ 44,792,468	$ 5,833,454	$ 1,262,343	$ 18,440	$ 1,352,642	$ 21,234,527	$ 76,945,959
Additions	–	13,502,361	2,561,956	108,936	–	51,117	(8,838,057)	7,386,313
Disposal	–	–	(77,852)	–	–	–	–	(77,852)
Balance as at February 28, 2022	$ 2,452,085	$ 58,294,829	$ 8,317,558	$ 1,371,279	$ 18,440	$ 1,403,759	$ 12,396,470	$ 84,254,420
Accumulated depreciation								
Balance as at August 31, 2021	$ –	$ (3,881,432)	$ (828,841)	$ (421,653)	$ (3,771)	$ (293,011)	$ –	$ (5,428,708)
Amortization	–	(1,144,703)	(341,668)	(113,023)	(1,845)	(72,825)	–	(1,674,064)
Disposal	–	–	5,790	–	–	–	–	5,790
Balance as at February 28, 2022	$ –	$ (5,026,135)	$ (1,164,719)	$ (534,676)	$ (5,616)	$ (365,836)	$ –	$ (7,096,982)
Net book value								
Balance as at February 28, 2022	$ 2,452,085	$ 53,268,694	$ 7,152,839	$ 836,603	$ 12,824	$ 1,037,923	$ 12,396,470	$ 77,157,438

For the six-month period ended February 28, 2022, the assets included in construction in progress represents the Valleyfield Facility and related capital expenditures incurred to render the facility operational and for the redesign of the cultivation zones in addition to post-harvest capital improvements at the Farnham Facility to process cannabis that will be received from the Valleyfield Facility.

During the three-month period ended February 28, 2022, the Company recognized $928,809 as depreciation, of which $277,924 has been recognized in the consolidated statement of loss and comprehensive loss and $650,885 has been included in the calculation of the biological assets and inventory valuation.

During the six-month period ended February 28, 2022, the Company recognized $1,674,064 as depreciation, of which $480,029 has been recognized in the consolidated statement of loss and comprehensive loss and $1,194,035 has been included in the calculation of the biological assets and inventory valuation.

(Unaudited - in Canadian dollars)

5. Property, plant and equipment (continued)

	Land	Buildings	Facility production equipment	Computer equipment and software	Vehicles	Furniture and fixtures	Construction in progress	Total
Cost								
Balance as at August 31, 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	$ 40,911,036	$ 5,004,613	$ 840,690	$ 14,669	$ 1,059,631	$ 21,234,527	$ 71,517,251

During the three-month period ended February 28, 2021, the Company recognized $665,774 as depreciation expense, of which $166,382 has been recognized in the consolidated statement of loss and comprehensive loss and $499,392 has been included in the calculation of the biological assets and inventory valuation.

During the six-period ended February 28, 2021, the Company recognized $1,286,995 as depreciation expense, of which $354,290 has been recognized in the consolidated statement of loss and comprehensive loss and $932,705 has been included in the calculation of the biological assets and inventory valuation.

(Unaudited - in Canadian dollars)

6. Right-of-use assets and lease liabilities

(a) Right-of-use assets

		February 28, 2022		August 31, 2021
Cost				
Balance, beginning of period	$	630,024	$	765,780
Additions		25,190		–
Derecognition of portion related to sublease agreement		(80,038)		(135,756)
Balance, end of period	$	575,176	$	630,024
Accumulated depreciation				
Balance, beginning of period	$	(397,476)	$	(308,881)
Amortization		(56,779)		(167,489)
Derecognition of portion related to sublease agreement		53,461		78,894
Balance, end of period	$	(400,794)	$	(397,476)
Net book value				
Balance, end of period	$	174,382	$	232,548

(b) Lease liabilities

		February 28, 2022		August 31, 2021
Maturity analysis - contractual undiscounted cash flows:				
Less than one year	$	305,232	$	288,306
One to five years		273,017		233,589
Total undiscounted lease liabilities	$	578,249	$	521,895
Current	$	261,297	$	225,642
Non-current		99,159		216,854
Lease liabilities included in the condensed interim consolidated statement of financial position	$	360,456	$	442,496

Balance as at August 31, 2021	$	442,496
Additions		25,190
Rent paid		(143,820)
Interest on lease liabilities		36,590
Balance as at February 28, 2022	$	360,456

(Unaudited - in Canadian dollars)

7. Financing

(a) Mortgages payable

On November 30, 2021, the Company amended its existing credit agreement with Canadian Imperial Bank of Commerce ("CIBC"), increasing its current installment loan from $5.4 million to $22 million, for which the proceeds were used to repay existing mortgages payable and for capital expenditures required to redesign and render the Valleyfield Facility operational.

