



# CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at October 31, 2019 and for the three months ended October 31, 2019 and 2018

## **NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of the condensed interim financial statements by an entity's auditor.

**CANADABIS CAPITAL INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**As at October 31, 2019 and October 31, 2018**  
*(Expressed in Canadian Dollars)*

<i>As at</i>	October 31, 2019	July 31, 2019
<b>Assets</b>		
Current assets:		
Cash	\$ 966,828	\$ 324,798
Goods and service tax receivable	100,626	77,280
Inventory (Note 6)	370,058	93,131
Biological assets (Note 7)	21,684	32,266
Prepaid expenses	57,046	93,149
Short-term deposits	35,191	395,000
	<b>1,551,433</b>	<b>1,015,624</b>
Due from related parties (Notes 9 & 11)	3,000	203,000
Long-term deposits	25,000	25,000
Property, plant and equipment (Note 8)	8,422,582	4,116,615
Right of use assets (Note 11)	795,064	-
<b>Total assets</b>	<b>10,797,079</b>	<b>5,360,239</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	195,852	234,802
Due to related parties (Note 9)	392,987	379,228
Current portion of long-term debt (Note 10)	900,000	750,000
	<b>1,488,839</b>	<b>1,364,030</b>
Lease obligations (Note 11)	794,100	-
Long-term debt (Note 10)	4,647,333	1,142,333
<b>Total liabilities</b>	<b>6,930,272</b>	<b>2,506,363</b>
Shareholders' equity		
Share capital (Note 12)	14,067,243	10,567,243
Contributed surplus (Note 12)	2,108,853	1,742,011
Deficit	(12,493,500)	(9,455,378)
Non-controlling interest (Note 8)	184,211	-
<b>Total shareholders' equity</b>	<b>3,866,807</b>	<b>2,853,876</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 10,797,079</b>	<b>\$ 5,360,239</b>

Going concern (Note 1)

See accompanying notes to these consolidated financial statements.

"Travis McIntyre"

Travis McIntyre, CEO & Director

"Barbara O'Neill"

Barbara O'Neill, Director

**CANADABIS CAPITAL INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

For the three months ended October 31, 2019 and 2018

(Expressed in Canadian Dollars)

	Three months ended Oct 31, <u>2019</u>	Three months ended Oct 31, <u>2018</u>
<b>Revenue:</b>		
Retail revenue	\$ 52,709	\$ -
<b>Cost of Sales:</b>		
Cash cost of goods sold - Retail	35,126	-
Fair value adjustment of inventory (Note 6)	62,048	-
Fair value adjustment of biological assets (Note 7)	(12,589)	-
Gross Margin	(31,876)	-
<b>Operating Expenses:</b>		
General and administration	680,878	105,463
Acquisition costs (Notes 8)	33,833	-
Depreciation (Note 8)	172,689	1,564
Stock based compensation (Notes 8 & 12)	2,051,053	-
	2,938,453	107,027
Loss from operations	(2,970,329)	(107,027)
<b>Other income and expenses:</b>		
Derecognition of lease (Note 11)	214,135	-
Interest on lease obligation (Note 11)	(11,480)	-
Loan interest charges (Note 10)	(56,313)	-
	(2,823,987) \$	(107,027)
Net loss per share (Note 12 (b))		
Basic and diluted	\$ (0.02)	\$ (0.00)

See accompanying notes to these consolidated financial statements.

**CANADABIS CAPITAL INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN**  
**SHAREHOLDERS' EQUITY**

**For the three months ended October 31, 2019 and 2018**

*(Expressed in Canadian Dollars)*

	Number of Shares <sup>(1)</sup>	Share Capital	Contributed Surplus	Deficit	Non-controlling interest	Total Shareholders' Equity
<b>Balance at July 31, 2018</b>	<b>88,560,000</b>	<b>\$ 669,100</b>	<b>\$ -</b>	<b>\$ (452,518)</b>	<b>\$ -</b>	<b>\$ 216,582</b>
Shares to be issued (Note 12)	-	643,407	-	-	-	643,407
Net loss and comprehensive loss	-	-	-	(107,027)	-	(107,027)
<b>Balance at October 31, 2018</b>	<b>88,560,000</b>	<b>1,312,507</b>	<b>-</b>	<b>(559,545)</b>	<b>-</b>	<b>752,962</b>
Shares issued (Note 12)	7,776,286	3,004,736	-	-	-	3,004,736
Shares Issued - Corporate Acquisition (Note 15)	8,500,000	4,250,000	335,840	-	-	4,585,840
Shares issued - Asset Acquisition (Note 8)	6,666,666	2,000,000	-	-	-	2,000,000
Share based compensation expense (Note 12)	-	-	1,406,171	-	-	1,406,171
Net loss and comprehensive loss	-	-	-	(8,895,833)	-	(8,895,833)
<b>Balance at July 31, 2019</b>	<b>111,502,952</b>	<b>10,567,243</b>	<b>1,742,011</b>	<b>(9,455,378)</b>	<b>-</b>	<b>2,853,876</b>
IFRS 16 adjustment	-	-	-	(214,135)	-	(214,135)
Shares Issued - Asset Acquisition (Note 8)	11,666,666	3,500,000	-	-	184,211	3,684,211
Share based compensation expense (Note 12)	-	-	366,842	-	-	366,842
Net loss and comprehensive loss	-	-	-	(2,823,987)	-	(2,823,987)
<b>Balance at October 31, 2019</b>	<b>123,169,618</b>	<b>\$ 14,067,243</b>	<b>\$ 2,108,853</b>	<b>\$ (12,493,500)</b>	<b>\$ 184,211</b>	<b>\$ 3,866,807</b>

The number of shares reflects the retrospective application of the stock split described in Note 12.

See accompanying notes to these consolidated financial statements.

