



CANADABIS
— CAPITAL INC. —

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended July 31, 2020 and 2019



Tel: 403-266-5608
Fax: 403-233-7833
www.bdo.ca

BDO Canada LLP
903 8 Ave SW, Suite 620
Calgary, AB
T2P 0P7

Independent Auditor's Report

To the Shareholders of CanadaBis Capital Inc.

Opinion

We have audited the consolidated financial statements of CanadaBis Capital Inc. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at July 31, 2020 and July 31, 2019, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at July 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Group incurred a net loss of \$5,391,080, a negative cash flow from operations of \$3,619,318 during the year ended July 31, 2020 and had a working capital deficit of \$5,007,043. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises:

- The information, other than the consolidated financial statements and our auditor's report thereon, included in the Management Discussion & Analysis ("MD&A").

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the MD&A prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.



Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is John Leavitt.

BDO Canada LLP

Chartered Professional Accountants

Calgary, Alberta
November 30, 2020

CANADABIS CAPITAL INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at July 31, 2020 and 2019
(Expressed in Canadian dollars)

As at	July 31, 2020	July 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 167,002	\$ 324,798
Short-term deposits (Note 14)	-	395,000
Accounts receivable	1,072,341	-
Goods and services tax receivable	233,885	77,280
Prepaid expenses	98,568	93,149
Biological assets (Note 9)	71,718	32,266
Inventory (Note 10)	1,084,324	93,131
	2,727,838	1,015,624
Long-term deposits	-	25,000
Property, plant and equipment (Note 11)	9,766,770	4,116,615
Intangible assets (Note 12)	20,989	-
Due from related parties (Note 20)	6,432	203,000
	\$ 12,522,029	\$ 5,360,239
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,792,262	\$ 234,802
Due to related parties (Note 20)	1,235,579	379,228
Current portion of lease obligations (Note 13)	12,446	-
Current portion of long-term debt (Note 14)	4,694,594	750,000
	7,734,881	1,364,030
Lease obligations (Note 13)	391,645	-
Long-term debt (Note 14)	961,500	1,142,333
	9,088,026	2,506,363
SHAREHOLDERS' EQUITY		
Share capital (Note 17)	15,385,417	10,567,243
Share-based payments reserve	2,795,044	1,742,011
Deficit	(14,844,162)	(9,455,378)
Total equity attributable to shareholders	3,336,299	2,853,876
Non-controlling interest (Note 16)	97,704	-
	3,434,003	2,853,876
	\$ 12,522,029	\$ 5,360,239

Going concern (Note 2)
 Commitments and contingencies (Note 27)
 Subsequent events (Note 28)

Approved by the Board of Directors

(Signed) "Travis McIntyre"
 Travis McIntyre

(Signed) "Barbara O'Neill"
 Barbara O'Neill

See accompanying notes to the consolidated financial statements

CANADABIS CAPITAL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
For the years ended July 31, 2020 and July 31, 2019
(Expressed in Canadian dollars)

	July 31, 2020	July 31, 2019
REVENUE		
Net revenue (Note 7)	\$ 4,428,831	\$ -
Cost of sales (Note 8)	2,920,730	-
Gross profit excluding fair value items	1,508,101	-
Unrealized fair value adjustment to inventory	(16,904)	(38,710)
Unrealized fair value adjustment to biological assets	(334,512)	(2,438)
Impairment of biological assets	-	(5,628)
Gross profit (loss)	1,156,685	(46,776)
EXPENSES		
Acquisition costs (Note 6)	-	79,066
Depreciation and amortization (Notes 11 and 12)	281,719	58,668
General and administration	2,905,695	1,202,191
Share-based payments (Notes 6 and 18)	2,689,308	3,333,740
	5,876,722	4,673,665
Loss from operations	(4,720,037)	(4,720,441)
Other income and expenses		
Financing costs (Note 24)	(676,371)	(19,154)
Listing expense	-	(4,263,265)
Other revenues	5,328	-
	(671,043)	(4,282,419)
Net loss and comprehensive loss	(5,391,080)	(9,002,860)
Non-controlling interest	2,296	-
Net loss attributable to shareholders	\$ (5,388,784)	\$ (9,002,860)
Per share amount (Note 23)		
Basic and diluted	\$ (0.04)	\$ (0.09)

See accompanying notes to the consolidated financial statements

CANADABIS CAPITAL INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended July 31, 2020 and July 31, 2019
(Expressed in Canadian Dollars)

	Share Capital	Share-based Payment Reserve	Deficit	Shareholders Equity	Non- controlling Interest	Total Equity
Balance, July 31, 2018	\$ 669,100	\$ -	\$ (452,518)	\$ 216,582	\$ -	\$ 216,582
Shares issued (Note 17)	3,648,143	-	-	3,648,143	-	3,648,143
Shares issued on corporate acquisition (Note 6)	4,250,000	335,840	-	4,585,840	-	4,585,840
Shares issued on asset acquisition (Note 6)	2,000,000	-	-	2,000,000	-	2,000,000
Share-based payments (Note 18)	-	1,406,171	-	1,406,171	-	1,406,171
Net loss and comprehensive loss	-	-	(9,002,860)	(9,002,860)	-	(9,002,860)
Balance, July 31, 2019	10,567,243	1,742,011	(9,455,378)	2,853,876	-	2,853,876
Shares issued on asset acquisition (Note 6)	3,500,000	-	-	3,500,000	100,000	3,600,000
Shares issued (Note 17)	1,244,399	-	-	1,244,399	-	1,244,399
Shares on exercise of options (Notes 16 and 18)	73,775	(36,275)	-	37,500	-	37,500
Share-based payments (Note 18)	-	1,089,308	-	1,089,308	-	1,089,308
Net loss and comprehensive loss	-	-	(5,388,784)	(5,388,784)	(2,296)	(5,391,080)
Balance, July 31, 2020	\$ 15,385,417	\$ 2,795,044	\$ (14,844,162)	\$ 3,336,299	\$ 97,704	\$ 3,434,003

See accompanying notes to the consolidated financial statements

CANADABIS CAPITAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended July 31, 2020 and 2019
(Expressed in Canadian dollars)

	July 31, 2020	July 31, 2019
Cash provided by (used in)		
Operating activities		
Net loss	\$ (5,391,080)	\$ (9,002,860)
Items not affecting cash		
Accretion expense	1,079	-
Depreciation and amortization (Notes 11 & 12)	281,719	58,668
Fair value adjustment of inventory	16,904	38,710
Fair value adjustment of biological assets (Note 9)	334,511	2,438
Impairment of biological assets	-	5,628
Listing expense	-	4,263,265
Non-cash interest expense	65,180	1,182
Share-based payments	2,689,308	3,333,740
Expenses paid for by related parties (Note 20)	-	284,290
Management fee payable to related parties (Note 20)	-	14,222
Changes in non-cash working capital (Note 25)	(951,334)	(521,815)
Biological asset costs incurred (Note 9)	(665,605)	(172,173)
	(3,619,318)	(1,694,705)
Financing activities		
Issuance of shares	1,281,899	3,648,143
Advances from related parties	856,613	25,000
Repayment of amounts due to related parties	(6,694)	(1,264,113)
Proceeds from long-term debt (Note 14)	3,691,567	881,500
Repayment of long-term debt	(29,752)	-
Proceeds from CEBA loan ⁽¹⁾ (Note 14)	80,000	-
Long-term deposits	25,000	-
Lease obligation (Note 13)	(49,577)	-
	5,849,056	3,290,830
Investing activities		
Purchase of property, plant and equipment	(4,964,420)	(2,633,575)
Acquisition of intangible assets	(1,089)	-
Acquisition of 2103157 Alberta Ltd. (Note 6(b))	-	(100)
Cash on acquisition (Note 6)	2,000,000	470,438
Non-cash investing activities (Note 25)	577,975	212,962
	(2,387,534)	(1,950,275)
Net change in cash and cash equivalents	(157,796)	(354,150)
Cash and cash equivalents		
Beginning of period	324,798	678,948
End of period	\$ 167,002	\$ 324,798
Supplemental cash flow information		
Interest paid	\$ 258,380	\$ 2,149

