



# UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended October 31, 2020 and 2019

## NOTICE TO READER

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

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

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

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

As at	October 31, 2020	July 31, 2020
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 88,031	\$ 167,002
Accounts receivable	228,798	1,072,341
Goods and services tax receivable	240,591	233,885
Prepaid expenses	121,781	98,568
Biological assets (Note 9)	101,983	71,718
Inventory (Note 10)	1,383,340	1,084,324
	2,164,524	2,727,838
Property, plant and equipment (Note 11)	9,729,904	9,766,770
Intangible assets (Note 12)	17,637	20,989
Due from related parties (Note 19)	7,062	6,432
	\$ 11,919,127	\$ 12,522,029
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,182,604	\$ 1,792,262
Due to related parties (Note 19)	1,344,683	1,235,579
Current portion of lease obligations (Note 13)	11,989	12,446
Current portion of long-term debt (Note 14)	4,643,549	4,694,594
	7,182,825	7,734,881
Lease obligations (Note 13)	389,062	391,645
Long-term debt (Note 14)	961,500	961,500
	8,533,387	9,088,026
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 16)	15,922,917	15,385,417
Share-based payments reserve	3,039,653	2,795,044
Deficit	(15,672,778)	(14,844,162)
Total equity attributable to shareholders	3,289,792	3,336,299
Non-controlling interest (Note 15)	95,948	97,704
	3,385,740	3,434,003
	\$ 11,919,127	\$ 12,522,029

Going concern (Note 2)  
 Commitments and contingencies (Note 26)  
 Subsequent event (Note 27)

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.****UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

For the Three Month Periods Ended October 31, 2020 and 2019

*(Expressed in Canadian dollars)*

	Three months ended	
	October 31, 2020	October 31, 2019
<b>REVENUE</b>		
Net revenue (Note 7)	\$ 1,198,464	\$ 52,709
Cost of sales (Note 8)	756,340	35,126
Gross profit excluding fair value items	442,124	17,583
Unrealized fair value adjustment to inventory	(1,552)	(62,048)
Unrealized fair value adjustment to biological assets	(18,599)	12,589
Gross profit (loss)	421,973	(31,876)
<b>EXPENSES</b>		
Acquisition costs (Note 6)	-	33,833
Depreciation and amortization (Notes 11 and 12)	121,040	172,689
General and administrative	814,996	680,878
Share-based payments (Notes 6 and 17)	244,609	2,051,053
	1,180,645	2,938,453
Loss from operations	(758,672)	(2,970,329)
<b>Other income and expenses</b>		
Derecognition of lease	-	214,135
Financing costs (Note 23)	(72,328)	(67,793)
Other revenues	628	-
	(71,700)	146,342
Net loss and comprehensive loss	(830,372)	(2,823,987)
Non-controlling interest	1,756	-
Net loss attributable to shareholders	\$ (828,616)	\$ (2,823,987)
Per share amount (Note 22)		
Basic and diluted	\$ (0.01)	\$ (0.02)

See accompanying notes to the consolidated financial statements

## CANADABIS CAPITAL INC.

### UNAUDITED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Three Month Periods ended October 31, 2020 and 2019

*(Expressed in Canadian Dollars)*

	Share Capital	Share-based Payment Reserve	Deficit	Shareholders Equity	Non- controlling Interest	Total Equity
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 16)	3,500,000	-	-	3,500,000	100,000	3,600,000
Shares issued (Note 16)	1,244,399	-	-	1,244,399	-	1,244,399
Shares on exercise of options (Notes 16 and 17)	73,775	(36,275)	-	37,500	-	37,500
Share-based payments (Note 17)	-	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
Shares issued (Note 16)	537,500	-	-	537,500	-	537,500
Share-based payments (Note 17)	-	244,609	-	244,609	-	244,609
Net loss and comprehensive loss	-	-	(828,616)	(828,616)	(1,756)	(830,372)
Balance, October 31, 2020	\$ 15,922,917	\$ 3,039,653	\$ (15,672,778)	\$ 3,289,792	\$ 95,948	\$ 3,385,740

See accompanying notes to the consolidated financial statements

**CANADABIS CAPITAL INC.**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Three Month Periods Ended October 31, 2020 and 2019**  
*(Expressed in Canadian dollars)*