**CANADABIS CAPITAL INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the three months ended October 31, 2019 and 2018**  
*(Expressed in Canadian Dollars)*

	Three months ended Oct 31, <u>2019</u>	Three months ended Oct 31, <u>2018</u>
<b>Cash provided by (used in):</b>		
<b>Operating activities:</b>		
Net loss for the period	\$ (2,823,987)	\$ (107,027)
Items not affecting cash:		
Cash cost of goods sold - Retail	35,126	-
Fair value adjustment of inventory (Note 6)	62,048	-
Fair value adjustment of biological assets (Note 7)	(12,589)	-
Depreciation (Note 8)	172,689	1,564
Stock based compensation (Notes 8 & 12)	2,051,053	-
Derecognition of lease (Note 11)	(214,135)	-
Interest on lease obligation (Note 11)	11,480	-
Non-cash interest expense (Note 10)	5,000	-
Changes in non-cash working capital:		
Goods and service tax receivable	(23,346)	(7,296)
Prepaid expenses	36,103	-
Short-term deposits	359,809	-
Accounts payable and accrued liabilities	(38,950)	(2,000)
Expenses paid for by related parties (Note 9)	3,049	102,265
Biological asset costs incurred (Note 7)	(121,549)	-
Inventory costs incurred (Note 6)	(229,381)	-
Net cash used in operating activities	(727,580)	(12,494)
<b>Financing activities:</b>		
Transfers to related parties (Note 9)	(461)	(250,000)
Transfers from related parties (Note 9)	205,998	-
Proceeds from long-term debt (Note 10)	3,650,000	-
Lease obligations - payments (Note 11)	(12,444)	-
Advance proceeds from shares to be issued (Note 12)	-	643,407
Net cash from financing activities	3,843,093	393,407
<b>Investing activities:</b>		
Expenditures on property, plant and equipment (Note 8)	(4,478,656)	(48,503)
PP&E expenditures paid by related parties (Note 9)	5,173	50,928
Asset acquisition, cash acquired (Note 8)	2,000,000	-
Net cash used in investing activities	(2,473,483)	2,425
Change in cash	642,030	383,338
Cash, beginning of period	324,798	678,948
Cash, end of period	\$ 966,828	\$ 1,062,286

See accompanying notes to these consolidated financial statements.

# CANADABIS CAPITAL INC.

## Notes to the Condensed Interim Consolidated Financial Statements

As at October 31, 2019 and for the three months ended October 31, 2019 and 2018

(Expressed in Canadian Dollars)

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### 1. Nature of Operations

CanadaBis Capital Inc. ("CanadaBis"), is a publicly traded corporation, incorporated under the Alberta Business Corporations Act on November 29, 2016. Its head office is located at Suite 2000, 530 – 8<sup>th</sup> Ave SW, Calgary, Alberta. The Company's common shares are listed on the TSX Venture Exchange under the symbol "CANB".

On April 26, 2019, CanadaBis completed its Qualifying Transaction by amalgamating its subsidiary with 1926360 Alberta Ltd. operating as Stigma Pharmaceuticals ("1926360" or "Stigma"). Stigma was incorporated under the Alberta Business Corporations Act on October 13, 2015. 1926360 Alberta Ltd. has one wholly owned subsidiary, 1998643 Alberta Ltd., which was incorporated under the Alberta Business Corporations Act on October 13, 2016. Further discussion of the Qualifying Transaction is discussed in *Note 15*.

On July 9, 2019, the Company acquired 2103157 Alberta Ltd. operating as Indicative Collection ("2103157" or "Indicative"). 2103157 was incorporated under the Alberta Business Corporations Act on March 5, 2018. Further discussion of the asset acquisition is discussed in *Note 8*.

On July 24, 2019, the Company acquired Full Spectrum Labs Ltd., a corporate entity incorporated under the Alberta Business Corporations Act on May 27, 2019. Further discussion of the asset acquisition is discussed in *Note 8*.

On August 13, 2019, the Company acquired 95% of Goldstream Cannabis Inc., a corporate entity incorporated under the British Columbia Business Corporations Act on May 10, 2018. Further discussion of the asset acquisition is discussed in *Note 8*.

The condensed interim consolidated financial statements as at and for the three months ended October 31, 2019 includes CanadaBis Capital Inc. and its subsidiaries (together referred to as "the Company"). The audited consolidated statement of financial position as at July 31, 2019 includes CanadaBis Capital Inc. and its subsidiaries. The comparative condensed interim consolidated statements of loss and comprehensive loss and statement of cash flows for the three months ended October 31, 2018, include 1926360 Alberta Ltd. and its subsidiaries, 1926360 Alberta Ltd. being the parent company prior to the closing of the reverse takeover transaction as discussed in *Note 15*. The principal activities of the Company are to facilitate the production and sale of recreational cannabis.

For the three months ended October 31, 2019, the Company has a net loss of \$2,823,987, a cash loss from operating activities of \$727,580, and is in violation of certain debt covenants. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent upon its ability to achieve profitable operations in the future, on its ability to raise additional capital through debt or equity financings, to obtain an amendment to the existing sales license to include dried flower, and on the cooperation of lenders with debt covenant violations. The Company has been successful in raising capital in the past but there is no assurance that it will be successful in closing additional raises. While the Company expects to be successful in obtaining the amended sales license there is no assurance this will occur. There is no assurance that lenders with debt covenant violations will not demand loans.

If the going concern assumption were not appropriate for these condensed interim consolidated financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, reported expenses and the consolidated statement of financial position classifications used.

# CANADABIS CAPITAL INC.

## Notes to the Condensed Interim Consolidated Financial Statements

As at October 31, 2019 and for the three months ended October 31, 2019 and 2018

(Expressed in Canadian Dollars)

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### 2. Basis of Preparation

#### (a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim consolidated financial statements, including IAS 34 "Interim Financial Reporting". These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements. These condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended July 31, 2019, which have been prepared in accordance with IFRS as issued by the IASB. These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors on December 23, 2019.

#### (b) Basis of consolidation

Subsidiaries are entities controlled by CanadaBis. Control exists when CanadaBis has the power, directly or indirectly, to govern the financial and operating policies of an entity and to be exposed to the variable returns from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements of CanadaBis from the date the control commences until the date the control ceases.

