



## **CANNARA BIOTECH INC.**

Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended

May 31, 2022 and 2021

(Unaudited)

# CANNARA BIOTECH INC.

Table of Contents  
(Unaudited)

---

	<b>Page</b>
<b>Financial Statements of Cannara Biotech Inc.</b>	
Condensed Interim Consolidated Statements of Financial Position	1
Condensed Interim Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)	2
Condensed Interim Consolidated Statements of Changes in Equity	3
Condensed Interim Consolidated Statements of Cash Flows	4
Notes to Condensed Interim Consolidated Financial Statements	5 - 27

# CANNARA BIOTECH INC.

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

	May 31, 2022	August 31, 2021
<b>Assets</b>		
Current assets		
Cash	\$ 3,877,756	\$ 8,159,305
Accounts receivable	5,371,033	2,847,725
Sales taxes receivable	683,159	47,756
Lease receivable	116,970	72,680
Biological assets (note 3)	2,930,808	1,902,206
Inventory (note 4)	10,459,449	5,508,258
Prepaid expenses and other assets	1,053,284	708,803
	24,492,459	19,246,733
Lease receivable	–	73,164
Deferred financing cost (note 17)	164,073	–
Deposits	396,114	396,114
Deposits on property, plant and equipment	615,476	556,803
Property, plant and equipment (note 5)	81,016,732	71,517,251
Right-of-use asset (note 6)	144,251	232,548
	\$ 106,829,105	\$ 92,022,613
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 10,154,072	\$ 6,263,201
Deferred lease revenue	291,156	9,564
Deferred revenue	70,329	–
Current portion of long-term debt	3,757	3,348
Current portion of deferred grant income	38,101	32,043
Current portion of lease liabilities (note 6)	275,034	225,642
Current portion of mortgages payable (note 7)	657,077	300,000
	11,489,526	6,833,798
Long-term debt	–	2,611
Lease liabilities (note 6)	25,475	216,854
Convertible debentures (note 7)	9,293,358	8,466,008
Deferred grant income	810,092	705,079
Mortgages payable (note 7)	21,033,651	11,682,451
	42,652,102	27,906,801
Shareholders' equity		
Share capital	83,296,250	83,208,150
Contributed surplus	9,639,067	9,412,746
Deficit	(28,853,174)	(28,605,149)
Accumulated other comprehensive gain	94,860	100,065
Total equity	64,177,003	64,115,812
Contingencies (note 13)		
Subsequent events (note 17)		
	\$ 106,829,105	\$ 92,022,613

See accompanying notes to condensed interim consolidated financial statements.

# CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)  
For the three and nine-month periods ended May 31, 2022 and 2021  
(Unaudited - in Canadian dollars)

	Three-month periods ended		Nine-month periods ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
<b>Revenue</b>				
Revenue from sale of goods (note 14)	\$ 10,537,599	\$ 7,015,475	\$ 24,191,728	\$ 9,032,659
Excise taxes	(2,386,783)	(1,108,790)	(5,376,582)	(1,131,922)
Net revenue from sale of goods	8,150,816	5,906,685	18,815,146	7,900,737
Lease revenues (note 14)	827,187	809,913	2,553,378	2,119,302
Services revenues (note 14)	1,010,902	–	2,219,775	–
Other income	74,811	442,733	462,347	765,227
	10,063,716	7,159,331	24,050,646	10,785,266
<b>Cost of revenues</b>				
Cost of goods sold (note 4)	5,471,653	3,562,739	12,693,370	5,101,775
Cost of services	776,528	–	1,745,817	–
Lease operating costs	80,115	90,314	226,407	382,806
Gross profit before fair value adjustments	3,735,420	3,506,278	9,385,052	5,300,685
Changes in fair value of inventory sold	(2,267,056)	(1,526,050)	(5,403,215)	(2,177,245)
Unrealized gain on changes in fair value of biological assets (note 3)	3,280,279	2,438,896	6,402,425	2,893,533
Gross profit	4,748,643	4,419,124	10,384,262	6,016,973
<b>Operating expenses (income)</b>				
General and administrative (note 10)	1,771,692	828,505	5,508,953	2,841,691
Research and development	369,870	443,470	932,189	1,676,763
Selling, marketing and promotion	374,267	311,097	976,545	819,000
Professional and legal fees	192,359	251,232	609,954	929,538
Share-based compensation (note 9)	147,221	88,796	264,421	242,336
Amortization (notes 5 and 6)	350,668	236,709	887,476	762,832
Gain on sublease agreement	–	–	(12,876)	–
Loss on disposal of property, plant and equipment (note 5)	8,480	–	39,586	54,224
	3,214,557	2,159,809	9,206,248	7,326,384
Operating income (loss)	1,534,086	2,259,315	1,178,014	(1,309,411)
Net finance expense (note 11)	105,789	561,513	1,426,039	1,350,575
Net income (loss)	1,428,297	1,697,802	(248,025)	(2,659,986)
<b>Other comprehensive income (loss)</b>				
Foreign currency translation adjustments	8,676	100,261	(5,205)	152,873
Total comprehensive income (loss)	\$ 1,436,973	\$ 1,798,063	\$ (253,230)	\$ (2,507,113)
<b>Basic earnings (loss) per share</b>				
Basic earnings (loss) per share	\$ 0.01	\$ 0.01	\$ (0.01)	\$ (0.01)
Diluted earnings (loss) per share	0.01	0.01	(0.01)	(0.01)
Weighted average number of outstanding shares	876,807,408	738,796,028	876,591,211	738,703,055

See accompanying notes to condensed interim consolidated financial statements.

# CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Changes in Equity  
For the nine-month periods ended May 31, 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	–	–	–	(248,025)	–	(248,025)
Other comprehensive loss:						
Foreign currency translation adjustments	–	–	–	–	(5,205)	(5,205)
Comprehensive loss	–	–	–	(248,025)	(5,205)	(253,230)
Share-based compensation (note 9):						
Employee compensation	–	–	245,525	–	–	245,525
Other services	–	–	18,896	–	–	18,896
	–	–	264,421	–	–	264,421
Exercise of stock options (note 8)	500,000	88,100	(38,100)	–	–	50,000
As at May 31, 2022	876,981,321	\$ 83,296,250	\$ 9,639,067	\$ (28,853,174)	\$ 94,860	\$ 64,177,003

	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	–	–	–	(2,659,986)	–	(2,659,986)
Other comprehensive loss:						
Foreign currency translation adjustments	–	–	–	–	152,873	152,873
Comprehensive loss	–	–	–	(2,659,986)	152,873	(2,507,113)
Share-based compensation (note 9):						
Employee compensation	–	–	200,832	–	–	200,832
Other services	–	–	62,400	–	–	62,400
	–	–	263,232	–	–	263,232
Exercise of stock options (note 8)	3,625,000	648,250	(285,750)	–	–	362,500
Issuance of shares to settle a liability (note 8)	117,506	11,750	–	–	–	11,750
As at May 31, 2021	741,481,321	\$ 59,021,592	\$ 7,012,032	\$ (29,736,992)	\$ 198,598	\$ 36,495,230

See accompanying notes to condensed interim consolidated financial statements.

# CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Cash Flows  
For the three and nine-month periods ended May 31, 2022 and 2021  
(Unaudited - in Canadian dollars)

	Three-month periods ended		Nine-month periods ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Cash provided by (used in):				
Operating:				
Net income (loss)	\$ 1,428,297	\$ 1,697,802	\$ (248,025)	\$ (2,659,986)
Items not involving cash:				
Changes in fair value of inventory sold	2,267,056	1,526,050	5,403,215	2,177,245
Unrealized gain on changes in fair value of biological assets (note 3)	(3,280,279)	(2,438,896)	(6,402,425)	(2,893,533)
Amortization of property, plant and equipment (note 5)	1,022,746	686,957	2,696,810	1,973,952
Amortization of right-of-use assets (note 6)	30,131	45,535	86,910	136,603
Amortization of intangible asset	–	38,642	–	119,407
Loss on disposal of property, plant and equipment	8,480	–	39,586	54,224
Gain on sublease	–	–	(12,876)	–
Change in fair value of derivative financial instrument (note 11)	(690,447)	–	(560,000)	–
Interest on lease liabilities (note 11)	15,749	24,894	52,339	81,539
Interest expense (note 11)	378,409	401,234	1,111,900	1,054,743
Interest income (note 11)	(23,994)	(11,140)	(69,141)	(38,454)
Share-based compensation (note 9)	147,221	99,720	264,421	263,232
Amortization of financing costs (note 11)	182,208	5,979	530,889	20,373
Other	56	139	169	439
Net change in non-cash operating working capital items (note 16)	(3,195,379)	(568,254)	(5,815,093)	(3,777,415)
	(1,709,746)	1,508,662	(2,921,321)	(3,487,631)
Financing:				
Private placement issuance costs	–	–	(25,250)	–
Convertible debenture issuance costs	–	–	(24,888)	–
Exercise of stock options (note 8)	50,000	362,500	50,000	362,500
Mortgage payments (note 7)	(165,630)	(75,000)	(12,220,401)	(225,000)
Proceeds from mortgage (note 7)	–	–	22,000,000	–
Mortgage issuance costs (note 7)	–	–	(98,372)	–
Proceeds from credit facilities	–	–	–	4,000,000
Credit facilities issuance costs	–	–	–	(31,238)
Proceed from sale of derivative financial instrument	560,000	–	560,000	–
Interest paid	(230,044)	(399,019)	(788,227)	(942,893)
Lease payments (note 6)	(75,696)	(80,395)	(219,516)	(241,183)
Other long-term debt payments	(591)	(886)	(2,364)	(2,364)
	138,039	(192,800)	9,230,982	2,919,822
Investing:				
Deposits on property, plant and equipment	656,142	(275,299)	(58,673)	(190,811)
Acquisitions of property, plant and equipment (note 5)	(3,505,567)	(320,371)	(10,623,326)	(1,812,579)
Disposal of property, plant and equipment (note 5)	15,151	–	56,107	169,653
Interest received	17,055	9,900	39,887	35,884
	(2,817,219)	(585,770)	(10,586,005)	(1,797,853)
Net change in cash	(4,388,926)	730,092	(4,276,344)	(2,365,662)
Effect of foreign exchange on cash	8,676	103,064	(5,205)	158,165
Cash, beginning of period	8,258,006	4,730,524	8,159,305	7,771,177
Cash, end of period	\$ 3,877,756	\$ 5,563,680	\$ 3,877,756	\$ 5,563,680