⁽¹⁾ Canada Emergency Business Account ("CEBA") is a Federally funded loan in response to COVID-19 pandemic

See accompanying notes to the consolidated financial statements

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

1. Nature of operations

CanadaBis Capital Inc. ("CanadaBis" or the "Company") was incorporated under the Alberta Business Company's Act ("ABCA") on November 29, 2016 and was classified as a Capital Pool Company ("CPC") as defined in Policy 2.4 of the TSX Venture Exchange Inc. (the "Exchange").

On April 26, 2019, the Company completed its Qualifying Transaction whereby it acquired all the outstanding common shares of 1926360 Alberta Ltd. operating as Stigma Pharmaceuticals ("1926360AB" or "Stigma") in exchange for 8,500,000 common voting shares of the Company. Upon completion of the Qualifying Transaction, 1926360AB became a wholly-owned subsidiary of CanadaBis and the combined entity (the "Resulting Entity") continues on the business of 1926360AB as previously constituted.

As discussed more fully in Note 6 below, while CanadaBis was the legal acquirer of 1926360AB and its wholly owned subsidiary 1998643 Alberta Ltd. ("1998643AB"), and is the continuing legal entity whose common shares are listed on the Exchange and for these financial statements are being reported, the accounting acquirer is deemed to have been 1926360AB and these financial statements are presented on the basis of reverse acquisition accounting principles. Unless the context requires, when "1926360AB" is used herein, it refers to the actions of operations of the acquired private company prior to the closing of the Qualifying Transaction. On April 29, 2019, the Company changed its fiscal year-end to July 31, 2019.

CanadaBis' principal business is the production and sale of recreational cannabis. The Company's common shares are listed and traded on the TSX Venture Exchange under the symbol "CANB".

The address of the Company's registered office is 255C Clearview Drive, Red Deer County, Alberta, Canada T4E 3B6.

2. Going concern

These consolidated financial statements ("Financial Statements") have been prepared by management on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as going concern, it may be unable to realize the carrying value of its assets and meet its liabilities as they become due. To date, the Company has not obtained profitable operations from its various assets and activities and continues to incur losses.

For the year ended July 31, 2020, the Company incurred a net loss of \$5,391,080 (2019 - \$9,002,860), working capital deficit of \$5,007,043 (2019 - \$348,406), and negative cash flow from operations of \$3,619,318 (2019 - \$1,694,705). 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 processing license for dried flower, and 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. There is no assurance that lenders with debt covenant violations will not demand loans.

These Financial Statements do not reflect adjustments to the carrying values of the assets and liabilities, revenues, expenses and the Statements of Financial Position classifications that would be used if the going concern assumptions were not appropriate. Such adjustments could be material.

3. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These Financial Statements were approved and authorized for issue by the Board of Directors on November 30, 2020.

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

(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.

Subsidiaries	Jurisdiction of Company	Ownership interest
Stigma Pharmaceutical Inc.	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 measurement

These Financial Statements have been prepared on a historical cost basis except for biological assets and certain financial instruments which are measured at fair value. These Financial Statements are presented in Canadian dollars, which is also the functional currency.

4. Significant accounting policies

A summary of the significant accounting policies, which have been applied consistently to all periods presented in the accompanying consolidated Financial Statements are set out below:

(a) Cash and cash equivalents

Cash and cash equivalents include cash in banks and short-term investments with maturities of less than 90 days at purchase.

(b) Biological assets

While the Company's biological assets are accounted for using IFRS 41 *Agriculture*, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria under IAS 12 *Inventories*. They include the direct costs of growing supplies and direct labour costs as well as other indirect costs such as utilities, supplies used in the growing process, cleaning, insurance, and depreciation and amortization. All direct and indirect costs of biological assets are capitalized as they are incurred and are subsequently recorded within the line item "cost of goods sold" on the consolidated Financial Statements in the period that the product is sold or used in the extraction and tolling activities. Unrealized fair value gains/losses on growth of biological assets are recorded in a separate line on the face on the consolidated Financial Statements. Biological assets are measured at their fair value less costs to sell on the consolidated Statement of Financial Position.

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

(c) Inventory

The direct and indirect costs of inventory include the fair value of biological asset at the time of harvest. All direct and indirect costs related to harvested inventory are capitalized as they are incurred and they are subsequently recorded within “cost of goods sold” in the consolidated Financial Statements.

Extraction inventory consists of direct and indirect associated with the extraction of cannabinoids. Direct costs include the cost of purchased cannabis, extraction wages, chemicals and supplies used in the extraction process. Indirect costs include: testing, packaging and insurance. Extraction inventory is valued at the lower of cost and net realizable value, with cost determined using the weighted average cost method. If the net realizable value subsequently increases, a reversal of the loss initially recognized is applied to cost of sales.

Retail store inventory consists of packaged cannabis and cannabis products.

The Company records inventory reserves for obsolete and slow-moving inventory. Inventory reserves are based on inventory obsolescence trends, historical experience and application of the specific identification method. As at July 31, 2020, there was no inventory reserves recorded.

(d) Financial instruments

Recognition

The Company recognizes financial assets and liabilities at fair value when it becomes party to the contractual provisions of the instrument. Financial assets and liabilities are measured initially at their fair value plus, with the exception of financial assets and liabilities that are subsequently measured at fair value through profit or loss (“FVTPL”), transaction costs that are directly attributable to their issuance. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where a financial liability contains both a liability and an equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or it transfers the financial instrument in a manner that qualifies for derecognition through transfer of substantially all risks and rewards or transfer of control.

Financial liabilities are derecognized upon extinguishment. A modification of a financial liability with an existing lender is evaluated to determine whether the amendment results in substantially different terms in which case it is accounted for as an extinguishment.

Classification

The classification of the Company’s financial instrument depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition. The financial assets of the Company are classified in the following categories:

- Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost.
- Fair value through other comprehensive income (“FVOCI”): assets that are held for contractual cash flows and for selling the financial assets, where the asset’s cash flow represents solely payment of principal and interest, are measured at FVOCI.
- FVTPL: assets that do not meet the criteria for amortised cost or FVOCI are measure at fair value through profit and loss.

Financial liabilities of the Company are classified as either amortised cost or at FVTPL. Subsequent to initial recognition, the Company classified all financial liabilities at amortized cost using the effective interest rate method.

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

Presentation

Financial assets and liabilities are not offset unless they are with a counterparty for which the Company has legally enforceable right to settle the financial instruments on a net basis and the Company intends to settle on a net basis.

Impairment

Financial assets are assessed at each reporting date in order to determine whether objective evidence exists that the assets are impaired as a result of one or more events which have had a negative effect on the estimated future cash flows of the asset.