Net carrying value, August 31, 2021	$	11,982,451
Proceeds from mortgage		22,000,000
Payments		(12,054,771)
Mortgage issuance costs		(98,372)
Amortization of deferred financing costs		22,221
Net carrying value, February 28, 2022	$	21,851,529

		February 28, 2022		August 31, 2021
Mortgage payable (i)	$	21,945,229	$	–
Mortgage payable (ii)		–		6,550,000
Mortgage payable (iii)		–		5,450,000
Less: unamortized financing costs		(93,700)		(17,549)
		21,851,529		11,982,451
Short-term portion of mortgages payable		(669,815)		(300,000)
	$	21,181,714	$	11,682,451

(i) The interest rate on the mortgage loan with CIBC is prime rate + 2% and/or the banker acceptance ("BA") rate. As at February 28, 2022, the interest rate related to this mortgage was 4.04%. The term of the mortgage loan is 3 years, renewable for additional 3-year terms at the option of the lender. The loan is reimbursable monthly by 35 variable instalments at an average of $54,000 per month plus accrued interest and a 36th installment for the residual balance due at the maturity date if the renewal option is not exercised. The loan is secured by a first ranking mortgage against the Farnham Facility. The mortgage is secured by a guarantee executed by a related party. The mortgage also contains a financial covenant requiring the Company to maintain a debt service ratio of no less than 1.25 to 1.0 at each year-end, relating to its Farnham Real estate segment. For the three and six-month periods ended February 28, 2022, the Company recognized $250,204 as interest expense for this mortgage (2021 - nil). As at February 28, 2022, an amount of $38,317 was included in prepaid interest (August 31, 2021 – nil).

(Unaudited - in Canadian dollars)

7. Financing (continued)

(a) Mortgages payable (continued)

(ii) The interest rate on the mortgage is 13% per annum, payable monthly. During the three and six-month periods ended February 28, 2022, the Company recognized nil and $216,958 as interest expense for this mortgage (2021 - $209,959 and $422,251). The mortgage term was due on March 6, 2023 but it was amended on November 30, 2021 as part of the refinancing arrangement.

(iii) The interest rate on the mortgage loan is prime rate + 2% and/or the banker acceptance ("BA") rate. During the three and six-month periods ended February 28, 2022, the Company recognized nil and $52,706 as interest expense for this mortgage (2021 - $61,809 and $125,121). The mortgage term was October 9, 2039 but it was repaid on November 30, 2021 as part of the refinancing arrangement.

(b) Convertible debentures

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

Net carrying value, August 31, 2020	$	–
Convertible A		4,448,551
Convertible B		3,902,214
Issuance costs		(59,955)
Interest expense		71,748
Accretion and amortization of deferred issuance costs		103,450
Net carrying value, August 31, 2021	$	8,466,008
Interest expense		213,624
Accretion and amortization of deferred issuance costs		326,343
Net carrying value, February 28, 2022	$	9,005,975

During the three and six-month periods ended February 28, 2022, the Company recognized $106,917 and $213,624 as interest expense (2021 - nil and nil). As at February 28, 2022, accrued interest of $213,624 were included in account payable and accrued liabilities (August 31, 2021 - $71,748).

(Unaudited - in Canadian dollars)

8. Share Capital

(a) Authorized

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

9. Share-based compensation

The Company has established a share option plan whereby certain personnel may be granted options to acquire shares under the terms of the employee share option plan or shares may be granted to third parties in exchange for services. The number and characteristics of share options granted under the employee share option plan are determined by the Board of Directors of the Company but cannot exceed 10% of the outstanding balance of shares issued. The characteristics of share options granted to third parties for services are determined on a case-by-case basis.