See accompanying notes to condensed interim consolidated financial statements.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(Unaudited - in Canadian dollars)

---

## 1. Nature of operations

Cannara Biotech Inc. (hereafter the "Company" or "Cannara") is an emerging vertically integrated cannabis company focused on the large-scale cultivation, processing and sale of premium dried cannabis and cannabis derivatives 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 Blvd., Suite 200, Saint-Laurent, Quebec, H4N 3M9. The Company's common shares are listed under the symbol "LOVE.V" on the TSX Venture 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 (the "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 (the "Valleyfield Facility"). The redesign of its six first zones have been completed to date and they are now operational at the date of the release of these financial statements. 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 mid-year last year and is now focusing on its operational expansion of the Valleyfield Facility in order to be able to respond to current market demand for its products. During 2022, capital expenditures and start-up costs were incurred to render the Valleyfield Facility operational. Cultivation operations at the Valleyfield Facility are now ongoing and growing in lockstep with profitability and market penetration. Multiple harvests have occurred since the start of the Valleyfield cultivation operations in November 2021 and have resulted in growing revenues as the harvested cannabis is processed and sold. The Company incurred a net loss of approximately \$0.3 million during the nine-month period ended May 31, 2022 (2021 - net loss of \$2.7 million). The Company has a deficit of approximately \$28.9 million as at May 31, 2022 (August 31, 2021 - \$28.6 million). The Company expects that its existing cash resources of \$3.9 million as at May 31, 2022, along with a new debt refinancing of \$50 million received subsequent to quarter-end (note 17) and forecasted cash flows, will enable it to fund its planned operating expenses for at least the next 12 months from May 31, 2022.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(Unaudited - in Canadian dollars)

---

## 1. Nature of operations (continued)

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.

### 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 unknown at this time.

## 2. Basis of preparation and significant accounting policies

### (a) Statement of compliance

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

These condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issuance on July 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.



# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(Unaudited - in Canadian dollars)

---

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

### (b) Basis of preparation (continued)

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

The critical accounting judgments and key sources of 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.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(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		6,848,034
Change in fair value due to biological transformation, less cost to sell		6,402,425
Transferred to inventory upon harvest		(12,221,857)
Carrying amount, May 31, 2022	\$	2,930,808

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);
- expected plant loss based on their various stages of growth.

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

Because there is no actively traded commodity market for cannabis plants and dried cannabis products, the valuation of the biological assets is obtained using valuations techniques where the inputs are based upon unobservable market data and are classified as level 3 in the fair market value hierarchy. There has been no transfer between levels as at May 31, 2022.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(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 May 31, 2022:

Unobservable inputs	Input values	Sensitivity analysis
<i>Wholesale and retail selling price</i> Represents the average expected wholesale and retail selling price per gram of dried cannabis, excluding excise taxes, where applicable, which is expected to approximate future wholesale and retail selling prices.	Average of \$3.79 per gram (August 31, 2021 – average of \$3.58 per gram)	An increase or decrease of 5% applied to the selling price would result in a change of approximately \$207,000 to the valuation.
<i>Yield per plant</i> Represents the average number of grams of dried cannabis expected to be harvested from each cannabis plant from the two facilities.	79 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 \$116,000 to the valuation.
<i>Stage of completion</i> Calculated by taking the average number of days in the cultivation cycle over the total estimated duration of a cultivation cycle which is currently approximately 13 to 14 weeks from clone to harvest.	Weighted average stage of completion is 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 \$112,000 to the valuation.

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

As at May 31, 2022, it is expected that the Company's biological assets will yield approximately 3,591 kilograms of dried cannabis when harvested (August 31, 2021 - 1,926 kilograms of dried cannabis).

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(Unaudited - in Canadian dollars)

## 4. Inventory

Inventory consists of the following:

	May 31, 2022		
	Capitalized cost	Fair value adjustment <sup>1</sup>	Total
Raw materials - cultivation and supplies	\$ 2,526,303	\$ –	\$ 2,526,303
Harvested cannabis			
Dried cannabis and work-in-progress	4,044,584	2,591,777	6,636,361
Finished goods	621,721	246,130	867,851
Derivative products			
Work-in-progress	336,142	(7,802)	328,340
Finished goods	89,297	11,297	100,594
	<b>\$ 7,618,047</b>	<b>\$ 2,841,402</b>	<b>\$ 10,459,449</b>

  

	August 31, 2021		
	Capitalized cost	Fair value adjustment <sup>1</sup>	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
	<b>\$ 3,399,737</b>	<b>\$ 2,108,521</b>	<b>\$ 5,508,258</b>