Subsidiary	Jurisdiction of incorporation	Ownership interest
1926360 Alberta Ltd.	Alberta, Canada	100%
1998643 Alberta Ltd.	Alberta, Canada	100%
Full Spectrum Labs Ltd.	Alberta, Canada	100%
2103157 Alberta Ltd.	Alberta, Canada	100%
Goldstream Cannabis Inc.	British Columbia, Canada	95%

Intercompany balances and any unrealized gains and losses or income and expenses arising from transactions with subsidiaries are eliminated to the extent of CanadaBis' interest.

#### (c) Non-controlling interest

Non-controlling interest represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of shareholders' equity. Changes in the Company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Non-controlling interest consists of the non-controlling interest at the date of the original acquisition plus the non-controlling interest share of changes in equity since the date of acquisition. The Company owns 95% of the outstanding common shares of its subsidiary, Goldstream Cannabis Inc. These consolidated financial statements include 100% of the assets and liabilities related to Goldstream Cannabis Inc., and include a non-controlling interest representing 5% of Goldstream Cannabis Inc.'s assets and liabilities not owned by the Company.

#### (d) Basis of presentation

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for biological assets and certain financial instruments which are measured at fair value as explained in *Note 5 - Determination of Fair Values*.

#### (e) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of CanadaBis and its subsidiaries.

# CANADABIS CAPITAL INC.

## Notes to the Condensed Interim Consolidated Financial Statements

As at October 31, 2019 and for the three months ended October 31, 2019 and 2018

(Expressed in Canadian Dollars)

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### 3. Significant Accounting Policies:

These condensed interim consolidated financial statements follow the same accounting policies as the most recent annual consolidated audited financial statements except as discussed below. The condensed interim consolidated financial statements note disclosures do not include all of those required by IFRS applicable for annual financial statements. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the Company's annual financial statements for the period ended July 31, 2019.

#### (a) Changes in accounting policies

##### 1. IFRS 16 - Leases

IFRS 16 Leases was issued by the IASB in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. Management has reviewed existing leasing arrangements in light of the new lease accounting rules and has determined the standard will affect primarily the accounting for operating leases.

Effective August 1, 2019, the Company adopted IFRS 16, which supersedes previous accounting standards for leases, including IAS 17 - Leases and IFRIC 4 – Determining whether an arrangement contains a lease. IFRS 16 introduces a single lessee accounting model, unless the underlying asset is of low value, and requires a lessee to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Company adopted IFRS 16 using the modified retrospective method and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The cumulative effect of initially applying the new standard is recognized as an adjustment to the opening deficit within the shareholders' equity balance as at August 1, 2019. This adjustment was an increase of \$214,135 to the opening deficit at August 1, 2019 and comprised of additional interest expense on the lease obligation and depreciation expense on the right-of-use asset.

On adoption of IFRS 16, the Company recognized lease assets and liabilities in relation to the lease agreement associated with the Company's cultivation facility, which was previously classified as an operating lease under the principles of IAS 17. The liability was measured at the present value of the remaining lease payments, discounted using the related incremental borrowing rate as of August 1, 2019. The weighted-average rate applied is 6%. The associated right-of-use asset was measured as if the standard had been applied since the commencement date, discounted using the incremental borrowing rate as of August 1, 2019.

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assess whether:

- The contract involves the use of an identified asset;
- The Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use; and
- The Company has the right to direct the use of the asset.

Leases are recognized as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use. Each lease payment is allocated between the lease liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

# CANADABIS CAPITAL INC.

## Notes to the Condensed Interim Consolidated Financial Statements

As at October 31, 2019 and for the three months ended October 31, 2019 and 2018

(Expressed in Canadian Dollars)

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Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used. The incremental borrowing rate is the rate that the lessee would have to pay to borrow at prevailing interest rates, market precedents and the Company's specific credit spread, on similar terms and security.

#### 4. Critical Accounting Estimates and Judgements

The preparation of these condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue, and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

##### (a) Inventory

Inventories are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory at the lower of cost and net realizable value.

Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

##### (b) Biological assets

The Company's biological assets are accounted for in accordance with IAS 41 – Agriculture. Costs associated with the growing process are capitalized as incurred. These include direct costs such as seeds and other growing materials as well as indirect costs including, but not limited to, supplies and labour for individuals involved in the growing and quality control process. Depreciation of tangible assets is not capitalized. Biological assets are measured at their fair value less costs to sell on the Statement of Financial Position at each reporting date. Unrealized gains and losses on the fair value of biological assets are recorded separately on the Statement of Loss and Comprehensive Loss at the end of each reporting period. Upon harvest, biological assets are transferred to inventory at their fair value less costs to sell.

The significant assumptions applied in determining the fair value of biological assets, categorized as a level 3 in the fair value hierarchy based on the inputs to the valuation technique used, are as follows:

- a. expected yield based on average historical growing results by strain;
- b. percentage of costs incurred to date as compared to the estimated total costs to be incurred ("point in growth cycle");
- c. selling price based on Alberta Gaming Liquor and Cannabis ("AGLC") purchase price by product; and
- d. estimated costs to sell.

The Company periodically assesses the significant assumptions applied in determining the fair value of biological assets based on historical information obtained as well as planned production. When there is a material change in any of the significant assumptions, the fair value of biological assets is adjusted.

# CANADABIS CAPITAL INC.

## Notes to the Condensed Interim Consolidated Financial Statements

As at October 31, 2019 and for the three months ended October 31, 2019 and 2018

(Expressed in Canadian Dollars)

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### (c) Deferred tax assets

Deferred tax assets, including those arising from tax loss carry-forwards, require management to assess the likelihood that the Company will generate sufficient taxable income in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

### (d) Useful lives of property, plant and equipment

The Company estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical deterioration, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment would increase the recorded expenses and decrease the non-current assets.

### (e) Stock based compensation

The Company has an employee stock option plan. The Company measures equity settled share-based payments based on their fair value at the grant date using the Black-Scholes option pricing model and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate. Consideration paid by employees or non-employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from contributed surplus to share capital.