	Three months ended	
	October 31, 2020	October 31, 2019
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss	\$ (830,372)	\$ (2,823,987)
Items not affecting cash		
Accretion expense	297	-
Derecognition of lease liability	-	(214,135)
Depreciation and amortization (Notes 11 & 12)	121,040	172,689
Fair value adjustment of inventory	1,552	62,048
Fair value adjustment of biological assets (Note 9)	18,599	(12,589)
Non-cash interest expense	5,400	16,480
Share-based payments	244,609	2,051,053
Expenses paid for by related parties (Note 19)	-	3,049
Changes in non-cash working capital (Note 24)	(458,825)	139,361
Biological asset costs incurred (Note 9)	(122,727)	(121,549)
	<b>(1,020,427)</b>	<b>(727,580)</b>
<b>Financing activities</b>		
Issuance of shares	537,500	-
Advances from related parties	109,104	205,998
Repayment of amounts due to related parties	(630)	(461)
Proceeds from long-term debt (Note 14)	-	3,650,000
Repayment of long-term debt	(56,740)	-
Lease obligation (Note 13)	(3,039)	(12,444)
	<b>586,195</b>	<b>3,843,093</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(80,822)	(4,478,656)
Cash on acquisition (Note 6)	-	2,000,000
Non-cash investing activities (Note 24)	436,084	5,173
	<b>355,262</b>	<b>(2,473,483)</b>
Net change in cash and cash equivalents	<b>(78,970)</b>	<b>642,030</b>
Cash and cash equivalents		
Beginning of period	167,001	324,798
End of period	<b>\$ 88,031</b>	<b>\$ 966,828</b>
<b>Supplemental cash flow information</b>		
Interest paid	\$ 55,646	\$ 56,313

See accompanying notes to the consolidated financial statements

# CANADABIS CAPITAL INC.

## Notes to the Unaudited Interim Consolidated Financial Statements

### For the Three Month Periods Ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

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#### 1. Nature of operations

CanadaBis Capital Inc. ("CanadaBis" or the "Company") was incorporated under the Alberta Business Corporations Act ("ABCA") on November 29, 2016 and was classified as a Capital Pool Corporation ("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 is 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 and cannabis extracts. 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 interim 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 three month period ended October 31, 2020, the Company incurred a net loss of \$830,372 (October 31, 2019 - \$2,823,987), working capital deficit of \$5,018,301 (July 31, 2020 - \$5,007,043), and negative cash flow from operations of \$1,020,427 (October 31, 2019 - \$727,850). 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, 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 balance sheet 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

The Chartered Professional Accountants of Canada's Handbook incorporates the International Financial Reporting Standards ("IFRS") and publicly accountable enterprises, such as CanadaBis, are required to apply such standards. These Financial Statements have been prepared in accordance with IFRS applicable to the presentation of interim financial statements and International Accounting Standards ("IAS") 34, *Interim Financial Reporting*.

Certain disclosures that are normally required to be included in the notes to the annual audited financial statements have been condensed or omitted. These Financial Statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended July 31, 2020.

These Financial Statements were approved and authorized for issue by the Board of Directors on December 21, 2020.

# CANADABIS CAPITAL INC.

## Notes to the Unaudited Interim Consolidated Financial Statements

For the Three Month Periods Ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

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

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

(c) Non-controlling interest

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

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

(d) Basis of presentation

These 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. 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.

#### 5. Significant accounting policies

These Financial Statements follow the same accounting policies as the most recent annual audited financial statements except as discussed below. Accordingly, these Financial Statements should be read in conjunction with the Company's annual financial statements for the period ended July 31, 2020.

#### 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.

# CANADABIS CAPITAL INC.

## Notes to the Unaudited Interim Consolidated Financial Statements

### For the Three Month Periods Ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

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

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

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

Cash	\$	(379,566)
Accounts payable and accrued liabilities		56,991
Fair value of stock options		335,840
Share consideration		4,250,000
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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:

<b>Consideration</b>		
Cash	\$	100
<hr/>		
<b>Identifiable net assets acquired</b>		
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)
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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.

# CANADABIS CAPITAL INC.

## Notes to the Unaudited Interim Consolidated Financial Statements

For the Three Month Periods Ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

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.