<sup>1</sup> 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 nine-month periods ended May 31, 2022 was respectively \$5,471,653 and \$12,693,370 (2021 - \$3,562,739 and \$5,101,775), including an impairment loss on inventory of \$23,608 and \$228,257 (2021 - nil and \$428,643) for cannabis that cost exceeds its net realizable value for the three and nine-month periods and an impairment loss on U.S. hemp-based CBD products of \$71,117 as a result of the shutdown of the U.S. online operations during the third quarter of 2022.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(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
<b>Cost</b>								
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	–	17,424,901	4,207,107	181,633	20,000	303,793	(9,845,450)	12,291,984
Disposal	–	–	(108,801)	–	–	–	–	(108,801)
Balance as at May 31, 2022	\$ 2,452,085	\$ 62,217,369	\$ 9,931,760	\$ 1,443,976	\$ 38,440	\$ 1,656,435	\$ 11,389,077	\$ 89,129,142
<b>Accumulated depreciation</b>								
Balance as at August 31, 2021	\$ –	\$ (3,881,432)	\$ (828,841)	\$ (421,653)	\$ (3,771)	\$ (293,011)	\$ –	\$ (5,428,708)
Amortization	–	(1,839,151)	(567,171)	(174,976)	(3,244)	(112,268)	–	(2,696,810)
Disposal	–	–	13,108	–	–	–	–	13,108
Balance as at May 31, 2022	\$ –	(5,720,583)	(1,382,904)	(596,629)	(7,015)	(405,279)	–	\$ (8,112,410)
<b>Net book value</b>								
Balance as at May 31, 2022	\$ 2,452,085	\$ 56,496,786	\$ 8,548,856	\$ 847,347	\$ 31,425	\$ 1,251,156	\$ 11,389,077	\$ 81,016,732

For the nine-month period ended May 31, 2022, the assets included in construction in progress represent the Valleyfield Facility and related capital expenditures incurred to render the facility operational, for the redesign of the cultivation zones, the construction of warehouse, office and processing space center in addition to post-harvest capital improvements at the Farnham Facility to process cannabis that will be received from the Valleyfield Facility. The costs are transferred to other categories as the assets become available or ready for use.

During the three-month period ended May 31, 2022, the Company recognized \$1,022,746 as depreciation, of which \$320,537 have been recognized in the consolidated statement of income (loss) and comprehensive income (loss), \$15,612 have been included in cost of services and \$702,209 have been included in the calculation of the biological assets and inventory valuation.

During the nine-month period ended May 31, 2022, the Company recognized \$2,696,810 as depreciation, of which \$800,566 have been recognized in the consolidated statement of income (loss) and comprehensive income (loss), \$15,612 have been included in cost of services and \$1,880,632 have been included in the calculation of the biological assets and inventory valuation.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(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
<b>Cost</b>								
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
<b>Accumulated depreciation</b>								
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)
<b>Net book value</b>								
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 May 31, 2021, the Company recognized \$686,957 as depreciation expense, of which \$152,532 have been recognized in the consolidated statement of income (loss) and comprehensive income (loss) and \$534,425 have been included in the calculation of the biological assets and inventory valuation.

During the nine-period ended May 31, 2021, the Company recognized \$1,973,952 as depreciation expense, of which \$506,822 have been recognized in the consolidated statement of income (loss) and comprehensive income (loss) and \$1,467,130 have been included in the calculation of the biological assets and inventory valuation.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(Unaudited - in Canadian dollars)

## 6. Right-of-use assets and lease liabilities

### (a) Right-of-use assets

		May 31, 2022		August 31, 2021
<b>Cost</b>				
Balance, beginning of period	\$	630,024	\$	765,780
Additions		25,190		–
Derecognition of portion related to sublease agreement		(80,038)		(135,756)
<b>Balance, end of period</b>	<b>\$</b>	<b>575,176</b>	<b>\$</b>	<b>630,024</b>
<b>Accumulated depreciation</b>				
Balance, beginning of period	\$	(397,476)	\$	(308,881)
Amortization		(86,910)		(167,489)
Derecognition of portion related to sublease agreement		53,461		78,894
<b>Balance, end of period</b>	<b>\$</b>	<b>(430,925)</b>	<b>\$</b>	<b>(397,476)</b>
<b>Net book value</b>				
<b>Balance, end of period</b>	<b>\$</b>	<b>144,251</b>	<b>\$</b>	<b>232,548</b>

### (b) Lease liabilities

		May 31, 2022		August 31, 2021
Maturity analysis - contractual undiscounted cash flows:				
Less than one year	\$	306,123	\$	288,306
One to five years		26,714		233,589
<b>Total undiscounted lease liabilities</b>	<b>\$</b>	<b>332,837</b>	<b>\$</b>	<b>521,895</b>
Current	\$	275,034	\$	225,642
Non-current		25,475		216,854
<b>Lease liabilities included in the condensed interim consolidated statement of financial position</b>	<b>\$</b>	<b>300,509</b>	<b>\$</b>	<b>442,496</b>

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(Unaudited - in Canadian dollars)