The share options granted under the employee share option plan vest 25% after the first anniversary of the grant date with the remainder vesting in 36 monthly consecutive equal instalments and expire five years from the date of issue. The plan provides for the issuance of common shares at an exercise price determined by the Board of Directors which is not lower than the fair value of the common shares on the grant date. Outstanding options under the plan are granted with service requirements (or service conditions) and become exercisable upon vesting. The share options granted to third parties for services have vesting terms determined on a case-by-case basis.

The activity of outstanding share options for the six-month period ended February 28, 2022 and 2021 was as follows:

	February 28, 2022			February 28, 2021		
	Number		Weighted average exercise price	Number		Weighted average exercise price
Outstanding, beginning of period	36,539,337	$	0.21	41,929,793	$	0.20
Granted	7,935,000		0.18	2,207,000		0.18
Forfeited	(2,490,836)		0.18	(3,749,999)		0.18
Expired	(1,357,502)		0.18	(335,209)		0.18
Outstanding, end of period	40,625,999		0.21	40,051,585		0.20
Exercisable, end of period	28,073,985	$	0.22	26,314,667	$	0.22

(Unaudited - in Canadian dollars)

9. Share-based compensation (continued)

During the second quarter ended February 28, 2022, the Company granted 7,710,000 options that vest accordingly with the employee share option plan and 225,000 options that vested immediately.

During the six-month period ended February 28, 2021, the Company granted 1,957,000 options that vest accordingly with the employee share option plan and 250,000 options that vested immediately.

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

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

Granted		Six-month period ended February 28, 2022
Share price	$	0.13
Exercise price	$	0.18
Risk-free interest rate (i)		1.48%
Expected life (ii)		5 years
Expected price volatility (iii)		92%
Fair value of the option	$	0.09
Expected dividend yield (iv)		nil

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

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

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

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

During the three and six-month periods ended February 28, 2022, the Company recorded a share-based compensation expense of $151,324 and $117,200, respectively (2021 - $27,788 and $163,512), for which amounts of $151,324 and $117,200 were recognized, respectively, in the consolidated statement of loss and comprehensive loss (2021 - $49,819 and $153,540) and no amount were classified in the calculation of the biological assets and inventory valuation (2021 - $(22,031) and $9,972).

(Unaudited - in Canadian dollars)

10. General and administrative

	Three-month periods ended		Six-month periods ended	
	February 28, 2022	February 28, 2021	February 28, 2022	February 28, 2021
Salaries and benefits	$ 659,722	$ 470,440	$ 1,374,891	$ 1,174,200
Administrative and regulatory expense	423,690	228,810	741,418	431,866
Facility expense	993,066	153,360	1,501,118	370,287
Travel	55,526	17,041	119,834	36,833
General and administrative	$ 2,132,004	$ 869,651	$ 3,737,261	$ 2,013,186

11. Net finance expense

	Three-month periods ended		Six-month periods ended	
	February 28, 2022	February 28, 2021	February 28, 2022	February 28, 2021
Interest income	$ 29,308	$ 10,368	$ 45,147	$ 27,314
Interest on mortgages	250,204	271,768	519,867	547,372
Interest on credit facilities	–	82,274	–	106,137
Interest on convertible debentures	106,917	–	213,624	–
Interest on lease liabilities	16,948	26,960	36,590	56,645
Amortization of financing costs	170,590	7,722	348,681	14,394
Other finance expense	87,996	7,582	98,546	7,680
Loss on derivative financial instrument	130,447	–	130,447	–
Foreign exchange loss	39,202	66,013	17,642	84,148
Finance expense	802,304	462,319	1,365,397	816,376
Net finance expense	$ 772,996	$ 451,951	$ 1,320,250	$ 789,062

12. Financial instruments

Fair value measurements

The fair value of cash, accounts 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, credit facilities and mortgages payable approximate their carrying amounts, as the interest rate approximates the current market rate.

12. Financial instruments (continued)

Financial instrument measured at fair value

In January 2022, the Company entered into an off-balance sheet interest rate swap with a notional amount of $22,000,000 to pay fixed rate of 4.8% for the first year and 6% for the four subsequent years and receive an amount based on the variable interest rate as defined in the swap contract. The interest rate swap matures on April 21, 2025. The notional amount is reduced monthly based on the balance of the mortgage debt. As at February 28, 2022, the notional amount was $21,945,229. The fair value of the swap as at February 28, 2022, was $130,447 and is included in derivative financial liabilities in the consolidated statement of financial position. During the period, a loss of $130,447 related to the change in fair value of the derivative financial instrument was recognized within net finance expenses.