If there is objective evidence that a financial asset has become impaired, the amount of the impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows from the asset discounted at its original effective interest rate. Impairment losses are recorded in the consolidated statement of loss and comprehensive loss. If the amount of the impairment loss decreases in a subsequent period and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed up to the original carrying value of the asset. Any reversal is recognized in the consolidated statement of operations.

CanadaBis assesses on a forward-looking basis the expected credit loss ("ECL") associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For accounts receivables, CanadaBis applies the simplified approach permitted under IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

(e) Property, plant and equivalent

Property, plant and equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses (if any). Such costs include expenditures directly related to the acquisition of the asset, the cost of replacing part of the property, plant and equipment and borrowing costs if the recognition criteria are met. All other repair and maintenance costs are recognized in the consolidated statements of operations and comprehensive loss as incurred.

Depreciation of property, plant and equipment is not recorded until such time as the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Depreciation is recognized on a straight-line basis to amortize the cost over the estimated useful life of property, plant and equipment, as follows:

Computer hardware	3 years
Office equipment	5 years
Automobiles	5 years
Plant and equipment	5 – 10 years
Building and improvements	25 years

(f) Intangible assets

Externally acquired intangible assets are initially recognized at cost and subsequently amortized over their useful economic lives. Intangible assets are recognized on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

Amortization is recognized on a straight-line basis to amortize the cost over the estimated useful life of the assets as follows:

Computer software	3 years
-------------------	---------

(g) Impairment of non-financial assets

At each date of the Consolidated Statements of Financial Position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

Recoverable amount is the higher of fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statements of operations and comprehensive loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, net of depreciation and amortization, had no impairment loss been recognized for the cash-generating unit in prior periods.

(h) Revenue recognition

Revenue is recognized either at a point in time or over a period of time, and when the revenue can be measured reliably.

Revenue from the sale of cannabis is recognized when control has been transferred, which is considered to occur when products have been delivered to Alberta Gaming, Liquor and Cannabis (“AGLC”) or to the distribution centers specified in the sales contract.

Revenue from retail stores is recognized when the product is delivered to the customer and payment is received.

Extraction revenue is recognized at a point in time, which is when control of the product passes to, or is accepted by the customer (generally licensed producer) that the extracts are sold to. Control passes when the product is shipped FOB shipping point or FOB destination.

Tolling revenue consists of extraction of cannabinoids for another licensed producer and/or packaging of the extracts in packaging that supplied by the customer. Tolling revenue occurs over a period of time and is recognized as the services are performed. Revenue is recognized based on each unit of cannabinoid that is extracted and units of packaging that is completed.

The Company is required to remit excise tax to the Canada Revenue Agency (“CRA”) on the sale of recreational cannabis and extract products in Canada. The Company becomes liable for these excise taxes when cannabis products are delivered to the customer. In accordance with IFRS 15, revenue presented in the Consolidated Statements of Operations and Comprehensive Loss, represents revenue from the sale of cannabis and cannabis related products less applicable excise tax.

Interest income is recognized as it accrues (taking into account the effective yield on the asset) unless collectability is in doubt.

(i) Per share amounts

Basic loss per share has been calculated using the weighted-average number of common shares outstanding during the period. Diluted loss per share is calculated by dividing the net income or loss applicable to common shares by the sum of weighted average number of common shares issued and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted. The Company uses the treasury stock method, which assumes the proceeds received from the exercise of in-the-money instruments are used to repurchase common shares at the average market price of common shares for the period.

(j) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(k) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. The Company may issue units comprised of common share and common share purchase warrants. In these instances, the entire value of the unit is allocated to the common share component.

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

(l) Share-based payments

The grant date fair value of share-based payments awards granted to directors, officers and employees are recognized as a charge to the consolidated statements of operations and comprehensive loss, with a corresponding increase in share-based payment reserve, over the vesting period.

Where the terms and conditions of options are modified before they vest, the changes in the fair value of the options, measured immediately before and after the modification, are also charged to the consolidated statements of operations and comprehensive loss over the remaining vesting period for increases in fair value.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the consolidated statements of operations and comprehensive loss. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company reverses the amounts previously recorded as a charge in the consolidated statements of operations and comprehensive loss and reduction to share-based payment reserves.

(m) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the consolidated statements of operations and comprehensive loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Tax on income in interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Adoption of new accounting standards

IFRS 16 – 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 2019 reporting period, as permitted under the specific transitional provisions in the standard. The cumulative effect of initially applying the new standard was \$nil to the opening deficit.

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 incremental borrowing rate applied is 12%.

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

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 assesses 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.

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.

5. Critical accounting estimates and judgements

The preparation of these Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets, liabilities, and the disclosure of contingent assets and liabilities. These estimates and judgements concern matters that are inherently complex and uncertain. Judgements and estimates are continually evaluated and are based on historical experience and expectation of future events. 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.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated Financial Statements within the next financial year are discussed below.

(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

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

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.

(c) Useful lives of depreciable assets

The Company reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain equipment.

(d) Share-based payments

Use of the Black-Scholes Option Pricing model to estimate the fair value of the Company's options and warrants requires the application of various assumptions including option lives, dividend rates, forfeitures and volatility of the market price of the Company's common shares. Changes in any of these variables could have a material impact on the share-based payments reserve and share-based payments expense.

(e) Impairment

Non-financial assets are tested for impairment when events or change in circumstances indicate that the carrying amount may be not recoverable, with the exception of goodwill which is reviewed for impairment annually or at any time if an indicator of impairment exists. This determination requires significant judgment. Factors which could trigger an impairment review include, but are not limited to, significant negative industry or economic trends, and current, historical or projected losses that demonstrate continuing losses.

The fair value measurement of the Company's non-financial assets, for the purpose of comparison with the carrying value, is based on numerous assumptions and may differ significantly from actual values.

The fair values are based, in part, on certain factors that may be partially or totally outside of the Company's control. This evaluation involves a comparison of the estimated fair values of non-financial assets to their carrying values. The fair value estimates may differ from fair values and these differences may be significant and could have a material impact on the Company's financial position and results of operations.

Management's estimate of future cash flows is subject to risk and uncertainties. Therefore, it is reasonably possible that changes could occur with evolving economic conditions, which may affect recoverability of the Company's non-financial assets.

(f) Taxes

Accounting for income taxes is a complex process requiring management to interpret frequently changing laws and regulations and make judgements related to the application of tax law, estimate the timing of temporary difference reversals, and estimate the realization of tax assets. All tax filings are subject to subsequent government audits and potential reassessment. These interpretations and judgements and changes related to them impact tax provisions, deferred income tax assets and liabilities and net loss.

6. Acquisitions

a) 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.

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

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 and accrued liabilities	56,991
Fair value of stock options	335,840
Share consideration	4,250,000
Listing expense	\$ 4,263,265

The fair value of CanadaBis' options was estimated to be \$335,840 and was determined using the Black-Scholes option pricing model with the following assumptions: risk-free rate of 1.59%, an expected volatility of 83.00%, expected yield rate of \$nil, and expected life of 2.87 years.

b) 2103157 Alberta Ltd.

On July 9, 2019, the Company acquired all the outstanding shares of 2103157 Alberta Ltd. ("2103157AB"), a company which holds a cannabis retail development license, from a director of the Company for cash consideration of \$100 and settlement of pre-existing amounts between the companies, of \$391,354.