---

## 6. Right-of-use assets and lease liabilities (continued)

### (b) Lease liabilities (continued)

Balance as at August 31, 2021	\$	442,496
Additions		25,190
Rent paid		(219,516)
Interest on lease liabilities		52,339
Balance as at May 31, 2022	\$	300,509

## 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 as at August 31, 2021	\$	11,982,451
Proceeds from mortgage		22,000,000
Payments		(12,220,401)
Mortgage issuance costs		(98,372)
Amortization of deferred financing costs		27,050
Net carrying value as at May 31, 2022	\$	21,690,728



# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(Unaudited - in Canadian dollars)

## 7. Financing (continued)

### (a) Mortgages payable (continued)

	May 31, 2022	August 31, 2021
Mortgage payable <sup>(i)</sup>	\$ 21,779,599	\$ –
Mortgage payable <sup>(ii)</sup>	–	6,550,000
Mortgage payable <sup>(iii)</sup>	–	5,450,000
Less: Unamortized financing costs	(88,871)	(17,549)
	21,690,728	11,982,451
Short-term portion of mortgages payable	(657,077)	(300,000)
	\$ 21,033,651	\$ 11,682,451

- <sup>(i)</sup> On November 30, 2021, CIBC agreed to increase the Company's current mortgage from \$6.55 million to \$22 million. The interest rate on the mortgage loan with CIBC is prime rate plus 2% and/or the banker acceptance ("BA") rate. As at May 31, 2022, the interest rate related to this mortgage was 5.2%. 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 36<sup>th</sup> 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 nine-month periods ended May 31, 2022, the Company recognized respectively \$268,360 and \$571,270 as interest expense for this mortgage (2021 - nil). As at May 31, 2022, no interest was due (August 31, 2021 - nil). As part of the debt refinancing that was completed subsequent to quarter-end (note 17), this mortgage loan was reimbursed in full.
- <sup>(ii)</sup> The interest rate on the mortgage is 13% per annum, payable monthly. During the three and nine-month periods ended May 31, 2022, the Company recognized respectively nil and \$216,958 as interest expense for this mortgage (2021 - \$214,624 and \$636,875). The mortgage term was due on March 6, 2023 but it was amended on November 30, 2021 as part of the refinancing arrangement.
- <sup>(iii)</sup> The interest rate on the mortgage loan is prime rate plus 2% and/or the BA rate. During the three and nine-month periods ended May 31, 2022, the Company recognized respectively nil and \$52,706 as interest expense for this mortgage (2021 - \$55,542 and \$180,663). The mortgage term was October 9, 2039 but it was repaid on November 30, 2021 as part of the refinancing arrangement.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(Unaudited - in Canadian dollars)

## 7. Financing (continued)

### (b) Convertible debentures

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

Net carrying value as at 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		323,673
Accretion and amortization of deferred issuance costs		503,677
Net carrying value as at May 31, 2022	\$	9,293,358

During the three and nine-month periods ended May 31, 2022, the Company recognized respectively \$110,049 and \$323,673 as interest expense (2021 - nil). The convertible debentures bear interest at 4% per annum and interest is payable at term or at conversion if it occurs. As at May 31, 2022, accrued interest of \$323,673 was included in account payable and accrued liabilities (August 31, 2021 - \$71,748).

## 8. Share Capital

### (a) Authorized

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

### (b) Transactions on share capital

During the third quarter of 2022, a total of 500,000 stock options were exercised at a price of \$0.10 per share for a total consideration of \$50,000, resulting in the issuance of 500,000 new common shares of the Company.

During the third quarter of 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.

During the second quarter of 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 first quarter of 2021, the Company issued a total of 100,720 shares to settle a liability to a third party in the amount of \$10,072.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(Unaudited - in Canadian dollars)

## 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 nine-month periods ended May 31, 2022 and 2021 was as follows:

		May 31, 2022		May 31, 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	9,148,333	0.18	2,317,000	0.18	
Exercised	(500,000)	0.10	(3,625,000)	0.10	
Forfeited	(2,608,136)	0.18	(3,588,749)	0.16	
Expired	(2,632,500)	0.14	(481,043)	0.18	
Outstanding, end of period	39,947,034	0.21	36,552,001	0.21	
Exercisable, end of period	27,377,460	\$ 0.22	24,137,402	\$ 0.23	

During the second quarter of 2022, the Company granted 7,710,000 options that vest over time in accordance with the employee share option plan and 225,000 options that vested immediately.

During the third quarter of 2022, the Company granted 1,213,333 options that vest over time in accordance with the employee share option plan.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(Unaudited - in Canadian dollars)

## 9. Share-based compensation (continued)

During the first quarter of 2021, the Company granted 250,000 options that vested immediately.

During the second quarter of 2021, the Company granted 1,957,000 options that vest over time in accordance with the employee share option plan.

During the third quarter of 2021, the Company granted 110,000 options that vest over time in accordance with the employee share option plan.