## 5. Determination of Fair Values:

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

### (a) Current assets, current liabilities, and amounts due from related parties:

At October 31, 2019, the fair value of cash, prepaid expenses, deposits, amounts due to/from related parties, accounts payable and accrued liabilities, and the current portion of long-term debt approximated their carrying value due to their short term to maturity. Long-term debt bears both fixed and floating rates of interest and the margins charged by the lenders are indicative of current credit spreads, therefore carrying value approximates fair value. Subsequently, long-term debt is measured at amortized cost. The fair value of inventory and biological assets is discussed in Notes 4(a) and 4(b).

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

The fair value of property, plant and equipment recognized in an acquisition is based on market values. The market value of property, plant and equipment is the estimated amount for which property, plant and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

# CANADABIS CAPITAL INC.

## Notes to the Condensed Interim Consolidated Financial Statements

As at October 31, 2019 and for the three months ended October 31, 2019 and 2018

(Expressed in Canadian Dollars)

### (c) Measurement:

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

*Level 1* – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

*Level 2* – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

*Level 3* – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

### 6. Inventory

	Retail Product	Harvested Cannabis	Total
<b>Work in process</b>			
Balance at July 31, 2019	\$ -	\$ -	\$ -
Cash cost transferred from biological assets	-	107,606	107,606
Fair value transferred from biological assets	-	37,114	37,114
Cash cost transferred to finished goods	-	(107,606)	(107,606)
Fair value transferred to finished goods	-	(37,114)	(37,114)
Balance at October 31, 2019	-	-	-
<b>Finished goods</b>			
Balance at July 31, 2019	-	93,131	93,131
Cash cost transferred from work in process	-	107,606	107,606
Fair value transferred from work in process	-	37,114	37,114
Cash cost during the period	216,875	12,506	229,381
Change in fair value of inventory	-	(62,048)	(62,048)
Cash cost of goods sold	(35,126)	-	(35,126)
Balance at October 31, 2019	181,749	188,309	370,058
	<b>\$ 181,749</b>	<b>\$ 188,309</b>	<b>\$ 370,058</b>

For the three months ended October 31, 2019, cash cost of inventory expensed to cost of sales amounted to \$35,126 (2019 - \$Nil). In addition, the Company recorded expense of \$62,048 (2019 - \$Nil) relating to fair value adjustments.

# CANADABIS CAPITAL INC.

## Notes to the Condensed Interim Consolidated Financial Statements

As at October 31, 2019 and for the three months ended October 31, 2019 and 2018

(Expressed in Canadian Dollars)

### 7. Biological Assets

Balance at July 31, 2019	\$	32,266
Cash cost of biological assets during the period		121,549
Change in fair value of biological assets		12,589
Cash cost transferred to inventory upon harvest		(107,606)
Fair value transferred to inventory upon harvest		(37,114)
Impairment of biological assets		-
<b>Balance at October 31, 2019</b>	<b>\$</b>	<b>21,684</b>

At October 31, 2019, the growth cycle of CanadaBis' biological assets is expected to be 95 days. For in-process biological assets, the Company determines the value based on fair value less costs to sell. The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy. Fair value is determined at the point of harvest and is adjusted based on the point at which the plants are in the growth cycle. In September 2019, the Company successfully completed its third harvest. At October 31, 2019, the remaining plants were 33% complete relative to the next expected harvest date.

A 10% change in the estimated selling price of biological assets would result in a change of approximately \$5,000 to the fair value of biological assets at October 31, 2019.

### 8. Property, Plant and Equipment

	Plant and equipment	Office equipment	Building and leasehold improvements	Land	Total
<b>Cost:</b>					
Balance at July 31, 2018	\$ 22,600	\$ 31,281	\$ -	\$ -	\$ 53,881
Additions	179,044	107,278	584,253	1,763,000	2,633,575
Asset Acquisitions	72,431	-	759,652	662,000	1,494,083
Balance at July 31, 2019	274,075	138,559	1,343,905	2,425,000	4,181,539
Additions	101,833	37,377	4,339,446	-	4,478,656
<b>Balance at October 31, 2019</b>	<b>375,908</b>	<b>175,936</b>	<b>5,683,351</b>	<b>2,425,000</b>	<b>8,660,195</b>
<b>Accumulated depreciation:</b>					
Balance at July 31, 2018	-	6,256	-	-	6,256
Depreciation for the period	28,416	15,340	14,912	-	58,668
Balance at July 31, 2019	28,416	21,596	14,912	-	64,924
Depreciation for the period	21,429	6,519	144,741	-	172,689
<b>Balance at October 31, 2019</b>	<b>49,845</b>	<b>28,115</b>	<b>159,653</b>	<b>-</b>	<b>237,613</b>
<b>Net carrying value:</b>					
At July 31, 2018	22,600	25,025	-	-	47,625
At July 31, 2019	245,659	116,963	1,328,993	2,425,000	4,116,615
<b>At October 31, 2019</b>	<b>\$ 326,063</b>	<b>\$ 147,821</b>	<b>\$ 5,523,698</b>	<b>\$ 2,425,000</b>	<b>\$ 8,422,582</b>

# CANADABIS CAPITAL INC.

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Land is not depreciated as it is considered to have an indefinite useful life.

At October 31, 2019, the Company assessed its CGU for indicators of impairment and determined that none exist.

### *2103157 Alberta Ltd.*

On July 9, 2019, the Company acquired a non-operating corporate entity, 2103157 Alberta Ltd., which holds a cannabis retail store development license in Red Deer, Alberta for cash consideration of \$100 from a director of CanadaBis. The consideration includes settlement of pre-existing amounts owing between the entities of \$391,354.