### Consideration

Common shares	\$ 2,000,000
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### Identifiable net assets acquired

Extraction equipment	\$ 72,431
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### Unidentifiable net assets acquired

Share-based payments	1,927,569
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Total net assets and share-based payments	\$ 2,000,000
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#### 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
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### Identifiable net assets acquired

Cash	\$ 2,000,000
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Right-of-use asset – Land	380,295
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Lease liability	(380,295)
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Non-controlling interest	(100,000)
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Identifiable net assets acquired	1,900,000
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### Unidentifiable net assets acquired

Share-based payments	1,600,000
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Total net assets and share-based payments	\$ 3,500,000
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## 7. Revenues

	Three months ended	
	October 31, 2020	October 31, 2019
Extraction and tolling	\$ 774,402	\$ -
Retail	339,912	52,709
Cultivation	84,150	-
	\$ 1,198,464	\$ 52,709

# CANADABIS CAPITAL INC.

## Notes to the Unaudited Interim Consolidated Financial Statements

For the Three Month Periods Ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

### 8. Cost of sales

	Three months ended	
	October 31, 2020	October 31, 2019
Extraction and tolling	\$ 467,053	\$ -
Retail	232,514	35,126
Cultivation	56,773	-
	<b>\$ 756,340</b>	<b>\$ 35,126</b>

### 9. Biological Assets

	October 31, 2020	July 31, 2020
Balance, beginning of period	\$ 71,718	\$ 32,266
Cash cost of biological assets	121,175	665,605
Changes in fair value	(18,599)	(334,511)
Cash cost transferred to inventory upon harvest	(192,436)	(564,867)
Fair value transferred to inventory upon harvest	120,125	273,225
Balance, end of period	<b>\$ 101,983</b>	<b>\$ 71,718</b>

In October 2020, the Company successfully completed its seventh harvest. At October 31, 2020, the remaining plants were 85% 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.

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

### 10. Inventory

	October 31, 2020	July 31, 2020
Retail	\$ 184,572	\$ 154,902
Harvested cannabis	217,397	171,438
Extraction and tolling	981,371	757,984
	<b>\$ 1,383,340</b>	<b>\$ 1,084,324</b>

# CANADABIS CAPITAL INC.

## Notes to the Unaudited Interim Consolidated Financial Statements

For the Three Month Periods Ended October 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
<b>Cost</b>							
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
Adjustments	-	163,733	(163,733)	-	-	-	-
Additions	-	58,365	21,657	800	-	-	80,822
Balance, October 31, 2020	\$ 2,805,295	\$ 6,616,946	\$ 521,253	\$ 172,276	\$ 17,991	\$ 41,560	\$ 10,175,321
<b>Accumulated depreciation</b>							
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
Depreciation	24,134	62,216	19,049	8,682	1,512	2,095	117,688
Balance, October 31, 2020	\$ 24,134	\$ 270,933	\$ 84,841	\$ 54,381	\$ 7,668	\$ 3,460	\$ 445,417
<b>Net book value</b>							
July 31, 2019	\$ 2,805,295	\$ 6,186,131	\$ 597,537	\$ 125,777	\$ 11,835	\$ 40,195	\$ 9,766,770
July 31, 2020	\$ 2,781,161	\$ 6,346,013	\$ 436,412	\$ 117,895	\$ 10,323	\$ 38,100	\$ 9,729,904

Included in property, plant and equipment is \$430,991 (2020 - \$417,809) of building improvements and equipment that is not subject to amortization as it is currently under construction.

### 12. Intangible assets

<b>Cost</b>	
Balance, July 31, 2019	\$ -
Adjustments	38,815
Additions	1,089
Balance, July 31, 2020 and October 31, 2020	39,904
<b>Accumulated depreciation</b>	
Balance, July 31, 2019	\$ -
Depreciation	18,915
Balance, July 31, 2020	18,915
Depreciation	3,352
Balance, October 31, 2020	22,267
<b>Net book value</b>	
July 31, 2020	\$ 20,989
October 31, 2020	\$ 17,637

# CANADABIS CAPITAL INC.

## Notes to the Unaudited Interim Consolidated Financial Statements

For the Three Month Periods Ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

### 13. Lease obligations

#### Right-of-use assets

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 three month ended October 31, 2020 were as follows:

	Vehicle	Building and Improvements	Land	Total
Balance, July 31, 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 and October 31, 2020	\$ 29,060	\$ -	\$ 380,295	\$ 409,355
<b>Accumulated depreciation</b>				
Balance, July 31, 2019	\$ -	\$ -	\$ -	\$ -
Depreciation	921	-	-	921
Balance, July 31, 2020	921	-	-	921
Depreciation	1,465	-	24,134	25,599
Balance, October 31, 2020	\$ 2,386	\$ -	\$ 24,134	\$ 26,520
<b>Net book value</b>				
Balance, July 31, 2020	\$ 28,139	\$ -	\$ 380,295	\$ 408,434
Balance, October 31, 2020	\$ 26,674	\$ -	\$ 356,161	\$ 382,835

#### Lease liabilities

	October 31, 2020	July 31, 2020
Balance, beginning of period	\$ 404,091	\$ -
Opening balance adjustment IFRS 16	-	3,712,436
Derecognized on exercise of purchase option	-	(3,712,436)
Goldstream acquisition	-	380,295
Vehicle lease	-	29,060
Lease payments	(14,094)	(49,577)
Interest expense	11,054	44,313
Balance, end of period	401,051	404,091
Less current portion	(11,989)	(12,446)
	\$ 389,062	\$ 391,645

#### Amounts recognized in profit and loss

	Three months ended	
	October 31, 2020	October 31, 2019
Lease expense on short-term leases	\$ 7,944	\$ 14,099
Interest expense on lease liabilities	11,054	11,480
Amounts expensed in profit and loss	\$ 18,998	\$ 25,579

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### Lease payments

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

	2021
Less than 1 year	\$ 56,374
1-5 years	266,425
More than 5 years	2,052,240
	<b>\$ 2,375,039</b>

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 <sup>(1)</sup> 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)
	<b>\$ 80,000</b>	<b>\$ 881,500</b>	<b>\$ -</b>	<b>\$ 961,500</b>

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

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	CEBA <sup>(1)</sup> loan	Vendor takeback mortgage	Demand mortgage	Total
Balance, July 31, 2020	\$ 80,000	\$ 1,163,200	\$ 4,412,894	\$ 5,656,094
Repayment of principal	-	-	(56,741)	(56,741)
Accretion	-	-	297	297
Accrued interest on vendor takeback mortgage (Note 14(ii))	-	5,400	-	5,400
Balance, October 31, 2020	80,000	1,168,600	4,356,450	5,605,050
Less current portion	-	(287,100)	(4,356,450)	(4,643,550)
	\$ 80,000	\$ 881,500	\$ -	\$ 961,500

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

- 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 tack-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 in the amount of \$1,000,000, due on demand with an initial interest only term of 12 months expiring on February 1, 2020. 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 October 31, 2020, \$953,396 (July 31, 2020 - \$953,396) 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 October 31, 2020, 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 three month period ended October 31, 2020 was 4.0% (July 31, 2020 - 4.0%).
- 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

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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.

#### 15. Non-controlling interests

The changes in non-controlling interests are as follows:

Balance, July 31, 2019	\$	-
Acquisition of Goldstream (Note 6)		100,000
Share of net loss for the year		(2,296)
Balance, July 31, 2020		97,704
Share of net loss for the year		(1,756)
Balance, October 31, 2020	\$	95,948

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

	October 31, 2020	July 31, 2020
Current assets	\$ 3,060	\$ 2,448
Non-current assets	2,326,174	2,350,307
Current liabilities	34,272	21,420
Non-current liabilities	374,369	375,624
Revenues	-	-
Net loss for the period	35,118	44,289

#### 16. 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, 2019	111,502,952	\$ 10,567,243
Shares issued (Note 16(b)(1))	11,666,666	3,500,000
Shares issued (Note 16(b)(2))	8,295,993	1,244,399
Options exercised (Note 16(b)(3))	375,000	73,775
Balance, July 31, 2020	131,840,611	15,385,417
Shares issued (Note 16(b)(4))	3,583,333	537,500
Balance, October 31, 2020	135,423,944	\$ 15,922,917

1) 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 October 31, 2020, 9,333,333 shares associated with this transaction were held in escrow.

2) 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.

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- 3) During 2020, 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.
- 4) On September 14, 2020, the Company issued 3,583,333 voting common shares at \$0.15 per share in a non-brokered private placement, for net proceeds of \$537,500.