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

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

	Three-month periods ended		Nine-month periods ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Share price	\$ 0.11	\$ 0.15	\$ 0.13	\$ 0.10
Exercise price	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18
Risk-free interest rate <sup>(i)</sup>	2.46%	0.38%	1.61%	0.38%
Expected life <sup>(ii)</sup>	5 years	5 years	5 years	5 years
Expected price volatility <sup>(iii)</sup>	85%	101%	91%	101%
Fair value of the option	\$ 0.06	\$ 0.07	\$ 0.08	\$ 0.07
Expected dividend yield <sup>(iv)</sup>	nil	nil	nil	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 nine-month periods ended May 31, 2022, the Company recorded a share-based compensation expense of respectively \$147,221 and \$264,421 in the consolidated statement of income (loss) and comprehensive income (loss) (2021 - \$99,720 and \$263,232, for which amounts of \$88,796 and \$242,336 were recognized in the consolidated statement of income (loss) and comprehensive income (loss) and \$10,924 and \$20,896 were classified in the calculation of the biological assets and inventory valuation).

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(Unaudited - in Canadian dollars)

## 10. General and administrative

	Three-month periods ended		Nine-month periods ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Salaries and benefits	\$ 804,434	\$ 445,937	\$ 2,179,325	\$ 1,620,137
Administrative and regulatory expense	404,078	328,787	1,265,330	797,486
Facility expense	563,180	53,781	2,064,298	424,068
<b>General and administrative</b>	<b>\$ 1,771,692</b>	<b>\$ 828,505</b>	<b>\$ 5,508,953</b>	<b>\$ 2,841,691</b>

## 11. Net finance expense

	Three-month periods ended		Nine-month periods ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Interest income	\$ 23,994	\$ 11,140	\$ 69,141	\$ 38,454
Gain on derivative financial instrument	690,447	–	560,000	–
<b>Finance income</b>	<b>714,441</b>	<b>11,140</b>	<b>629,141</b>	<b>38,454</b>
Interest on mortgages	268,360	270,166	788,227	817,538
Interest on credit facilities	–	131,068	–	237,205
Interest on convertible debentures	110,049	–	323,673	–
Interest on lease liabilities	15,749	24,894	52,339	81,539
Amortization of financing costs	182,208	5,979	530,889	20,373
Other finance expense	222,303	640	320,849	8,320
Foreign exchange loss	21,561	139,906	39,203	224,054
<b>Finance expense</b>	<b>820,230</b>	<b>572,653</b>	<b>2,055,180</b>	<b>1,389,029</b>
<b>Net finance expense</b>	<b>\$ 105,789</b>	<b>\$ 561,513</b>	<b>\$ 1,426,039</b>	<b>\$ 1,350,575</b>

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(Unaudited - in Canadian dollars)

---

## 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.

### *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 a 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 notional amount is reduced monthly based on the balance of the mortgage debt. The interest rate swap originally matured on April 21, 2025 but, in April 2022, the Company decided to settle its interest rate swap, which resulted in a gain of \$560,000. During the third quarter of 2022, a gain of \$690,447 related to the change in fair value of the derivative financial instrument was recognized within net finance expense.

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 May 31, 2022, there are no material claims in favor or against the Company.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(Unaudited - in Canadian dollars)

---

## 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.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(Unaudited - in Canadian dollars)

## 14. Segment disclosures (continued)

### (a) Reportable segments (continued)

	Three-month period ended May 31, 2022				Three-month period ended May 31, 2021			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Revenue								
Revenue from sale of goods	\$ 10,537,599	\$ –	\$ –	\$10,537,599	\$ 6,992,153	\$ –	\$ 23,322	\$ 7,015,475
Excise taxes	(2,386,783)	–	–	(2,386,783)	(1,108,790)	–	–	(1,108,790)
Net revenue from sale of goods	8,150,816	–	–	8,150,816	5,883,363	–	23,322	5,906,685
Lease revenue	–	827,187	–	827,187	–	809,913	–	809,913
Services revenues	1,010,902	–	–	1,010,902	–	–	–	–
Other income	74,811	–	–	74,811	442,733	–	–	442,733
	9,236,529	827,187	–	10,063,716	6,326,096	809,913	23,322	7,159,331
Cost of revenues								
Cost of goods sold	5,400,536	–	71,117	5,471,653	3,544,009	–	18,730	3,562,739
Cost of services	776,528	–	–	776,528	–	–	–	–
Lease operating costs	–	80,115	–	80,115	–	90,314	–	90,314
Segment gross profit (loss) before fair value adjustments	3,059,465	747,072	(71,117)	3,735,420	2,782,087	719,599	4,592	3,506,278
Changes in fair value of inventory sold	(2,267,056)	–	–	(2,267,056)	(1,526,050)	–	–	(1,526,050)
Unrealized gain on changes in fair value of biological assets	3,280,279	–	–	3,280,279	2,438,896	–	–	2,438,896
Segment gross profit (loss)	4,072,688	747,072	(71,117)	4,748,643	3,694,933	719,599	4,592	4,419,124
Operating expenses	2,692,873	–	15,315	2,708,188	1,795,849	–	38,455	1,834,304
Segment operating income (loss)	1,379,815	747,072	(86,432)	2,040,455	1,899,084	719,599	(33,863)	2,584,820
Share-based compensation	–	–	147,221	147,221	–	–	88,796	88,796
Amortization	–	–	350,668	350,668	–	–	236,709	236,709
Net finance expense	–	–	105,789	105,789	–	–	561,513	561,513
Loss on disposal of property, plant and equipment	–	–	8,480	8,480	–	–	–	–
Net income (loss)	\$ 1,379,815	\$ 747,072	\$ (698,590)	\$ 1,428,297	\$ 1,899,084	\$ 719,599	\$ (920,881)	\$ 1,697,802



# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(Unaudited - in Canadian dollars)

## 14. Segment disclosures (continued)

### (a) Reportable segments (continued)

	Nine-month period ended May 31, 2022				Nine-month period ended May 31, 2021			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
<b>Revenue</b>								
Revenue from sale of goods	\$ 24,174,130	\$ –	\$ 17,598	\$ 24,191,728	\$ 8,875,210	\$ –	\$ 157,449	\$ 9,032,659
Excise taxes	(5,376,582)	–	–	(5,376,582)	(1,131,922)	–	–	(1,131,922)
Net revenue from sale of goods	18,797,548	–	17,598	18,815,146	7,743,288	–	157,449	7,900,737
Lease revenue	–	2,553,378	–	2,553,378	–	2,119,302	–	2,119,302
Services revenues	2,219,775	–	–	2,219,775	–	–	–	–
Other income	462,347	–	–	462,347	765,227	–	–	765,227
	21,479,670	2,553,378	17,598	24,050,646	8,508,515	2,119,302	157,449	10,785,266
<b>Cost of revenues</b>								
Cost of goods sold	12,607,072	–	86,298	12,693,370	4,970,393	–	131,382	5,101,775
Cost of services	1,745,817	–	–	1,745,817	–	–	–	–
Lease operating costs	–	226,407	–	226,407	–	382,806	–	382,806
Segment gross profit (loss) before fair value adjustments	7,126,781	2,326,971	(68,700)	9,385,052	3,538,122	1,736,496	26,067	5,300,685
Changes in fair value of inventory sold	(5,403,215)	–	–	(5,403,215)	(2,177,245)	–	–	(2,177,245)
Unrealized gain on changes in fair value of biological assets	6,402,425	–	–	6,402,425	2,893,533	–	–	2,893,533
Segment gross profit	8,125,991	2,326,971	(68,700)	10,384,262	4,254,410	1,736,496	26,067	6,016,973
Operating expenses	7,959,985	–	67,656	8,027,641	5,882,549	–	384,443	6,266,992
Segment operating income (loss)	166,006	2,326,971	(136,356)	2,356,621	(1,628,139)	1,736,496	(358,376)	(250,019)
Share-based compensation	–	–	264,421	264,421	–	–	242,336	242,336
Amortization	–	–	887,476	887,476	–	–	762,832	762,832
Gain on sublease on initial recognition	–	–	(12,876)	(12,876)	–	–	–	–
Net finance expense	–	–	1,426,039	1,426,039	–	–	1,350,575	1,350,575
Loss on disposal of property, plant and equipment	–	–	39,586	39,586	–	–	54,224	54,224
Net income (loss)	\$ 166,006	\$ 2,326,971	\$ (2,741,002)	\$ (248,025)	\$ (1,628,139)	\$ 1,736,496	\$ (2,768,343)	\$ (2,659,986)

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(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 May 31, 2022, the Company realized 100% of its lease revenue with two lessees:

- On May 16, 2022, the agreement with Tenant A was extended for an additional five years, and the new lease term is now September 30, 2027. Lease revenues from this tenant for the three and nine-month periods ended May 31, 2022 amounted to respectively \$67,485 and \$202,455;
- On May 10, 2022, the agreements with Tenant B was extended for an additional 2 years, and the new leases term are now October 31, 2024, with options to extend. Lease revenues from this tenant for the three and nine-month periods ended May 31, 2022 amounted to respectively \$759,702 and \$2,267,590.

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 nine-month periods ended May 31, 2022, lease revenues amounted to respectively nil and \$83,333.

Income is generated from customers domiciled in Canada.

### (d) Source of cannabis revenues

	Three-month periods ended		Nine-month periods ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Revenue from Canadian retailers	\$ 10,109,240	\$ 4,463,093	\$ 23,330,612	\$ 4,567,185
Excise taxes	(2,386,783)	(1,108,790)	(5,376,582)	(1,131,922)
	7,722,457	3,354,303	17,954,030	3,435,263
Revenue from wholesale	428,359	2,529,060	843,518	4,308,025
	\$ 8,150,816	\$ 5,883,363	\$ 18,797,548	\$ 7,743,288

For the three and nine-month periods ended May 31, 2022, the Company has generated respectively 95% and 96% of its cannabis revenues from two provincial distributors.

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(Unaudited - in Canadian dollars)

## 14. Segment disclosures (continued)

### (e) Source of services revenues

The Company generated services revenues from cannabis production services. For the three and nine-month periods ended May 31, 2022, the Company has generated all of its management services-related revenues with one customer.