At the time of acquisition, the entity had no cash inflows or outflows and did not contain a workforce. As a result, this transaction will be accounted for as an asset acquisition under IAS 16. The fair value of the building and improvements was based on the recent sales price between arm's length parties. The net assets of the entity are as follows:

Cash	\$	90,872
GST receivable		3,633
Prepaid expenses		12,204
Buildings and improvements		759,652
Land		662,000
Accounts payable and accruals		(122,056)
Related party balances		(5,200)
Long-term debt		(1,009,651)
<b>Net Assets Acquired</b>	<b>\$</b>	<b>391,454</b>

### *Full Spectrum*

On July 24, 2019, the Company acquired a non-operating corporate entity, Full Spectrum Labs Ltd., containing extraction assets for consideration of \$2,000,000 payable in 6,666,666 common shares of CanadaBis at \$0.30 per share. This transaction will be accounted for as a share-based payment under IFRS 2.

The fair value of the extraction equipment is equal to its original cost. The residual value of the share consideration has been recorded as stock-based compensation expense within the Company's Consolidated Statements of Loss and Comprehensive Loss for the year ended July 31, 2019.

In conjunction with the acquisition of Full Spectrum Labs Ltd., the terms of the agreement include an earned-out payment in the amount of \$100,000, which is due on the date of the first commercial sale of extracts or topicals.

Legal fees of \$17,515 were incurred in conjunction with the acquisition.

Extraction equipment	\$	72,431
Stock based compensation expense		1,927,569
<b>Net Assets Acquired</b>	<b>\$</b>	<b>2,000,000</b>
<b>Share Consideration</b>	<b>\$</b>	<b>2,000,000</b>

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### Goldstream Cannabis Inc.

On August 13, 2019, the Company acquired 95% of a non-operating corporate entity, Goldstream Cannabis Inc. ("Goldstream"). At the time of acquisition, Goldstream was the lessee in a contract allowing access to 13 acres of undeveloped land already zoned for cannabis production. Consideration for 95% of the outstanding shares of Goldstream was \$3,500,000 payable in 11,666,666 common shares of CanadaBis at \$0.30 per share. This transaction will be accounted for as a share-based payment under IFRS 2.

Upon acquisition, the Company has acquired a right-of-use asset relating to the land lease, a corresponding lease obligation and cash. The residual value of the share consideration has been recorded as stock-based compensation expense within the Company's Consolidated Statements of Loss and Comprehensive Loss for the three months ended October 31, 2019. The Company has also recorded a non-controlling interest representing the remaining 5% of Goldstream that is not owned by the Company.

Legal fees of \$33,833 were incurred in conjunction with the acquisition.

Cash	\$	2,000,000
Right-of-use asset - land		795,064
Lease obligation - land		(795,064)
Stock based compensation expense		1,684,211
Non-controlling interest		(184,211)
<b>Net Assets Acquired</b>	<b>\$</b>	<b>3,500,000</b>
<b>Share Consideration</b>	<b>\$</b>	<b>3,500,000</b>

## 9. Related Party Transactions

Except as disclosed elsewhere, the Company had the following related party transactions and balances during the three months ended October 31, 2019 with a company of which one of the directors is also a director of CanadaBis:

- Expenses incurred by the Company totaling \$3,049 (2019 - \$102,265) were paid for by the related party.
- Property, plant, and equipment totaling \$5,173 (2019 - \$50,928) were paid for by the related party.
- The Company transferred funds to the related party totaling \$461 (2019 - \$250,000).
- The Company received funds from the related party totaling \$205,998 (2019 - \$Nil).

As a result of the above transactions, at October 31, 2019, the Company had amounts due to related parties of \$392,987 (July 31, 2019 - \$379,228) and amounts due from related parties of \$3,000 (July 31, 2019 - \$203,000). These amounts are unsecured, bear no interest and have no stated terms of repayment.

On August 23, 2019, CanadaBis acquired the Company's cultivation facility for \$4.2 million (*Note 11*). The facility was purchased from a company of which one of the directors is also a director of CanadaBis.

# CANADABIS CAPITAL INC.

## Notes to the Condensed Interim Consolidated Financial Statements

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### Key Management Personnel

CanadaBis considers its directors and executives to be key management personnel. During the three months ended October 31, 2019, there was no short-term compensation paid to directors. Key management personnel compensation is comprised of the following:

	October 31, 2019	October 31, 2018
Short-term employee benefits	\$ 72,692	\$ -
Share-based compensation	335,037	-
	<u>\$ 407,729</u>	<u>\$ -</u>

### 10. Long-term debt

As at October 31, 2019, the Company had long-term debt totaling \$5,547,333 related to the purchases of the cultivation facility and retail building.

At October 31, 2019 and 2018, the Company had a letter of credit issued in the amount of \$25,000, with no balance outstanding. The annualized effective interest rate on the Company's borrowings under its facilities for the year ended October 31, 2019 was 4.0% (July 31, 2019 – 6.2%).

The long-term borrowings held by the Company are as follows:

Current portion of long-term debt		
Retail location - fixed term mortgage (Note 10(b)(ii))	\$	900,000
Long-term debt		
Cultivation Facility - vendor take-back mortgage (Note 10(a))		881,500
Cultivation Facility -fixed term mortgage (Note 10(a))		3,500,000
Retail location - vendor take-back mortgage (Note 10(b)(i))		265,833
		<u>4,647,333</u>
<b>Balance at October 31, 2019</b>	<b>\$</b>	<b>5,547,333</b>

#### a) 1998643 Alberta Ltd.

On April 15, 2019, CanadaBis acquired land, for which the Company's cultivation facility is affixed, for \$1,763,000. Consideration consisted of \$881,500 in cash and a 5-year vendor take-back mortgage also in the amount of \$881,500. The mortgage incurs interest at 6% per annum and matures on April 15, 2024. Interest only payments of \$4,408 are required monthly until maturity. There are no covenants associated with the vendor take-back mortgage. This mortgage is owed to an entity in which a Director of CanadaBis is a partial shareholder.