The fair value of derivative instruments quoted in an active market is determined using reported bid prices. When evaluation based on observable market inputs is not possible, the fair value of the derivative instrument is estimated using valuation techniques based on observable market inputs, in particular current market prices, the contractual prices of the underlying instruments and interest rate yield curves.

13. Contingencies

In the normal course of business, the Company may be involved in various legal and regulatory proceedings. The Company believes that the resolution of these proceedings will not have a material favourable or unfavourable effect on its condensed interim consolidated statement of financial position or financial performance. As at February 28, 2022, there are no material claims in favor or against the Company.

14. Segment disclosures

(a) Reportable segments

The Company operates in two segments: (1) Cannabis operations which encompasses the cultivation, processing and sale of dried cannabis and cannabis derivatives exclusively for the Canadian market and other cannabis services ("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 on initial recognition, loss on disposal of property, plant and equipment and income tax. Categorized as "Other" are items related to U.S. hemp-based CBD products revenues and related operating costs. The accounting policies of the segments are the same as those described in Note 3 of the audited financial statements of the Company for the year ended August 31, 2021.

(Unaudited - in Canadian dollars)

14. Segment disclosures (continued)

(a) Reportable segments (continued)

	Three-month period ended February 28, 2022				Three-month period ended February 28, 2021			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Revenue								
Revenue from sale of goods	$ 6,681,563	$ –	$ 5,248	$ 6,686,811	$ 1,203,932	$ –	$ 35,846	$ 1,239,778
Excise taxes	(1,450,812)	–	–	(1,450,812)	(23,132)	–	–	(23,132)
Net revenue from sale of goods	5,230,751	–	5,248	5,235,999	1,180,800	–	35,846	1,216,646
Lease revenue	–	827,187	–	827,187	–	752,457	–	752,457
Services revenues	1,208,873	–	–	1,208,873	–	–	–	–
Other income	150,295	–	–	150,295	288,651	–	–	288,651
	6,589,919	827,187	5,248	7,422,354	1,469,451	752,457	35,846	2,257,754
Cost of revenues								
Cost of goods sold	3,733,602	–	7,992	3,741,594	736,430	–	29,418	765,848
Lease operating costs	–	75,864	–	75,864	–	193,645	–	193,645
Cost of services	969,289	–	–	969,289	–	–	–	–
Segment gross profit (loss) before fair value adjustments	1,887,028	751,323	(2,744)	2,635,607	733,021	558,812	6,428	1,298,261
Changes in fair value of inventory sold	(1,269,679)	–	–	(1,269,679)	(447,885)	–	–	(447,885)
Unrealized gain on changes in fair value of of biological assets	1,649,649	–	–	1,649,649	1,244,832	–	–	1,244,832
Segment gross profit (loss)	2,266,998	751,323	(2,744)	3,015,577	1,529,968	558,812	6,428	2,095,208
Operating expenses	2,898,408	–	27,321	2,925,729	2,050,379	–	99,957	2,150,336
Segment operating income (loss)	(631,410)	751,323	(30,065)	89,848	(520,411)	558,812	(93,529)	(55,128)
Share-based compensation	–	–	151,324	151,324	–	–	49,819	49,819
Amortization	–	–	304,907	304,907	–	–	251,634	251,634
Net finance expense	–	–	772,996	772,996	–	–	451,951	451,951
Loss on disposal of property, plant and equipment	–	–	6,444	6,444	–	–	54,224	54,224
Net income (loss)	$ (631,410)	$ 751,323	$ (1,265,736)	$ (1,145,823)	$ (520,411)	$ 558,812	$ (901,157)	$ (862,756)

(Unaudited - in Canadian dollars)

14. Segment disclosures (continued)

(a) Reportable segments (continued)