The transaction does not constitute a business combination as 2103157AB does not meet the definition of a business under IFRS 3. As a result, the transaction has been accounted for as an acquisition of assets 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:

Consideration

Cash	\$ 100
------	--------

Identifiable net assets acquired

Cash	\$ 90,872
Taxes recoverable	3,633
Prepaid expenses	12,204
Building and improvements	759,652
Land	662,000
Accounts payable and accrued liabilities	(122,056)
Due to a related party	(5,200)
Long-term debt	(1,009,651)
Identifiable net assets acquired	\$ 391,454

c) Full Spectrum Labs Ltd.

On July 24, 2019, the Company acquired all the outstanding shares of Full Spectrum Labs Ltd. ("Spectrum"), a company that owns a proprietary extraction asset, for consideration of \$2,000,000 payable in 6,666,666 common shares of CanadaBis at price of \$0.30 per common voting 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 Financial Statements for the year ended July 31, 2019.

In conjunction with the acquisition of Spectrum, 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.

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

Consideration		
Common shares	\$	2,000,000
Identifiable net assets acquired		
Extraction equipment	\$	72,431
Unidentifiable net assets acquired		
Share-based payments		1,927,569
Total net assets and share-based payments	\$	2,000,000

d) Goldstream Cannabis Inc.

On August 13, 2019, the Company acquired 95% of the outstanding shares of Goldstream Cannabis Inc. ("Goldstream") for \$3,500,000 payable in 11,666,666 common voting shares of CanadaBis, at a price of \$0.30 per common voting share. The transaction was accounted for as a share-based payment transaction under IFRS 2. At the time of the acquisition, Goldstream was party to lease for 13 acres of undeveloped land that has been zoned for cannabis production.

The transaction does not constitute a business combination as Goldstream does not meet the definition of a business under IFRS 3. The residual value of the share consideration has been recorded as share-based payment expense within the Company's Financial Statements. Legal fees of \$33,833 were incurred in conjunction with the acquisition.

Consideration		
Common shares	\$	3,500,000
Identifiable net assets acquired		
Cash	\$	2,000,000
Right-of-use asset – Land		380,295
Lease liability		(380,295)
Non-controlling interest		(100,000)
Identifiable net assets acquired		1,900,000
Unidentifiable net assets acquired		
Share-based payments		1,600,000
Total net assets and share-based payments	\$	3,500,000

7. Revenues

	July 31, 2020	July 31, 2019
Extraction	\$ 2,444,558	\$ -
Tolling	721,539	-
Retail	935,879	-
Cultivation	326,855	-
	\$ 4,428,831	\$ -

8. Cost of sales

	July 31, 2020	July 31, 2019
Extraction	\$ 1,592,211	\$ -
Tolling	433,029	-
Retail	665,491	-
Cultivation	229,999	-
	\$ 2,920,730	\$ -

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

9. Biological Assets

	July 31, 2020	July 31, 2019
Balance, beginning of period	\$ 32,266	\$ -
Cash cost of biological assets	665,605	169,475
Changes in fair value	(334,511)	(2,438)
Cash cost transferred to inventory upon harvest	(564,867)	(98,124)
Fair value transferred to inventory upon harvest	273,225	(31,019)
Impairment of biological assets	-	(5,628)
Balance, end of period	\$ 71,718	\$ 32,266

In July 2020, the Company successfully completed its sixth harvest. At July 31, 2020, the remaining plants were 63% complete relative to the next expected harvest date.

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for flower and trim being cultivated, and then adjust those amounts for selling price per gram and costs to sell. The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy. Significant unobservable inputs were used by management as part of this model:

- Selling price – calculated based on weighted average selling prices of cannabis of comparable companies in the industry as well as prices paid for bulk cannabis that was acquired from arms-length licensed producers for use in the extraction and tolling operations
- Yield – represents the expected number of dried cannabis flower and trim which are expected to be obtained from each harvested cannabis plant
- Survival rate – represents the percentage of plants that start in the vegetative room that will eventually be harvested

The following table quantifies each significant unobservable input, and also provides the impact a 10% increase/decrease in each input would have on the fair value of biological assets.

	July 31, 2020	10% change as at July 31, 2020
Selling price	\$ 4.50	\$ 7,200
Yield	42 grams	\$ 7,200
Survival rate	95.0%	\$ 7,200

10. Inventory

	July 31, 2020	July 31, 2019
Retail	\$ 154,902	\$ -
Harvested cannabis	171,438	93,131
Extraction and tolling	757,984	-
	\$ 1,084,324	\$ 93,131

The Company recorded expense of \$16,904 (2019 - \$nil) for the year ended relating to fair value adjustments.

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

11. Property, Plant and Equipment

	Land	Building and improvements	Plant and equipment	Office equipment	Computer hardware	Automobiles	Total
Cost							
Balance, July 31, 2018	\$ -	\$ -	\$ 22,600	\$ 31,281	\$ -	\$ -	\$ 53,881
Additions	1,763,000	584,253	179,044	107,278	-	-	2,633,575
Asset acquisitions	662,000	759,652	72,431	-	-	-	1,494,083
Balance, July 31, 2019	2,425,000	1,343,905	274,075	138,559	-	-	4,181,539
Additions	-	5,049,963	424,285	54,322	1,350	12,500	5,542,420
Adjustments	-	980	(35,031)	(21,405)	16,641	-	(38,815)
IFRS 16 adoption	380,295	-	-	-	-	29,060	409,355
Balance, July 31, 2020	\$ 2,805,295	\$ 6,394,848	\$ 663,329	\$ 171,476	\$ 17,991	\$ 41,560	\$ 10,094,499
Accumulated depreciation							
Balance, July 31, 2018	\$ -	\$ -	\$ -	\$ 6,256	\$ -	\$ -	\$ 6,256
Depreciation	-	14,912	28,416	15,340	-	-	58,668
Balance, July 31, 2019	-	14,912	28,416	21,596	-	-	64,924
Depreciation	-	193,805	37,376	24,103	6,156	1,365	262,805
Balance, July 31, 2020	\$ -	\$ 208,717	\$ 65,792	\$ 45,699	\$ 6,156	\$ 1,365	\$ 327,729
Net book value							
July 31, 2019	\$ 2,425,000	\$ 1,328,993	\$ 245,659	\$ 116,963	\$ -	\$ -	\$ 4,116,615
July 31, 2020	\$ 2,805,295	\$ 6,186,131	\$ 597,537	\$ 125,777	\$ 11,835	\$ 40,195	\$ 9,766,770

Included in property, plant and equipment is \$617,259 (July 31, 2019 - \$790,671) of building improvements and equipment that is not subject to amortization as it's currently under construction.