During the three months ended October 31, 2019, the Company exercised its option to purchase and acquired the cultivation facility for consideration of \$4.2 million. Upon closing of the purchase, the Company has assumed a fixed term mortgage in the amount of \$3,500,000, with an initial interest only term of 12 months expiring on March 1, 2020. At this time, the mortgage may be converted to a monthly blended payment of principal and interest with a term of 14 years. Interest is payable monthly at an annual rate of 1.0% over the bank's prime lending rate. The mortgage is secured by a fixed charge over the buildings, land, and improvements as well as a Joint & Several Guarantee and Postponement in the amount of \$3,500,000.

The mortgage agreement requires that the Company maintain a minimum Debt Service Coverage ratio of 1.40:1 based on the most recent annual consolidated financial statements. Debt Service Coverage is defined as the ratio of cash flow (Net after tax

## CANADABIS CAPITAL INC.

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income + depreciation + interest expensed + deferred/future taxes - dividends declared – reductions in shareholder's loans/due to related party - gains on capital assets + loss on capital assets) over debt service requirements (interest and principal paid on all debt in the fiscal year under review). At October 31, 2019, this ratio was Nil (July 31, 2019 – Nil).

#### b) 2103157 Alberta Ltd.

In conjunction with the acquisition of 2103157 Alberta Ltd., CanadaBis acquired long-term debt pertaining to the purchase of the retail building on January 22, 2019 (*Note 8*). The debt consists of the following:

- i. A 2-year vendor take-back mortgage in the amount of \$250,000. The mortgage incurs interest at 8% per annum, compounded annually, and matures on January 22, 2021. Interest and principle are payable upon maturity. The mortgage is secured by a fixed charge over the land. There are no covenants associated with the vendor take-back mortgage.
- ii. A fixed term mortgage in the amount of \$1,000,000, due on demand with an initial interest only term of 12 months expiring on February 1, 2020. At this time, the mortgage may be converted to a monthly blended payment of principal and interest with a term of 19 years. Interest is payable monthly at an annual rate of 1.8% over the bank's prime lending rate. The mortgage is secured by a fixed charge over the building, land, and improvements as well as two personal guarantees in the amount of \$500,000 each issued by Management and Directors.

The mortgage agreement requires that the Company maintain a minimum Debt Service Coverage ratio of 1.40:1 based on the most recent annual consolidated financial statements. Debt Service Coverage is defined as the ratio of cash flow (Net after tax income + depreciation + interest expensed + deferred/future taxes - dividends declared – reductions in shareholder's loans/due to related party - gains on capital assets + loss on capital assets) over debt service requirements (interest and principal paid on all debt in the fiscal year under review). This ratio at October 31, 2019 is Nil (July 31, 2019 – Nil). CanadaBis continues to monitor this ratio in cooperation with the lender on an ongoing basis.

The mortgage agreement requires that the Company maintain a Debt to Equity ratio not to exceed 3.0:1. Debt to equity is defined as the ratio of total liabilities (including related party loans not formally postponed to the lender and excluding shareholder loans) over equity. At October 31, 2019, this ratio was 1.5:1 (July 31, 2019 – 0.6:1).

The mortgage agreement requires that the Company maintain a minimum Current ratio of 1.25:1 based on the most recent annual consolidated financial statements. Current ratio is defined as the ratio of current assets over current liabilities. At October 31, 2019, this ratio was 1.0:1 (July 31, 2019 – 0.7:1). CanadaBis continues to monitor this ratio in cooperation with the lender on an ongoing basis.

As at October 31, 2019, \$957,478 was drawn on this mortgage.

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## Notes to the Condensed Interim Consolidated Financial Statements

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### 11. Leases

#### Right-of-Use Assets

	Building	Land	Total
<b>Cost:</b>			
Balance at July 31, 2019 and 2018	-	-	-
Additions	4,021,082	-	4,021,082
Asset Acquisitions	-	795,064	795,064
Disposals	(4,021,082)	-	(4,021,082)
<b>Balance at October 31, 2019</b>	<b>-</b>	<b>795,064</b>	<b>795,064</b>
<b>Net carrying value:</b>			
At July 31, 2019	-	-	-
At October 31, 2019	-	795,064	795,064

#### Lease Obligations

	Building	Land	Total
Balance at July 31, 2019 and 2018	-	-	-
Additions	4,021,082	-	4,021,082
Asset Acquisitions	-	795,064	795,064
Disposals	(4,235,217)	-	(4,235,217)
Payments	-	(12,444)	(12,444)
Interest expense	-	11,480	11,480
Derecognition of lease	214,135	-	214,135
<b>Balance at October 31, 2019</b>	<b>-</b>	<b>794,100</b>	<b>794,100</b>

No depreciation is recorded on right-of-use assets associated with land. No depreciation was recorded on the right-of-use asset associated with the building as the asset was derecognized 23 days after initial recognition.

On April 1, 2019, the Company entered into a lease with an option to purchase related to the cannabis cultivation facility (the "Facility"). The lease had a five-year term, expiring in December 2023, with an option to renew for a further five-year term. In addition, the agreement contained an option for the lessee to purchase the building for approximately \$4.2 million, plus 5% interest per annum should the option be exercised after the first year of the lease. The lease contemplated the Company incurring all operating expenses for the Facility directly to the extent possible. The "rent" payable by the Company under the lease is equal to the expenses actually incurred and is capped at a maximum of \$10,000 per month. As a result, there are no fixed minimum payments to be incurred by CanadaBis as a result of the lease. In addition, non-payment of rent under the lease is only default if not paid for 12 months following notice and a 60-day cure period.

This contract was accounted for as a lease under the provisions of IFRS 16 at August 1, 2019. The Company recognized a right-of-use asset and a corresponding lease obligation. On August 23, 2019, the Company exercised its option to purchase the facility and derecognized the right-of-use asset and associated lease obligation. The Facility was purchased from a company of which one of the directors is also a director of CanadaBis.

On August 13, 2019, in conjunction with the acquisition of Goldstream Cannabis Inc. as discussed in *Note 8*, the Company acquired an existing contract which gives CanadaBis access to 13 acres of undeveloped land. The Company has determined that this contract constitutes a lease under IFRS 16.

