



UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended October 31, 2021 and 2020

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 unaudited condensed interim consolidated financial statements have not been reviewed by an auditor.

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

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

CANADABIS CAPITAL INC.**UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

As at October 31, 2021 and July 31, 2021

(Expressed in Canadian dollars)

As at	October 31, 2021	July 31, 2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 19,810	\$ 849,503
Accounts receivable (Note 21(b))	921,102	672,507
Goods and services tax receivable	1,815	366
Prepaid expenses	205,878	127,230
Biological assets (Note 10)	70,037	29,027
Inventory (Note 11)	1,536,585	1,221,836
	<u>2,755,227</u>	<u>2,900,469</u>
Long-term deposit (Note 9)	274,449	274,449
Property, plant and equipment (Note 12)	9,999,320	10,089,708
Intangible assets (Note 13)	4,389	7,715
Due from related parties (Note 20)	12,200	11,570
	<u>\$ 13,045,585</u>	<u>\$ 13,283,911</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,761,803	\$ 1,334,031
Due to related parties (Note 20)	1,354,092	1,631,286
Current portion of lease obligations (Note 14)	188,716	189,972
Current portion of long-term debt (Note 15)	6,863,553	6,987,148
	<u>10,168,164</u>	<u>10,142,437</u>
Deferred income liability (Note 15 (ii))	53,496	58,086
Lease obligations (Note 14)	786,489	806,793
Long-term debt (Note 15)	459,932	455,343
	<u>11,468,081</u>	<u>11,462,659</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 17)	15,995,534	15,995,534
Share-based payments reserve	3,280,257	3,253,086
Deficit	(17,791,063)	(17,520,935)
Total equity attributed to own shareholders	1,484,728	1,727,685
Non-controlling interest (Note 16)	92,776	93,567
	<u>1,577,504</u>	<u>1,821,252</u>
	<u>\$ 13,045,585</u>	<u>\$ 13,283,911</u>

Going concern (Note 2)

Subsequent event (Note 28)

Approved by the Board of Directors

"Travis McIntyre "

Travis McIntyre

"Shane Chana"

Shane Chana

See accompanying notes to the unaudited condensed interim consolidated financial statements

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

For the Three Month Periods Ended October 31, 2021 and 2020

(Expressed in Canadian dollars)

	Three months ended	
	October 31, 2021	October 31, 2020
		(Restated) (Note 6)
REVENUE		
Net revenues (Note 7)	\$ 1,845,297	\$ 1,174,585
Cost of sales (Note 8)	912,968	752,612
Gross profit	932,329	421,973
EXPENSES		
Depreciation and amortization	78,130	121,040
General and administration	970,770	814,996
Share-based payments (Note 18)	27,171	117,613
	1,076,071	1,053,649
Loss from operations	(143,742)	(631,676)
Other income and expenses		
Financing costs (Note 24)	(132,367)	(72,328)
Other income (expenses)	5,190	628
	(127,177)	(71,700)
Net loss and comprehensive loss for the period	(270,919)	(703,376)
Attributed to:		
Equity holders of the parent	(270,128)	(701,620)
Non-controlling interest	(791)	(1,756)
	\$ (270,919)	\$ (703,376)
Per share amount (Note 23)		
Basic and diluted	\$ (0.00)	\$ (0.01)

See accompanying notes to the unaudited condensed interim consolidated financial statements

CANADABIS CAPITAL INC.

UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Three Month Periods Ended October 31, 2021 and 2020

(Expressed in Canadian dollars)

	Share capital	Share-based payment reserve	Deficit	Total equity attributable to own shareholders	Non-controlling interest	Total shareholders' equity
Balance, July 31, 2020	\$ 15,385,417	\$ 2,795,044	\$ (14,844,162)	\$ 3,336,299	\$ 97,704	\$ 3,434,003
Shares issued (Note 17)	537,500	-	-	537,500	-	537,500
Share-based payments (restated) (Note 6)	-	117,613	-	117,613	-	117,613
Net loss and comprehensive loss (restated) (Note 6)	-	-	(701,620)	(701,620)	(1,756)	(703,376)
Balance, October 31, 2020	\$ 15,922,917	\$ 2,912,657	\$ (15,545,782)	\$ 3,289,792	\$ 95,948	\$ 3,385,740
Balance, July 31, 2021	\$ 15,995,534	\$ 3,253,086	\$ (17,520,935)	1,727,685	\$ 93,567	\$ 1,821,252
Share-based payments	-	27,171	-	27,171	-	27,171
Net loss and comprehensive loss	-	-	(270,128)	(270,128)	(791)	(270,919)
Balance, October 31, 2021	\$ 15,995,534	\$ 3,280,257	\$ (17,791,063)	\$ 1,484,728	\$ 92,776	\$ 1,577,504

See accompanying notes to the unaudited condensed interim consolidated financial statements

CANADABIS CAPITAL INC.
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Month Periods Ended October 31, 2021 and 2020
(Expressed in Canadian dollars)

	Three months ended	
	October 31, 2021	October 31, 2020 (Restated) (Note [x])
Cash provided by (used in)		
Operating activities		
Net loss	\$ (270,919)	\$ (703,376)
Items not affecting cash		
Accretion expense	10,970	297
Depreciation and amortization (Notes 12 and 13)	133,487	121,040
Realized fair value on inventory sold	35,728	-
Change in fair value of biological asset	(43,692)	(101,526)
Non-cash other income	(4,590)	-
Non-cash interest expense	3,971	5,400
Share-based payments	27,171	117,613
Changes in non-cash working capital (Note 25)	(224,179)	(448,820)
	(332,053)	(1,009,372)
Financing activities		
Issuance of shares	-	537,500
Advances from related parties	-	109,104
Repayment of amounts due to related parties	(277,823)	(630)
Repayment of long-term debt	(129,976)	(56,741)
Lease obligation (Note 14)	(50,068)	(14,094)
	(457,867)	575,139
Investing activities		
Purchase of property, plant and equipment	(39,773)	(80,822)
Changes in non-cash working capital (Note 25)	-	436,084
	(39,773)	355,262
Net change in cash and cash equivalents	(829,693)	(78,971)
Cash and cash equivalents		
Beginning of the period	849,503	167,002
End of the period	\$ 19,810	\$ 88,031
Supplemental cash flow information		
Interest paid	\$ 89,097	\$ 55,577

See accompanying notes to the unaudited condensed interim consolidated financial statements

CANADABIS CAPITAL INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Month Periods Ended October 31, 2021 and 2020

Canadian dollars)

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. 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 as disclosed in the July 31, 2020 annual consolidated financial statements for reporting purposes the accounting acquirer is deemed to have been 1926360AB and those financial statements were presented on the basis of reverse acquisition accounting principles. 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 condensed 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, 2021, the Company incurred a net loss of \$270,919 (October 31, 2020 - \$703,376), current liabilities exceeding current assets by \$7,412,937 (July 31, 2021 - \$7,241,968), and negative cash flow from operations of \$332,053 (October 31, 2020 - \$1,009,372). 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 contingent on the Company completing successful future financings (both from equity and debt sources). Further, the Company needs to secure additional contracts with customers and continue to sell products actively in the market to produce sufficient revenues to meet both short-term and long-term obligations. In the event the Company is unsuccessful in these efforts, it will look to insiders and related entities for additional support while obligations come due. If these efforts are unsuccessful, the Company's ability to operate as a going concern will be in significant doubt. The Company plans to remedy its working capital deficiency by completing successful future financings and securing contracts with new customers in all Provinces it currently operates. See Note 28 to the Financial Statements for the additional financing secured.