12. Intangible assets

Cost

Balance, July 31, 2018 and 2019	\$ -
Adjustments	38,815
Additions	1,089
Balance, July 31, 2020	\$ 39,904

Accumulated depreciation

Balance, July 31, 2018 and 2019	\$ -
Depreciation	18,915
Balance, July 31, 2020	\$ 18,915

Net book value

July 31, 2019	\$ -
July 31, 2020	\$ 20,989

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

13. Lease liability

The cost and accumulated depreciation related to the right-of-use assets have been included in property, plant and equipment (see Note 11). The changes in the net book value for the Company's right-of-use assets during the year ended July 31, 2020 were as follows:

	Vehicle	Building and Improvements	Land	Total
Cost				
Balance, July 31, 2018 and 2019	\$ -	\$ -	\$ -	\$ -
Opening balance adjustment IFRS 16	-	3,712,436	-	3,712,436
Goldstream acquisition	-	-	380,295	380,295
Additions	29,060	-	-	29,060
Derecognized as right-of-use asset	-	(3,712,436)	-	(3,712,436)
Balance, July 31, 2020	\$ 29,060	\$ -	\$ 380,295	\$ 409,355
Accumulated depreciation				
Balance, July 31, 2018 and 2019	\$ -	\$ -	\$ -	\$ -
Depreciation	921	-	-	921
Balance, July 31, 2020	\$ 921	\$ -	\$ -	\$ 921
Net book value				
Balance, July 31, 2019	\$ -	\$ -	\$ -	\$ -
Balance, July 31, 2020	\$ 28,139	\$ -	\$ 380,295	\$ 408,434

Lease liability

	July 31, 2020	July 31, 2019
Balance, beginning of period	\$ -	\$ -
Opening balance adjustment IFRS 16	3,712,436	-
Derecognized on exercise of purchase option	(3,712,436)	-
Goldstream acquisition (Note 6(d))	380,295	-
Vehicle lease	29,060	-
Lease payments	(49,577)	-
Interest expense	44,313	-
Balance, end of period	404,091	-
Less current portion	(12,446)	-
	\$ 391,645	\$ -

Amounts recognized in profit and loss

	2020
Lease expense on short-term leases	\$ 60,076
Interest expense on lease liabilities	45,945
Amounts expensed in profit and loss	\$ 106,021

Lease payments

The required lease payments of the lease liability at July 31, 2020, are as follows:

	2020
Less than 1 year	\$ 56,374
1-5 years	266,425
More than 5 years	2,064,480
	\$ 2,387,279

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

On April 1, 2019, the Company entered into a lease for a cannabis cultivation facility, with an option to purchase, for a period of 5 years, with additional 5 year renewal term. The initial 5 year term expires in December 2023. CanadaBis has the option to purchase the facility for \$4,200,000 plus 5% interest per annum, if the option is exercised after the first anniversary of the lease term. The lease contemplated the Company incurring all direct operating expenses for the facility, in lieu of rent. The monthly operating expenses are capped at \$10,000 per month. As a result, there are no fixed minimum payments to be incurred by CanadaBis as a result of the lease. A 60 days cure period exists for non-payment of rent after a 12-month default period.

This lease 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 cultivation facility was purchased from a company of which one of the directors is also a director of CanadaBis.

With the acquisition of Goldstream Cannabis Inc. (see note 6(d)), the Company assumed the lease liability related to the lease of 13 acres of undeveloped land, zoned for cannabis cultivation. The Company has determined that this contract constitutes a lease under IFRS 16.

The Company has a short-term lease (being defined as leases with a term of 12 months or less) with respect to its office space. The lease term is on a month-to-month basis and as a result, the Company has expensed the costs associated with this contract.

14. Long-term debt

	CEBA ⁽¹⁾ loan	Vendor takeback mortgage	Demand mortgage	Total
Balance, July 31, 2018	\$ -	\$ -	\$ -	\$ -
Acquisition of land (Note 14(i))	-	881,500	-	881,500
Assumed on acquisition of 2103157AB (Note 14(ii))	-	250,000	750,000	1,000,000
Accrued interest on vendor take-back mortgage (Note 14(ii))	-	10,833	-	10,833
Balance, July 31, 2019	-	1,142,333	750,000	1,892,333
Less current portion	-	-	(750,000)	(750,000)
	\$ -	\$ 1,142,333	\$ -	\$ 1,142,333

	CEBA ⁽¹⁾ loan	Vendor takeback mortgage	Demand mortgage	Total
Balance, July 31, 2019	\$ -	\$ 1,142,333	\$ 750,000	\$ 1,892,333
Acquisition of building and improvements (Note 14(iii))	-	-	3,482,500	3,482,500
Proceeds on fixed term mortgage (Note 14(ii))	-	-	209,067	209,067
Canada Emergency Business Account (Note 14(v))	80,000	-	-	80,000
Repayment of principal	-	-	(29,752)	(29,752)
Accretion	-	-	1,079	1,079
Accrued interest on vendor takeback mortgage (Note 14(ii))	-	20,867	-	20,867
Balance, July 31, 2020	80,000	1,163,200	4,412,894	5,656,094
Less current portion	-	(281,700)	(4,412,894)	(4,694,594)
	\$ 80,000	\$ 881,500	\$ -	\$ 961,500

⁽¹⁾ Canada Emergency Business Account ("CEBA") is a federally funded loan in response to COVID-19 pandemic

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

- i) On April 15, 2019, the Company through its wholly subsidiary 1998643 Alberta Ltd. ("1998643AB") acquired land for its present cultivation facility, for total consideration of \$1,763,000. Consideration consisted of \$881,500 in cash and a 5-year vendor takeback mortgage also in the amount of \$881,500. The mortgage bears interest at 6% per annum, payable monthly, and the principal is due on maturity date of April 15, 2024. One of the shareholders of the vendor is a director of CanadaBis.
- ii) On acquisition of 2103157AB (see Note 6(b)), the Company assumed the fixed term mortgage and vendor take-back mortgage with respect to the purchase of the retail location as follows:
 - a) Original vendor takeback mortgage for \$250,000, bearing interest at 8% per annum, with a maturity date of January 22, 2021. The principal plus accrued interest is due on maturity. The mortgage is secured by a fixed charge over the land.
 - b) A fixed term mortgage up to \$1,000,000 (2019 - \$750,000), due on demand with an initial interest only term of 12 months expiring on February 1, 2020. The original mortgage may be converted into monthly blended payments of principal and interest with a term of 19 years, bearing interest at bank's prime plus 1.80%. On May 1, 2020 the mortgage was converted into a demand term loan with blended monthly payments of \$4,847, bearing interest at bank's prime rate plus 1.85%, expiring on April 1, 2021. 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: 1) maintain a minimum Debt Service Coverage ratio of 1.40:1 and maintain a minimum Current ratio of 1.25:1, both based on the recent annual Financial Statements, and ii) Debt to Equity to not exceed 3.0:1. The Company is in violation of certain debt covenants.

As at July 31, 2020, \$959,067 (July 31, 2019 - \$750,000) was drawn on the mortgage.

- iii) On August 23, 2019, the Company exercised its option to purchase and acquired the cultivation facility for consideration of \$4.2 million. The consideration was paid by deposit previously paid of \$375,000, cash of \$375,000, settlement of invoices on the vendor's behalf and proceeds from the mortgage. The Company acquired the cultivation facility from a company where the director of the Company is also a director. The Company 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. On June 30, 2020 the mortgage was converted into a demand term loan with blended monthly payments of \$26,200, bearing interest at bank's prime rate plus 1.5%, expiring on June 1, 2021. The mortgage is secured by a fixed charge over the buildings, land, and improvements as well as a Joint & Several Guarantees and Postponement in the amount of \$3,500,000.

The mortgage agreement requires that the Company: 1) maintain a minimum Debt Service Coverage ratio of 1.40:1 and maintain a minimum Current ratio of 1.25:1, both based on the recent annual Financial Statements, and ii) Debt to Equity to not exceed 3.0:1. The Company is in violation of certain debt covenants.

- iv) At July 31, 2020 and July 31, 2019, 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 this facility for the year ended July 31, 2020 was 4.0% (July 31, 2019 – 6.2%).
- v) On April 9, 2020, the Government of Canada announced the Canada Emergency Business Account loan program to small Canadian businesses to assist these businesses with working capital requirement during the COVID-19 pandemic. The maximum amount available under the program is \$40,000, of which \$10,000 is forgiven if the loan is repaid prior to December 31, 2022. The Company, through its two wholly owned subsidiaries, have applied for and received \$80,000 under the CEBSA loan program. The loan is non-interest bearing and matures on December 31, 2022.