	Six-month period ended February 28, 2022				Six-month period ended February 28, 2021			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Revenue								
Revenue from sale of goods	$ 13,636,531	$ –	$ 17,598	$ 13,654,129	$ 1,883,057	$ –	$ 134,127	$ 2,017,184
Excise taxes	(2,989,799)	–	–	(2,989,799)	(23,132)	–	–	(23,132)
Net revenue from sale of goods	10,646,732	–	17,598	10,664,330	1,859,925	–	134,127	1,994,052
Lease revenue	–	1,726,191	–	1,726,191	–	1,309,389	–	1,309,389
Services revenues	1,208,873	–	–	1,208,873	–	–	–	–
Other income	387,536	–	–	387,536	322,494	–	–	322,494
	12,243,141	1,726,191	17,598	13,986,930	2,182,419	1,309,389	134,127	3,625,935
Cost of revenues								
Cost of goods sold	7,206,536	–	15,181	7,221,717	1,426,384	–	112,652	1,539,036
Lease operating costs	–	146,292	–	146,292	–	–	–	–
Cost of services	969,289	–	–	969,289	–	292,492	–	292,492
Segment gross profit before fair value adjustments	4,067,316	1,579,899	2,417	5,649,632	756,035	1,016,897	21,475	1,794,407
Changes in fair value of inventory sold	(3,136,159)	–	–	(3,136,159)	(651,195)	–	–	(651,195)
Unrealized gain on changes in fair value of of biological assets	3,122,146	–	–	3,122,146	454,637	–	–	454,637
Segment gross profit	4,053,303	1,579,899	2,417	5,635,619	559,477	1,016,897	21,475	1,597,849
Operating expenses	5,267,112	–	52,341	5,319,453	4,086,700	–	345,988	4,432,688
Segment operating income (loss)	(1,213,809)	1,579,899	(49,924)	316,166	(3,527,223)	1,016,897	(324,513)	(2,834,839)
Share-based compensation	–	–	117,200	117,200	–	–	153,540	153,540
Amortization	–	–	536,808	536,808	–	–	526,123	526,123
Gain on sublease on initial recognition	–	–	(12,876)	(12,876)	–	–	–	–
Net finance expense	–	–	1,320,250	1,320,250	–	–	789,062	789,062
Loss on disposal of property, plant and equipment	–	–	31,106	31,106	–	–	54,224	54,224
Net income (loss)	$ (1,213,809)	$ 1,579,899	$ (2,042,412)	$ (1,676,322)	$ (3,527,223)	$ 1,016,897	$ (1,847,462)	$ (4,357,788)

(Unaudited - in Canadian dollars)

14. Segment disclosures (continued)

(b) Entity-wide disclosures

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

(c) Sources of lease revenues

The Company leased 425,480 square feet of the total 625,000 available square feet in its Farnham facility to third parties. For the period ended February 28, 2022, the Company realized 100% of its lease revenue with two lessees:

- Tenant A's lease term is until September 30, 2022. Lease revenues from this tenant for the three and six-month periods ended February 28, 2022 amounted to $67,485 and $134,970. Subsequent to quarter end, Tenant A extended their lease for an additional five-year term.
- Tenant B's lease term is until October 31, 2022 with options to extend. Lease revenues from this tenant for the three and six-month periods ended February 28, 2022 amounted to $759,702 and $1,507,888.

In addition, the Company leased 80,000 square feet at its Valleyfield facility to a third party from June 2021 to September 2021. For the three and six-month periods ended February 28, 2022, lease revenues amounted to nil and $83,333.

Income is generated from customers domiciled in Canada.

(d) Source of cannabis revenues

	Three-month periods ended		Six-month periods ended	
	February 28, 2022	February 28, 2021	February 28, 2022	February 28, 2021
Revenue from Canadian retailers	$ 6,556,642	$ 104,092	$ 13,221,372	$ 104,092
Excise taxes	(1,450,812)	(23,132)	(2,989,799)	(23,132)
	5,105,830	80,960	10,231,573	80,960
Revenue from wholesale	124,921	1,099,840	415,159	1,778,965
	$ 5,230,751	$ 1,180,800	$ 10,646,732	$ 1,859,925

For the three and six-month periods ended February 28, 2022, the Company has generated 90% of its cannabis revenues from one provincial distributor.

(e) Source of services revenues

The Company generated services revenues from cannabis production services. For the three and six-month periods ended February 28, 2022, the Company has generated all of its management services-related revenues with one customer.