Management is continuing to work with the Company's current lender to remedy covenant breaches as disclosed in Note 15(iii) to the Financial Statements. There is risk that the lender will issue a demand letter for repayment based on the covenant breach in question. The Company has continually satisfied its minimum obligations required and is working diligently with its lender to rectify covenant breaches. The Company's ability to become compliant with financial covenants in the next twelve months relies on its ability to successfully generate revenue with existing and new customers.

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 repayment on the 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, 2021.

These Financial Statements were approved and authorized for issue by the Board of Directors on December 23, 2021.

(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
Stigma Pharmaceuticals 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.

CANADABIS CAPITAL INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Month Periods Ended October 31, 2021 and 2020

Canadian dollars)

3. Basis of preparation (continued)

(c) Non-controlling interest (continued)

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. Significant accounting policies

These Financial Statements follow the same accounting policies as the most recent annual audited financial statements. Accordingly, these Financial Statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended July 31, 2021. Certain prior period amounts have been reclassified throughout the Financial Statements to conform with current period presentation. Changes in fair value related to biological assets and realized fair value on inventory sold are presented in notes to the Financial Statements. See Notes 9, 10 and 26.

New and amended accounting standards adopted

On August 1, 2021, the Company adopted the Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases") ("IBOR Phase 2 Amendments"). The IBOR Phase 2 Amendments primarily relate to the modification of financial instruments, allowing for a practical expedient for modifications required by the reform, resulting in updating the effective interest rate without modification of the financial instrument and is subject to satisfying all qualifying criteria. There was not a material impact to the Company's Financial Statements.

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.

6. Restatements of prior period presented

(a) For the three month period ended October 31, 2020

For the nine month period ended April 30, 2021, the previously reported financial information as at and for the three month period ended October 31, 2020, was restated as presented below as impacts the Financial Statements.

	Three months ended October 31, 2020		
	Previously reported	Adjustment	Restated
Expenses			
Share-based payments (iii)	\$ 244,609	\$ (126,996)	\$ 117,613
Net loss and comprehensive loss for the period	(830,372)	(126,996)	(703,376)
Attributed to:			
Equity holders of the parent	(828,616)	(126,996)	(701,620)
Non-controlling interest	(1,756)	-	(1,756)
	(830,372)	(126,996)	(703,376)
Per share amount - Basic and diluted	\$ (0.01)	\$ (0.00)	\$ (0.01)
	As at October 31, 2020		
Deficit, beginning of period	\$ (14,844,162)	\$ -	\$ (14,844,162)
Net loss and comprehensive loss for the equity holders of the parent	(828,616)	(126,996)	(701,620)
Deficit, end of period	\$ (15,672,778)	\$ (126,996)	\$ (15,545,782)
Share-based payments reserve, opening balance	2,795,044	-	\$ 2,795,044
Share-based payments (i)	244,609	126,996	117,613
Share-based payments reserve, end of period	\$ 3,039,653	\$ 126,996	\$ 2,912,657

(i) Restated the share-based payments for the three month period ended October 31, 2020 to adjust the previously recognized share-based payment expense for stock options surrendered and cancelled during this period that are treated as modifications for accounting purposes. This restatement is included in the restated financial information for the nine month period ended April 30, 2020 as presented in the unaudited condensed consolidated statement of operations and comprehensive loss.

(b) Restatement of unaudited interim consolidated statements of cash flows

The unaudited condensed interim consolidated statements of cash flows for the three month period ended October 31, 2020 were restated for the above noted adjustment (i) and to conform prior period as previously presented with current period presentation.

CANADABIS CAPITAL INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Month Periods Ended October 31, 2021 and 2020

(Canadian dollars)

7. Net revenues

	Three months ended	
	October 31, 2021	October 31, 2020
Extraction and tolling	\$ 1,490,439	\$ 774,402
Retail	198,010	339,912
Cultivation and wholesale	156,848	60,271
	\$ 1,845,297	\$ 1,174,585

8. Cost of sales

	Three months ended	
	October 31, 2021	October 31, 2020
Extraction and tolling	\$ 661,690	\$ 463,325
Retail	145,273	232,514
Cultivation and wholesale	106,005	56,773
	\$ 912,968	\$ 752,612

During the three months ended October 31, 2021 and 2020, the depreciation charge of \$43,504 and \$Nil, respectively were included in cost of sales of extraction and tolling. For the majority of the comparative period, revenue was mainly generated from retail revenue and the depreciation charge included in cost of sales was minimal to reclassify.