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

15. Income taxes

- a) The following table reconciles the estimated income tax expense using Canadian Federal and Provincial tax rate of 23% (2019 – 27%) to the reported tax expense.

	July 31, 2020	July 31, 2019
Loss before income taxes	\$ (5,388,784)	\$ (9,002,860)
Statutory tax rates	25%	27%
Expected income tax recovery	(1,347,196)	(2,430,772)
Effect on taxes of:		
Rate change	44,283	88,566
Share-based payments	672,327	2,051,191
Non-deductible expenses	24,681	22,807
Fair value adjustments to inventory	87,854	-
Share and debt issuance costs on acquisition	-	(18,836)
Non-capital losses on acquisition	-	(100,402)
True-up of opening timing differences	15,396	-
Deferred tax assets not recognized	502,655	387,446
	\$ -	\$ -

- b) The changes in deferred income tax assets and liabilities during the years ended July 31, 2020 and 2019 were as follows:

	July 31, 2019	Deferred tax assets (liabilities) recognized in net loss	Deferred tax assets (liabilities) assumed on acquisition	Deferred tax assets (liabilities) on change in tax rates	July 31, 2020
Property, plant and equipment	\$ (2,840)	(87,530)	-	-	\$ (90,370)
Biological assets	1,855	67,661	-	-	69,516
Lease liabilities	-	5,473	87,468	-	-
	92,941				
Non-capital losses	497,312	470,048	-	-	967,360
Share and debt issuance costs	12,925	12,020	-	-	24,945
Net deferred tax assets	509,252	467,672	87,468	-	1,064,392
Deferred tax assets not recognized	(509,252)	(467,672)	(87,468)	-	(1,064,392)
	\$ -	\$ -	\$ -	\$ -	\$ -

	July 31, 2018	Deferred tax assets (liabilities) recognized in net loss	Deferred tax assets (liabilities) assumed on acquisition	Deferred tax assets (liabilities) on change in tax rates	July 31, 2020
Property, plant and equipment	\$ 1,689	\$ (5,023)	-	494	\$ (2,840)
Biological assets	-	2,178	-	(323)	1,855
Non-capital losses	120,117	363,282	100,402	(86,489)	497,312
Share and debt issuance costs	-	(3,663)	18,836	(2,248)	12,925
Net deferred tax assets	121,806	356,774	119,238	(88,566)	509,252
Deferred tax assets not recognized	(121,806)	(356,774)	(119,238)	88,566	(509,252)
	\$ -	\$ -	\$ -	\$ -	\$ -

- c) As at July 31, 2020, the Company has non-capital loss carry-forwards that can be used to offset taxes in future years. These non-capital loss carry-forwards expire as follows:

2040	\$ 2,197,186
2039	1,461,239
2038	446,865
2037	93,695
2036	6,929
	\$ 4,205,914

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

16. Non-controlling interests

The changes in non-controlling interests are as follows:

Balance, July 31, 2018 and 2019	\$	-
Acquisition of Goldstream (Note 6)		100,000
Share of net loss for the year		(2,296)
Balance, July 31, 2020	\$	97,704

At July 31, 2020, the Company held a 95% ownership interest (2019 – nil) in Goldstream, located in British Columbia, Canada. The following table represents the summarized information for Goldstream before intercompany eliminations.

	July 31, 2020	
Current assets	\$	2,448
Non-current assets		2,350,307
Current liabilities		21,420
Non-current liabilities		375,624
Revenues		-
Net loss for the year		44,289

17. Share capital

a) Authorized

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.

b) Issued and outstanding

	Number of shares	Amount
Balance, July 31, 2018	44,280,000	\$ 669,100
Shares issued (Note 16(b)(1))	44,280,000	-
Shares issued (Note 16(b)(2))	750,000	300,000
Shares issued (Note 16(b)(3))	4,472,286	2,071,143
Shares issued (Note 16(b)(4))	554,000	277,000
Shares issued (Note 16(b)(5))	2,000,000	1,000,000
Shares issued (Note 16(b)(6))	8,500,000	4,250,000
Shares issued (Note 16(b)(7))	6,666,666	2,000,000
Balance, July 31, 2019	111,502,952	10,567,243
Shares issued (Note 16(b)(8))	11,666,666	3,500,000
Shares issued (Note 16(b)(9))	8,295,993	1,244,399
Options exercised (Note 16(b)(10))	375,000	73,775
Balance, July 31, 2020	131,840,611	\$ 15,385,417

- 1) On September 24, 2018, the Company completed a 2:1 stock split and as a result, the shareholders of record at September 24, 2018 received one additional common share for each common share held.
- 2) On November 9, 2018, the Company issued 750,000 common units comprising of one common voting share and one-half share purchase warrant, for net proceeds of \$300,000 (or \$0.40 per unit). Each share purchase warrant entitles the holder to acquire an additional common share of the Company for \$1.00 per share for a period of one year from grant date.

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

- 3) On November 9, 2018, the Company issued 4,472,286 common units comprising of one common voting share and one-half share purchase warrant, for net proceeds of \$2,071,143 (or \$0.50 per unit). Each share purchase warrant entitles the holder to acquire an additional common share of the Company for \$1.00 per share for a period of one year from grant date.
 - 4) On February 11, 2019, the Company issued 554,000 common units, to employees and one management team member, comprising of one common voting share and one-half share purchase warrant, for net proceeds of \$277,000 (or \$0.50 per unit). Each share purchase warrant entitles the holder to acquire an additional common share of the Company for \$1.00 per share for a period of one year from grant date.
 - 5) On April 24, 2019, the Company issued 2,000,000 common units comprising of one common voting share and one-half share purchase warrant, for net proceeds of \$1,000,000 (or \$0.50 per unit). Each share purchase warrant entitles the holder to acquire an additional common share of the Company for \$1.00 per share for a period of one year from grant date.
 - 6) 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 6(a).
 - 7) 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 6(c). At July 31, 2020, 6,000,000 shares associated with this transaction were held in escrow.
 - 8) 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 6(d). At July 31, 2020, 9,333,333 shares associated with this transaction were held in escrow.
 - 9) On July 31, 2020, the Company issued 8,295,993 voting common shares \$0.15 per share in a non-brokered private placement, for net proceeds of \$1,244,399.
 - 10) During the year, 375,000 stock options were exercised for total proceeds of \$37,500 (or \$0.10 per voting common share). The fair value associated with these options of \$36,275, have been recorded as an increase to share capital with a corresponding reduction to share-based payments reserve.
- c) Escrowed shares
- Pursuant to an escrow agreement (the "Escrow Agreement") dated as of February 1, 2017, among the Company, Computershare Trust Company of Canada ("Computershare") and certain shareholders of the Company have deposited their common voting shares, under escrow. At July 31, 2020, 70,444,801 outstanding common shares were held in escrow at various prices ranging from \$0.05 to \$0.50 per share. The share of the Principals are subject to escrow for a period of 36 months from the date of closing, with 5% releasable immediately, 5% releasable in six months, further 10% releasable on the twelve and eighteenth month, further 15% releasable on each of twenty-fourth and thirtieth months, and remaining 40% on the thirty-sixth month.

18. Share-based payments

a) Option plan details

The Company has established a stock option program for its officers, directors, employees, and certain consultants under which the Company may grant options to acquire common voting shares at the market price of the shares, at the grant date. With the exception of \$0.10 options, which vest immediately, all options granted under the stock option plan have a five-year term and vest over 3 years.