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 October 31, 2020, 60,802,201 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.

## 17. 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. For options issued subsequent to April 30, 2020, one-half vest immediately while remaining one-half vest on the first anniversary.

b) The following is a summary of changes in options from July 31, 2019 to October 31, 2020:

	Number of options	Weighted average exercise price
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
<b>Outstanding, July 31, 2020 and October 31, 2020</b>	<b>12,847,500</b>	<b>\$ 0.31</b>
<b>Options exercisable at end of period</b>	<b>5,163,334</b>	<b>\$ 0.28</b>

The following table summarizes information about the stock options as at October 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	1.35	\$ 0.10	425,000	\$ 0.10	
\$0.20	6,890,000	4.67	\$ 0.20	2,950,000	\$ 0.20	
\$0.29	182,500	4.09	\$ 0.29	5,000	\$ 0.29	
\$0.30	150,000	3.73	\$ 0.30	50,000	\$ 0.30	
\$0.32	650,000	3.72	\$ 0.32	216,667	\$ 0.32	
\$0.34	200,000	3.75	\$ 0.34	66,667	\$ 0.34	
\$0.50	4,350,000	3.53	\$ 0.50	1,450,000	\$ 0.50	
	<b>12,847,500</b>	<b>4.09</b>	<b>\$ 0.31</b>	<b>5,163,334</b>	<b>\$ 0.28</b>	

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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	

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:

	October 31, 2020	July 31, 2020
Dividend yield	-	0.00%
Expected volatility	-	100.04%
Risk-free interest rate	-	1.49%
Forfeiture rate	-	2.00%
Expected life (years)	-	5.00
Weighted average fair value of options	\$ -	\$ 0.30

### 18. 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 period, 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.

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The following warrants are outstanding as at the following dates:

	Number of warrants	Weighted average exercise price
Outstanding, July 31, 2019, July 31, 2020 and October 31, 2020	3,888,143	\$ 0.50
Exercisable at end of period	3,888,143	\$ 0.50

The following table summarizes information about the Company's outstanding warrants as at October 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	1.0	\$ 0.50	2,611,143	\$ 0.50
February 11, 2019	277,000	1.3	\$ 0.50	277,000	\$ 0.50
April 24, 2019	1,000,000	1.5	\$ 0.50	1,000,000	\$ 0.50

### 19. Related party transactions

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

	October 31, 2020	July 31, 2020
<b>Amount due from related party</b>		
890859 Alberta Ltd.	\$ 7,062	\$ 6,432

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.

	October 31, 2020	July 31, 2020
<b>Amounts due to related parties</b>		
SS Pipelines Ltd.	\$ 689,744	\$ 580,640
Runaway Developments Ltd.	650,000	650,000
Directors	4,939	4,939
	<b>\$ 1,344,683</b>	<b>\$ 1,235,579</b>

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 amount due to Runaway Developments Ltd. is unsecured, 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:

	Three months ended	
	October 31, 2020	October 31, 2019
Expenses paid on behalf of the Company	\$ -	\$ 3,049
Capital expenditures paid on behalf of the Company	-	5,173
	<b>\$ -</b>	<b>\$ 8,222</b>

There were no sales of non-cannabis products to related parties during the period. The Company is leasing an extraction machine from a company that is owned by three directors of CanadaBis. The machine is currently leased for \$nil consideration.

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c) Key management compensation

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

	Three months ended	
	October 31, 2020	October 31, 2019
Short-term employer benefits	\$ 32,500	\$ 72,692
Share-based payments	202,954	335,037
	<b>\$ 235,454</b>	<b>\$ 407,729</b>

**20. Financial instruments and risk Management**

a) Fair value

The carrying values of cash and cash equivalents, deposits, 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:

	October 31, 2020		July 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
FVTPL <sup>(1)</sup>				
Cash and cash equivalents	\$ 88,031	\$ 88,031	\$ 167,002	\$ 167,002
Accounts receivable	228,798	228,798	1,072,341	1,072,341
Loans and receivables				
Due from related party	7,062	7,062	6,432	6,432
<b>Financial liabilities</b>				
Other financial liabilities				
Accounts payable and accrued liabilities	1,182,604	1,182,604	1,792,262	1,792,262
Due to related parties	1,344,683	1,344,683	1,235,579	1,235,579
Long-term debt	5,605,049	5,621,174	5,656,094	5,672,515
Lease liability	401,052	401,052	404,091	404,091

<sup>(1)</sup> 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.