# CANADABIS CAPITAL INC.

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The Company has also entered into a lease for the use of office space. The lease term is month-to-month and the contract can be terminated with 60 days notice. As a result, the Company expenses the costs associated with this contract as General & Administration costs in the Statement of Loss and Comprehensive Loss as incurred.

### 12. Shareholders' Equity

#### a) Share capital

The Company is authorized to issue an unlimited number of voting common, non-voting common and preferred shares.

On September 24, 2018, the Company completed a 2:1 stock split. As a result, shareholders of record as at the close of business on September 24, 2018 received one additional share for each share held. Therefore, all of the information on the number of shares and the earnings per share has been restated retrospectively to reflect the share split.

At October 31, 2019, 83,754,067 outstanding common shares were held in escrow at various prices ranging from \$0.05 to \$0.50 per share.

Equity issuances made by the Company are as follows:

	Number of Shares	Share Capital
<b>Balance at July 31, 2018</b>	<b>88,560,000</b>	<b>\$ 669,100</b>
Shares issued <sup>(1)</sup>	4,472,286	2,071,143
Shares issued <sup>(2)</sup>	750,000	300,000
Shares issued <sup>(3)</sup>	554,000	277,000
Shares issued <sup>(4)</sup>	2,000,000	1,000,000
Shares Issued - Corporate Acquisition <sup>(5)</sup>	8,500,000	4,250,000
Shares Issued - Corporate Acquisition <sup>(6)</sup>	6,666,666	2,000,000
<b>Balance at July 31, 2019</b>	<b>111,502,952</b>	<b>10,567,243</b>
Shares issued - Asset Acquisition <sup>(7)</sup>	11,666,666	3,500,000
<b>Balance at October 31, 2019</b>	<b>123,169,618</b>	<b>\$ 14,067,243</b>

- 1) On November 9, 2018, the Company issued 4,472,286 voting common shares at \$0.50 per share for gross proceeds of \$2,236,143. All shares were issued as part of a unit, with each unit being comprised of one common share and one-half common share purchase warrant (Note 13(d)).
- 2) On November 9, 2018, the Company issued 750,000 voting common shares at \$0.40 per share for gross proceeds of \$300,000. All shares were issued as part of a unit, with each unit being comprised of one common share and one-half common share purchase warrant (Note 13(d)).
- 3) On February 11, 2019, the Company issued 554,000 voting common shares for gross proceeds of \$277,000. Of the total issued 226,000 common voting shares were issued to Management. All shares were issued as part of a unit, with each unit being comprised of one common share and one-half common share purchase warrant (Note 13(d)).
- 4) On April 24, 2019, the Company issued 2,000,000 voting common shares at \$0.50 per share for gross proceeds of \$1,000,000. All shares were issued as part of a unit, with each unit being comprised of one common share and one-half common share purchase warrant (Note 13(d)).
- 5) On April 26, 2019, the Company issued 8,500,000 voting common shares at \$0.50 per share in conjunction with the reverse takeover discussed in Note 15.

# CANADABIS CAPITAL INC.

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- 6) On July 24, 2019, the Company issued 6,666,666 voting common shares at \$0.30 per share in conjunction with the acquisition of Full Spectrum Labs Ltd. as discussed in Note 8. At October 31, 2019, 6,000,000 shares associated with this transaction were held in escrow.
- 7) On August 13, 2019, the Company issued 11,666,666 voting common shares at \$0.30 per share in conjunction with the acquisition of Goldstream Cannabis Inc. as discussed in Note 8. At October 31, 2019, 9,333,333 shares associated with this transaction were held in escrow.

### b) Per share amounts

Per share amounts have been calculated on the weighted average number of shares outstanding. The weighted average shares outstanding reflects the retrospective application of the stock split described in *Note 12(a)*. The weighted average shares outstanding for the three months ended October 31, 2019 was 121,521,067 (2019 – 88,560,000).

The calculation of the diluted loss per share for the three months ended October 31, 2019 excludes the effect of all stock options and warrants as the impact would be anti-dilutive due to the net loss. Therefore, the diluted per share amount is equivalent to the basic per share amount.

### c) Stock Options

The Company has a stock option program that entitles officers, directors, employees, and certain consultants to purchase shares in the Company. Options are granted at the market price of the shares at the date of grant, have a five-year term and vest over three years, with the exception of the \$0.10 options that vested upon issue.

The number and weighted average exercise prices of stock options are as follows:

	Number of Options	Weighted Average Exercise Price
<b>Outstanding at July 31, 2019</b>	8,550,000	\$ 0.45
Granted	270,000	\$ 0.33
Forfeited	(150,000)	\$ 0.50
<b>Outstanding at October 31, 2019</b>	<b>8,670,000</b>	<b>\$ 0.44</b>

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The following table summarizes information about the stock options outstanding at October 31, 2019:

The fair value of the options granted were estimated on the date of issue using the Black-Scholes option pricing model with the following assumptions:

Grant Prices	Outstanding at October 31, 2019	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Exercisable at October 31, 2019	Weighted Average Exercise Price
\$0.10	800,000	2.35	\$ 0.10	800,000	\$ 0.10
\$0.29	70,000	4.87	0.29	-	-
\$0.30	150,000	4.73	0.30	-	-
\$0.32	650,000	4.72	0.32	-	-
\$0.34	200,000	4.76	0.34	-	-
\$0.50	6,800,000	4.54	0.50	-	-
	<b>8,670,000</b>	<b>4.36</b>	<b>\$ 0.44</b>	<b>800,000</b>	<b>\$ 0.10</b>

### Assumptions

	Three months ended Oct 31, 2019	Three months ended Oct 31, 2018
Risk free interest rate (%)	1.49%	0.00%
Expected life (years)	5.00	-
Expected volatility (%)	100.04%	0.00%
Forfeiture rate (%)	2.00%	0.00%
Weighted average fair value of options	\$ 0.30	\$ -

#### d) Warrants

During the year ended July 31, 2019, the Company issued warrants in conjunction with a private placement of units (Note 12(a)). A total of 3,888,143 warrants were issued - 2,611,143 warrants exercisable until November 9, 2019, 277,000 warrants exercisable until February 11, 2020, and 1,000,000 warrants exercisable until April 25, 2020 each at a strike price of \$1.00 per warrant. The Company issued warrants at a ratio of one-half warrant for each common share of 1926360 Alberta Ltd held. Upon issuance the warrants were valued at \$Nil.