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

b) The following is a summary of changes in options from July 31, 2018 to July 31, 2020:

	Number of options	Weighted average exercise price
Outstanding, July 31, 2018	800,000	\$ 0.10
Granted	7,750,000	\$ 0.48
Outstanding, July 31, 2019	8,550,000	\$ 0.45
Granted	7,607,500	\$ 0.21
Exercised	(375,000)	\$ 0.10
Cancelled and forfeited	(2,935,000)	\$ 0.48
Outstanding, July 31, 2020	12,847,500	\$ 0.31
Options exercisable at end of period	5,091,667	\$ 0.28

The following table summarizes information about the stock options as at July 31, 2020:

Range of exercise prices	Options Outstanding		Options Exercisable		
	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.10	425,000	1.60	\$ 0.10	425,000	\$ 0.10
\$0.20	6,890,000	4.92	\$ 0.20	2,950,000	\$ 0.20
\$0.29	182,500	4.34	\$ 0.29	-	\$ 0.29
\$0.30	150,000	3.98	\$ 0.30	50,000	\$ 0.30
\$0.32	650,000	3.97	\$ 0.32	216,667	\$ 0.32
\$0.34	200,000	4.00	\$ 0.34	-	\$ 0.34
\$0.50	4,350,000	3.78	\$ 0.50	1,450,000	\$ 0.50
	12,847,500	4.34	\$ 0.31	5,091,667	\$ 0.28

The following table summarizes information about the stock options as at July 31, 2019:

Range of exercise prices	Options Outstanding		Options Exercisable		
	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.10	800,000	2.6	\$ 0.10	800,000	\$ 0.10
\$0.30	150,000	5.0	\$ 0.30	-	\$ 0.30
\$0.32	650,000	5.0	\$ 0.32	-	\$ 0.32
\$0.50	6,950,000	4.8	\$ 0.50	-	\$ 0.50
	8,550,000	4.6	\$ 0.45	800,000	\$ 0.10

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

c) Fair value of options issued during the period

The follow table summarizes the assumptions used in the Black-Scholes option-pricing model for purposes of determining the fair value of the options granted:

	July 31, 2020	July 31, 2019
Dividend yield	0.00%	0.00%
Expected volatility	107.20%	98.28%
Risk-free interest rate	0.56%	1.49%
Forfeiture rate	2.00%	2.00%
Expected life (years)	5.00	5.00
Weighted average fair value of options	\$ 0.15	\$ 0.30

For the year ended July 31, 2019, \$1,097,500 of stock-based compensation expense related to 3,000,000 shares transferred to management and directors by certain shareholders, was incurred due to a variance in the transfer price and the fair value of the shares at the date of transfer.

19. Warrants

From time to time, the Company may issue warrants in connection with a financing as an incentive to participate in such offerings.

On November 9, 2018, the Company completed non-brokered private placements of 5,222,286 units, each unit comprising of one common voting share and one-half common voting share purchase warrant. Each whole warrant entitles its holder to acquire one common voting share for \$1.00 per common voting share for a period of 12 months from the closing date. The fair value of the whole warrant was \$nil.

On February 11, 2019, the Company completed a non-brokered private placement, to members of the management team, of 554,000 units, each unit comprising of one common voting share and one-half common voting share purchase warrant. Each whole warrant entitles its holder to acquire one common voting share for \$1.00 per common voting share for a period of 12 months from the closing date. The fair value of the whole warrant was \$nil.

On April 24, 2019, the Company issued 2,000,000 units, each unit comprising of one common voting share and one-half common voting share purchase warrant. Each whole warrant entitles its holder to acquire one common voting share for \$1.00 per common voting share for a period of 12 months from the closing date. The fair value of the whole warrant was \$nil.

During the year, the original expiry of the common share purchase warrants were extended for additional 24 months with reduction of the exercise price from \$1.00 per common share purchase warrant to \$0.50 per common share purchase warrant.

The following warrants are outstanding as at the following dates:

	Number of warrants	Weighted average exercise price
Outstanding, July 31, 2018	-	\$ -
Issued as part of private placement	3,888,143	0.50
Outstanding, July 31, 2019 and July 31, 2020	3,888,143	\$ 0.50
Exercisable at end of period	3,888,143	\$ 0.50

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

The following table summarizes information about the Company's outstanding warrants as at July 31, 2020:

	Warrants Outstanding			Warrants Exercisable	
	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable	Weighted average exercise price
Issuance date					
November 9, 2018	2,611,143	1.5	\$ 0.50	2,611,143	\$ 0.50
February 11, 2019	277,000	1.5	\$ 0.50	277,000	\$ 0.50
April 24, 2019	1,000,000	1.5	\$ 0.50	1,000,000	\$ 0.50
	3,888,143	1.5	\$ 0.50	3,888,143	\$ 0.50

20. Related party transactions

a) The following is a summary of the Company's related party balances:

	July 31, 2020	July 31, 2019
Amount due from related party		
2105711 Alberta Ltd.	\$ -	\$ 203,000
890859 Alberta Ltd.	6,432	-
	\$ 6,432	\$ 203,200

2105711 Alberta Ltd. is a company owned by a shareholder, a director and officer of the Company.

890859 Alberta Ltd. is a company owned by a shareholder and officer of the Company. 890859 Alberta Ltd. sells non-cannabis balms and creams produced by the Company and subleases space from the Company's retail location.

Amounts due to related parties

SS Pipelines Ltd.	\$ 580,640	\$ 374,028
Runaway Developments Ltd.	650,000	-
Directors	4,939	5,200
	\$ 1,235,579	\$ 379,228

SS Pipelines Ltd. is a company owned by shareholders, a director and officer of the Company. The amounts due to related parties are non-interest bearing, unsecured and have no fixed terms of repayment. Accordingly, the amounts have been presented as being all current on the consolidated statements of financial position.

Runaway Developments Ltd. is a company owned by a shareholder and director of the Company. The amounts due to Runaway Developments Ltd. bears interest at 7% per annum and matured on September 30, 2020. Subsequent to year-end, the maturity has been extended to March 31, 2021.

b) The following is a summary of the Company's related party transactions:

	2020	2019
Expenses paid on behalf of the Company	\$ 138,147	\$ 284,290
Goods and services tax paid on behalf of the Company	7,050	12,563
Capital expenditures paid on behalf of the Company	2,857	212,962
Management fees	-	14,222
	\$ 148,054	\$ 524,037
Sale of non-cannabis products to related party	\$ 9,205	-

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

c) Key management compensation

CanadaBis considers its directors and executives to be key management personnel. Key management personnel compensation is comprised of the following:

	2020		2019	
Short-term employee benefits	\$	180,078	\$	136,039
Share-based payments		1,119,703		1,364,944
	\$	1,299,781	\$	1,500,983

21. Financial instruments and risk management

a) Fair value

The carrying values of cash and cash equivalents, short-term deposits, accounts receivable, accounts payable and accrued liabilities, due to related parties, current portion of lease liabilities and current portion of long-term debt approximate their fair values due to the short-term nature of these financial instruments.