## 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.

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

	Three-month periods ended		Nine-month periods ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Salaries and benefits	\$ 107,500	\$ 85,833	\$ 322,500	\$ 219,833
Share-based compensation	48,813	42,447	144,692	89,996
Board of Directors' fees	17,500	17,500	52,500	46,250
	\$ 173,813	\$ 145,780	\$ 519,692	\$ 356,079

### (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		Nine-month periods ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Nature of transactions:				
Other expenses (income) <sup>(i)</sup>	\$ 937	\$ —	\$ —	\$ 10,126
Acquisition of property, plant and equipment <sup>(i)</sup>	—	—	39,566	—
Interest on debt financing <sup>(i)</sup>	110,049	345,693	540,631	874,080
Other debt financing expense <sup>(i)</sup>	215,277	—	297,571	—
	\$ 326,263	\$ 345,693	\$ 877,768	\$ 884,206

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(Unaudited - in Canadian dollars)

## 15. Related parties (continued)

### (b) Other transactions with related parties (continued)

	May 31, 2022	August 31, 2021
Balances due to related parties are as follows:		
Accounts payable and accrued liabilities <sup>(i) (ii)</sup>	\$ (692,992)	\$ (434,609)
Accounts payable to key management personnel <sup>(ii)</sup>	(30,597)	(27,867)
Accounts payable to Board of Directors members	(15,230)	(15,189)
Convertible debentures <sup>(i)</sup>	(10,700,000)	(10,700,000)
Mortgage payable <sup>(i)</sup>	–	(6,550,000)

(i) The Company has Board of Directors member who are 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. Along with the Valleyfield Facility acquisition in June 2021, a related party funded certain deposit requirements by a provincial service provider of approximately \$5.7 million by the issuance of a letter of credit and charged interests to the Company for a total of \$133,602 during the three-month period ended May 31, 2022. On June 1, 2022, the letter of credit of approximately \$5.7 million was replaced by a letter of credit issued by BMO Commercial Banking (“BMO”) (note 17).

(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..

## 16. Cash flow information

### Net change in non-cash working capital items:

	Three-month periods ended		Nine-month periods ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Accounts receivable	\$ (2,272,431)	\$ (1,651,690)	\$ (2,518,124)	\$ (2,380,051)
Sales taxes receivable	(556,531)	206,071	(635,403)	431,737
Lease receivable	32,396	12,334	92,228	37,002
Biological assets	(3,140,075)	(1,562,711)	(6,848,034)	(4,274,273)
Inventory	778,500	1,586,094	1,867,451	1,675,978
Prepaid expenses and other assets	(41,300)	13,225	(344,481)	(99,904)
Deposits	(164,073)	(99,050)	(164,073)	(43,961)
Accounts payable and accrued liabilities	2,107,331	907,279	2,272,351	653,144
Deferred lease revenue	–	28,204	281,592	9,674
Deferred revenue	70,329	–	70,329	–
Deferred grant income	(9,525)	(8,010)	111,071	213,239
	\$ (3,195,379)	\$ (568,254)	\$ (5,815,093)	\$ (3,777,415)

# CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements  
For the three and nine-month periods ended May 31, 2022 and 2021  
(Unaudited - in Canadian dollars)

## 16. Cash flow information (continued)

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

	Three-month periods ended		Nine-month periods ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Variation of property, plant and equipment included in accounts payable and accrued liabilities	\$ (1,400,105)	\$ (509,159)	\$ (1,668,658)	\$ (181,729)
Addition to right-of-use assets and lease liabilities	–	–	25,190	–

## 17. Subsequent events

### *Stock options grant*

Subsequent to quarter-end, the Company granted a total of 1,200,000 stock options to certain employees at an exercise price of \$0.18 per common share, subject to certain vesting conditions in accordance with the employee share option plan.

### *\$50 million credit facility led by BMO*

On May 31, 2022, the Company entered into a new a credit facility agreement with BMO Commercial Banking (“BMO”) for a total of \$50 million plus an accordion facility for up to an additional \$10 million of credit availability. The BMO credit facility is comprised of a three-year term loan for \$39.3 million, a \$5 million line of credit and \$5.7 million for the issuance of a letter of credit. Favorable terms attached to the credit facility include a declining interest rate over time as the Company hits certain covenant thresholds and the ability to repay the facility without penalty at any time. Under the terms of this new credit facility, the Company will not make any principal payments for the first six months.

In June, the Company received \$39.3 million from the term loan portion of the facility, which was used, in part, to repay the existing \$21.8 million loan with CIBC, and \$5.7 million to provide a letter of credit of \$5.7 million to cover certain deposit requirements with a provincial supplier that was previously covered by a related party. The remaining proceeds of \$17.5 million were added to cash and will be used for capital expenditures at its two Facilities to support the growth of the Company as well as to provide the Company with a cash reserve. The term loan bears a variable interest rate based on prime and/or banker acceptance rates. The term loan is reimbursable quarterly based on an amortization schedule of 80 quarters, beginning November 2022. The credit facility is secured by a first ranking mortgage against the Farnham and Valleyfield Facility, and is guaranteed with limited recourse, in part, by a related party. Financing costs of \$164,073 incurred as at May 31, 2022 in connection with the new credit facility have been deferred.