(Unaudited - in Canadian dollars)

15. Related parties

(a) Key management personnel compensation

Key management personnel are the people who have the authority and responsibility for planning, directing and controlling the business activities of the Company and include all of its directors and chief executives.

(a) Key management personnel compensation

The compensations of key management personnel, including directors' fees, salaries and benefits were as follows:

	Three-month periods ended		Six-month periods ended	
	February 28, 2022	February 28, 2021	February 28, 2022	February 28, 2021
Salaries and benefits	$ 107,500	$ 50,000	$ 215,000	$ 134,000
Share-based compensation	50,233	44,906	76,741	47,549
Board of Directors' fees	17,500	17,500	35,000	28,750
	$ 175,233	$ 112,406	$ 326,741	$ 210,299

(b) Other transactions with related parties

Related parties include entities related by virtue of key management personnel and directors exercising significant influence or control over the entities' financial and operating policies.

The following provides the transaction amounts by nature with related parties:

	Three-month periods ended		Six-month periods ended	
	February 28, 2022	February 28, 2021	February 28, 2022	February 28, 2021
Nature of transactions:				
Other expenses (income) (i)	$ –	$ 2,383	$ (937)	$ 34,621
Acquisition of property, plant and equipment (i)	39,566	–	39,566	–
Interest on debt financing (i)	106,918	292,233	430,582	460,110
Other debt financing expense (i)	82,294	–	82,294	–
	$ 228,778	$ 294,616	$ 551,505	$ 494,731

	February 28, 2022	August 31, 2021
Balances due from (due to) related parties are as follows:		
Accounts payable and accrued liabilities (i)	$ (366,730)	$ (434,609)
Accounts payable to key management personnel (ii)	(25,203)	(27,867)
Accounts payable to Board of Directors members	(15,230)	(15,189)
Convertible debentures(i)	(10,700,000)	(10,700,000)
Mortgage payable (i)	–	(6,550,000)

(Unaudited - in Canadian dollars)

15. Related parties (continued)

(b) Other transactions with related parties (continued)

(i) The Company has a Board of Director member who is a shareholder in an entity with which the Company entered into various transactions with for the financing of the Farnham and Valleyfield Facilities including the acquisition of property, plant and equipment.

(ii) Accounts payable relate to accrued salary and vacation for key management personnel.

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

Along with the Valleyfield Facility acquisition in June 2021, another related party funded certain deposit requirements by a provincial service provider of approximately $5.7 million by the issuance of a letter of credit.

16. Cash flow information

Net change in non-cash working capital items:

	Three-month periods ended		Six-month periods ended	
	February 28, 2022	February 28, 2021	February 28, 2022	February 28, 2021
Accounts receivable	$ 514,030	$ (543,278)	$ (245,693)	$ (728,361)
Sales tax receivable	(297,912)	133,534	(78,872)	225,666
Lease receivable	32,397	12,333	59,832	24,668
Biological assets	(2,191,697)	(1,398,032)	(3,707,959)	(2,711,562)
Inventory	681,799	(48,673)	1,088,951	89,884
Prepaid expenses and other assets	(189,560)	14,373	(303,181)	(113,129)
Deposits	–	55,089	–	55,089
Accounts payable and accrued liabilities	(95,707)	509,641	165,020	(254,135)
Deferred lease revenue	(2,480)	(18,530)	281,592	(18,530)
Deferred grant income	(9,525)	226,789	120,596	221,249
	$ (1,558,655)	$ (1,056,754)	$ (2,619,714)	$ (3,209,161)

(Unaudited - in Canadian dollars)

16. Cash flow information (continued)

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

	Three-month periods ended		Six-month periods ended	
	February 28, 2022	February 28, 2021	February 28, 2022	February 28, 2021
Variation of property, plant and equipment Included in accounts payable and accrued liabilities	(486,222)	290,380	(268,553)	290,380
Addition to right-of-use assets and lease liabilities	25,190	–	25,190	–

17. Subsequent event

Subsequent to quarter-end, a total of 500,000 stock options at an exercise price of $0.10 per common shares were exercised for a total proceed of $50,000.

Subsequent to quarter-end, the Company granted a total of 600,000 stock options to certain employees at an exercise price of $0.18 per common share, subject to certain vesting conditions.