The carrying amounts and fair values of the Company's remaining financial assets and liabilities are as follows:

	July 31, 2020		July 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
FVTPL ⁽¹⁾				
Cash and cash equivalents	\$ 167,002	\$ 167,002	\$ 324,798	\$ 324,798
Accounts receivable	1,072,341	1,072,341	-	-
Short-term deposits	-	-	395,000	395,000
Long-term deposits	-	-	25,000	25,000
Loans and receivables				
Due from related party	6,432	6,432	203,000	203,000
Financial liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	1,792,262	1,792,262	234,802	234,802
Due to related parties	1,235,579	1,235,579	379,228	379,228
Long-term debt	5,656,094	5,672,515	1,892,333	1,892,333
Lease liability	404,091	404,091	-	-

⁽¹⁾ FVTPL means fair value through profit and loss

Fair value hierarchy

The financial instruments of the Company that are recorded at fair value have been classified into levels using the fair value hierarchy based on the degree to which the fair value is observable:

- *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.

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

b) 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.

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.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

		< 1 Year		1-2 Years		3-5 Years
Accounts payable and accrued liabilities	\$	1,792,262	\$	-	\$	-
Due to related parties		1,235,579		-		-
Lease liabilities		12,446		25,686		24,426
Long-term debt		4,694,594		-		961,500
	\$	7,734,881	\$	25,686	\$	985,926

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 and accounts receivable. All of the Company's cash was held at three financial institutions at July 31, 2020, all of which are Canadian Chartered Banks.

For accounts receivable, the Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties. As at July 31, 2020, approximately 90% of the accounts receivable balances were with two parties. The Company has a credit concentration risk as it deals with counterparties that are in the licensed cannabis industry.

The Company's aging of trade receivables was as follows:

		2020		2019
Account receivables				
Not past due	\$	1,084,417	\$	-
1-30 days		39,522		-
31-90 days		33,902		-
Total gross carrying amount		1,157,841		-
Loss allowance		(85,500)		-
Total carrying amount	\$	1,072,341	\$	-

Reconciliation of the loss allowance

The following table shows a reconciliation of the opening to the closing balance of the loss allowance by the class of financial instrument. All classes of financial instruments shown are assessed for impairment in the current year using the simplified approach permitted under IFRS 9, whereby the loss allowance is always measured at an amount equal to lifetime expected credit losses.

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

	2020	2019
Account receivables		
Balance, beginning of year	\$ -	\$ -
New financial assets originated	85,500	-
Balance, end of year	\$ 85,500	\$ -

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 14*). A 1% increase to the interest rate would have an approximate impact of \$44,200 on pre-tax earnings for the year ended.

22. Capital management

The Company's capital management objectives are:

- To safeguard the Company's ability to continue as going concern;
- To meet its capital expenditures for its continued operations;
- To maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risks.

In the management of capital, the Company includes share capital and net debt (defined as current assets and amounts due from related parties less current liabilities and any long-term debt). At July 31, 2020, the Company had net debt of \$5,949,665 (July 31, 2019 - \$1,287,739).

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.

23. Per share amounts

	2020	2019
Weighted average number of common shares		
Basic and diluted	124,944,727	95,495,699

24. Financing costs

	2020	2019
Inventory financing	\$ 351,732	\$ -
Interest on long-term debt	279,247	19,154
Interest on lease liabilities	44,313	-
Accretion expense	1,079	-
	\$ 676,371	\$ 19,154

During the year, the Company entered into an inventory financing arrangement whereby the party provides the funds necessary to purchase bulk cannabis for use in the extraction business. The net profits less both parties' overhead costs, from the sale of extracts and concentrates, are split equally between the Company and the other party. The cost related to the other party has been recorded as inventory financing charges.

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

25. Supplemental cash flow information

Changes in non-cash working capital

	2020	2019
Accounts receivable	\$ (1,072,341)	\$ -
Goods and services tax receivable	(156,605)	(46,626)
Inventory	(716,454)	-
Prepaid expenses	(5,419)	(80,945)
Short-term deposits	20,000	(395,000)
Accounts payable and accrued liabilities	979,485	756
	\$ (951,334)	\$ (521,815)

Included in inventory is \$196,432 (2019 - \$nil) of biological assets that was transferred to harvested cannabis and subsequently used in the extraction process.

The cash expenditures for property, plant and equipment for the year have been reduced by \$578,000 (2019 - \$nil) relating to a \$375,000 deposit and settlement of \$203,000 amounts due from the vendor as part of the purchase price of the building. Included in accounts payable were \$577,975 (2019 - \$212,962) relating to capital expenditures.

26. Segmented information

For management purposes, the Company is organized into operating segments based on its products, services, locations and distribution methods. Four operating segments have been identified. These segments have been aggregated into three reportable segments: wholesale, retail and extraction and tolling. The wholesale segment, which cultivates and distributes cannabis and cannabis products to and through, provincial liquor and cannabis boards which is subsequently sold onto end consumers. Retail segment involves sale of cannabis and cannabis related products to end consumers on premise owned and operated by the Company. Extraction and tolling segment provides cannabinoid extraction services to other licensed producers.

Management monitors the results of its operating segments separately for making decisions about resource allocation and performance assessment. Segment performance is evaluated on a number of measures, the most significant being profit and loss, which is measured consistently with the definition of profit and loss in the Consolidated Financial Statements. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Operating assets and liabilities are managed on a corporate basis. General and administrative expenses, current taxes, deferred taxes and capital expenditures are not allocated to segments as they are also managed on a corporate basis. Inter-segment revenues are eliminated on consolidation and are reflected in the "eliminations" column. All other adjustments and eliminations are part of a detailed reconciliation presented below:

Year ended July 31, 2020	Cultivation and wholesale	Retail	Extraction and tolling	Eliminations	Consolidated
Net revenue	\$ 506,120	\$ 935,879	\$ 3,166,097	\$ (179,265)	\$ 4,428,831
Cost of sales	229,999	665,491	2,204,505	(179,265)	2,920,730
Gross profit excluding fair value adjustments	276,121	270,388	961,592	-	1,508,101
Fair value adjustment of inventory	(16,904)	-	-	-	(16,904)
Fair value adjustment of biological assets	(334,512)	-	-	-	(334,512)
Gross profit	\$ (75,295)	\$ 270,388	\$ 961,592	\$ -	1,156,685
General and administrative ⁽¹⁾					2,905,695
Depreciation and amortization					281,719
Share-based payments					2,689,308
Operating loss					(4,720,037)
Financing expense					(676,371)
Other income					5,328
Loss before taxes and non-controlling interests					\$ (5,391,080)

There were no operating segments in 2019 as the Company only had cultivation and wholesale activities in 2019.

CANADABIS CAPITAL INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian Dollars)

27. Commitments and contingencies

COVID-19 Pandemic

On March 11, 2020, the World Health Organization (“WHO”) characterized the outbreak of a strain of the novel coronavirus (“COVID-19”) as a global pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The Company has taken significant steps to ensure the health and safety of the employees and that all safety guidelines as established by Federal and Alberta health authorities are met.

The production and sale of cannabis have been recognized as essential services in Canada. The duration of and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the developments will have on the financial results and condition of the Company in future periods. It is possible that estimates in the Company’s consolidated financial statements will change in the near term as a result of COVID-19. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

Purchase commitments

In April 2020, the Company entered into a supply arrangement with another licensed producer to purchase cannabis for use in the Company’s extraction process, for a period of one year, and for minimum monthly supply of 50 kilograms.

28. Subsequent events

- i) On September 14, 2020, the Company closed a private placement of 3,583,333 common shares for gross proceeds of \$537,500 (or \$0.15 per common share).
- ii) As previously disclosed in Note 14, the holder of the \$650,000 related party note have agreed to extend the maturity date from September 30, 2020 to March 31, 2021, with no changes in the interest rates.