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### 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 and the Company's management of capital.

#### *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	\$ 1,182,602	\$ -	\$ -
Due to related parties	1,344,683	-	-
Lease liabilities	11,989	26,052	30,320
Long-term debt	4,643,549	-	961,500
	<b>\$ 7,182,823</b>	<b>\$ 26,052</b>	<b>\$ 991,820</b>

#### *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 October 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 October 31, 2020, approximately 82% 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:

	October 31, 2020	July 31, 2020
Account receivables		
Not past due	\$ 213,124	\$ 1,084,417
1-30 days	31,798	39,522
31-90 days	61,920	33,902
90+ days	33,456	-
Total gross carrying amount	340,298	1,157,841
Loss allowance	(111,500)	(85,500)
Total carrying amount	<b>\$ 228,798</b>	<b>\$ 1,072,341</b>

#### *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

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simplified approach permitted under IFRS 9, whereby the loss allowance is always measured at an amount equal to lifetime expected credit losses.

	October 31, 2020	July 31, 2020
Account receivables		
Balance, beginning of period	\$ 85,500	\$ -
New financial assets originated	26,000	85,500
Balance, end of period	\$ 111,500	\$ 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 \$43,560 on pre-tax earnings for the three months ended October 31, 2020.

## 21. 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 risk.

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 October 31, 2020, the Company had net debt of \$5,960,749 (July 31, 2020 - \$5,934,639).

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.

## 22. Per share amounts

	Three months ended	
	October 31, 2020	October 31, 2019
Weighted average number of common shares		
Basic and diluted	133,671,227	121,521,067

## 23. Financing costs

	Three months ended	
	October 31, 2020	October 31, 2019
Interest on long-term debt	\$ 60,977	\$ 56,313
Interest on lease liabilities	11,054	11,480
Accretion expense	297	-
	\$ 72,328	\$ 67,793

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### 24. Changes in non-cash working capital

	Three months ended	
	October 31, 2020	October 31, 2019
Accounts receivable	\$ 843,543	\$ -
Goods and services tax receivable	(6,706)	(23,346)
Inventory	(226,703)	(194,255)
Prepaid expenses	(23,213)	36,103
Short-term deposits	-	359,809
Accounts payable and accrued liabilities	(1,045,747)	(38,950)
	<u>\$ (458,826)</u>	<u>\$ 139,361</u>

Included in inventory is \$26,354 (2020 - \$nil) of biological assets that was transferred to harvested cannabis and subsequently used in the extraction process. Included in accounts payable were \$436,084 (October 31, 2019 - \$5,173) relating to capital expenditures.

### 25. 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:

Three month period ended October 31, 2020	Cultivation and wholesale	Retail	Extraction and tolling	Eliminations	Consolidated
Net revenue	\$ 84,150	\$ 339,912	\$ 774,402	\$ -	\$ 1,198,464
Cost of sales	56,773	232,514	467,053	-	756,340
Gross profit excluding fair value adjustments	27,377	107,398	307,349	-	442,124
Fair value adjustment of inventory	(1,552)	-	-	-	(1,552)
Fair value adjustment of biological assets	(18,599)	-	-	-	(18,599)
Gross profit	\$ 7,226	\$ 107,398	\$ 307,349	\$ -	\$ 421,973
General and administrative <sup>(1)</sup>					814,996
Depreciation and amortization					121,040
Share-based payments					244,609
Operating loss					(758,672)
Financing expense					(72,328)
Other income					628
Loss before taxes and non-controlling interests					<u>\$ (830,372)</u>

There were no operating segments reported for the three month period ended October 31, 2019 as the Company only had retail revenues and expenses for the three month period ended October 31, 2019.

## CANADABIS CAPITAL INC.

### Notes to the Unaudited Interim Consolidated Financial Statements

#### For the Three Month Periods Ended October 31, 2020 and 2019

*(Expressed in Canadian Dollars)*

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#### 26. 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.

#### 27. Subsequent event

On November 26, 2020, the Company secured its federal sales license for concentrates.