The warrants have an initial term that expires on the first anniversary of the grant date, which may be extended by the Board of Directors. During the three months ended October 31, 2019, the terms of all outstanding warrants were changed with the term being extended by an additional two years and the exercise price being reduced to \$0.50 per warrant.

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	Number of Warrants
Outstanding at July 31, 2019	3,888,143
Granted	-
<b>Outstanding at October 31, 2019</b>	<b>3,888,143</b>

The fair value of the warrants granted is inclusive of the share capital at the date of issuance. As a result, there is no change in the fair value of existing warrants resulting from the change in warrant terms noted above.

### 13. Segmented Information

	Three months ended October 31, 2019		
	Cultivation	Retail	Total
<b>Revenue:</b>			
Retail revenue	\$ -	\$ 52,709	\$ 52,709
	-	52,709	52,709
<b>Cost of Sales:</b>			
Cash cost of goods sold - Retail	-	35,126	35,126
Fair value adjustment of inventory	62,048	-	62,048
Fair value adjustment of biological assets	(12,589)	-	(12,589)
Gross Margin	(49,459)	17,583	(31,876)
<b>Operating Expenses:</b>			
General and administration	586,017	94,861	680,878
Acquisition costs	33,833	-	33,833
Depreciation	148,580	24,109	172,689
Stock based compensation	2,051,053	-	2,051,053
	2,819,483	118,970	2,938,453
Loss from operations	(2,868,942)	(101,387)	(2,970,329)
<b>Other income and expenses:</b>			
Derecognition of lease	214,135	-	214,135
Interest on lease obligation	(11,480)	-	(11,480)
Loan interest charges	(40,278)	(16,035)	(56,313)
Net loss and comprehensive loss for the period	\$ (2,706,565)	\$ (117,422)	\$ (2,823,987)
<b>Total Assets</b>	<b>8,747,590</b>	<b>2,049,489</b>	<b>10,797,079</b>
<b>Total Liabilities</b>	<b>5,685,057</b>	<b>1,245,215</b>	<b>6,930,272</b>

# CANADABIS CAPITAL INC.

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The Company's Cultivation segment is responsible for the growth, production and sale of cannabis products to licensed provincial retailers. The Company's retail segment is responsible for the purchase of licensed cannabis products from licensed provincial retailers and sale of those products on to retail customers.

### 14. Financial Instruments and Risk Management

The Company's activities expose it to a variety of financial risks that arise as a result of its development, production and financing activities. CanadaBis has exposure to credit, liquidity and interest risk.

CanadaBis' risk management policies are established to:

- Identify and analyze the risks faced by the Company;
- Set appropriate limits and controls; and
- To monitor risks and adherence to market conditions and the Company's activities.

This narrative presents information about the Company's risk exposure, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital.

#### (a) Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Financial instruments that would potentially subject the Company to concentrations of credit risks consist principally of cash. All of the Company's cash was held at three financial institutions at October 31, 2019, all of which are Canadian Chartered Banks. Management believes that the risk of loss is minimal, but the Company is subject to concentration of credit risk.

#### (b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet financial obligations at the point at which they are due. The Company's operating cash requirements are continuously monitored by management. As factors impacting cash requirements change, liquidity risks may necessitate the need for the Company to raise capital by issuing equity or obtaining debt financing.

#### (c) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk through its long-term debt (*Note 10*). A 1% increase to the interest rate would have an approximate impact of \$14,000 on pre-tax earnings for the three months ended October 31, 2019.

#### (d) Capital management

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company considers its capital to include share capital and net debt (defined as current assets and amounts due from related parties less current liabilities and any long-term debt). As at October 31, 2019, the Company had net debt of \$4,581,739 (July 31, 2019, net debt – \$1,287,739).

# CANADABIS CAPITAL INC.

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### 15. Corporate Acquisition

CanadaBis was a listed shell company with 8,500,000 shares on issue. On April 26, 2019, CanadaBis issued an additional 96,336,286 shares to acquire 100% of the issued share capital of 1926360 Alberta Ltd., a private company, which had 96,336,286 shares in issue. At the date of the transaction, CanadaBis had a cash balance of \$379,566, an accounts payable balance of \$56,991 and stock options with a fair value of \$335,840. CanadaBis had no other assets or liabilities.

As 1926360 Alberta Ltd. obtained control of the combined entity after the transaction, from an accounting perspective, the transaction is not an acquisition of 1926360 Alberta Ltd. by CanadaBis, and is instead the acquisition of CanadaBis by 1926360 Alberta Ltd. Consequently, 1926360 Alberta Ltd. is the continuing entity and all comparative information in the consolidated financial statements will be that of 1926360 Alberta Ltd.

As CanadaBis is not a business as defined in IFRS 3, it is inappropriate to account for this transaction as a reverse acquisition and recognize goodwill. The difference between the purchase consideration less the net cash acquired from CanadaBis is instead accounted for as a listing expense in accordance with IFRS 2.

Legal fees of \$61,551 were incurred in conjunction with the acquisition.

Cash	\$	(379,566)
Accounts payable		56,991
Fair value of stock options		335,840
Share consideration		4,250,000
<b>Listing expense</b>	<b>\$</b>	<b>4,263,265</b>

The fair value of the options previously issued were estimated on the date of acquisition using the Black-Scholes option pricing model with the following assumptions:

Assumptions	July 31, 2019		July 31, 2018
Risk free interest rate (%)		1.59%	-
Expected life (years)		2.87	-
Expected volatility (%)		83.00%	-
Forfeiture rate (%)		2.00%	-
Exercise price (\$)	\$	0.10	\$ -
Stock price (\$)	\$	0.50	\$ -
Unit value (\$)	\$	0.42	\$ -