During the three months ended October 31, 2021 and 2020, the cost of sales - extraction and tolling included realized fair value included in the packaged extraction inventory (finished goods) produced using the Company's own cultivated inventory of \$35,728 and \$Nil, respectively sold during these periods presented.

9. Long-term deposit

In connection with the new debt facility (see Note 15 (iii)), a term deposit for commercial hold backs with a maturity date of July 13, 2022 and an interest rate of 0.20% was obtained. This term deposit cannot be redeemed until the lien as stipulated in the commitment letter is removed. The lien is regarding a statement of claim against the

10. Biological Assets

	October 31, 2021	July 31, 2021
Balance, beginning of period	\$ 29,027	\$ 71,718
Capitalized cost of biological assets	100,880	445,534
Changes in fair value	43,692	57,635
Cash cost transferred to inventory upon harvest	(103,562)	(545,860)
	\$ 70,037	\$ 29,027

During the three months ended October 31, 2021, the depreciation charge of \$11,854 related to property, plant and equipment used in the growth and harvesting of biological assets were capitalized to biological assets. No depreciation charge was capitalized for the comparative period presented.

During the three months ended October 31, 2021 and 2020, the gross profit included the changes in fair value related to the biological assets of \$43,692 and \$101,526, respectively.

During the three months ended October 31, 2021, the Company successfully completed its eleventh harvest. At October 31, 2021, the remaining plants were 28% to 92% complete relative to the next expected harvests. The selling price per gram for dried cannabis flowers remained unchanged from July 31, 2021 for the three month period ended October 31, 2021.

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, as there is currently no actively traded commodity market in Canada for cannabis plants.. The fair value of cannabis plants was determined using a valuation model that estimates the expected harvest yield per crop and applies this to the estimated fair value less costs to sell per gram of dried cannabis flower. 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 per plant – 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 independently would have on the fair value of biological assets as at October 31, 2021 and July 31, 2021.

	10% change as at		10% change as at	
	October 31, 2021	October 31, 2021	July 31, 2021	July 31, 2021
Selling price	\$3.15 p/gram	\$3,500	\$3.15 p/gram	\$3,500
Yield per plant	42 grams	\$3,500	42 grams	\$3,500
Survival rate	95.0%	\$5,300	95.0%	\$5,300

CANADABIS CAPITAL INC.
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Month Periods Ended October 31, 2021 and 2020

Canadian dollars

11. Inventory

	October 31, 2021	July 31, 2021
Retail	\$ 298,928	\$ 296,426
Harvested cannabis	89,878	127,760
Extraction and tolling	1,147,779	797,650
	\$ 1,536,585	\$ 1,221,836

12. Property, Plant and Equipment

	Land	Building and improvements (i)	Plant and equipment	Office equipment	Computer hardware	Automobiles	Total
Cost							
Balance, July 31, 2020	\$ 2,805,295	\$ 6,394,848	\$ 663,329	\$ 171,476	\$ 17,991	\$ 41,560	\$ 10,094,499
Additions (ii)	-	96,041	677,961	2,565	5,004	-	781,571
Reclassifications (iii)	-	247,339	(163,733)	(83,606)	-	-	-
Disposals	-	-	-	(4,266)	-	-	(4,266)
Balance, July 31, 2021	2,805,295	6,738,228	1,177,557	86,169	22,995	41,560	10,871,804
Additions	-	-	39,773	-	-	-	39,773
Balance, October 31, 2021	\$ 2,805,295	\$ 6,738,228	\$ 1,217,330	\$ 86,169	\$ 22,995	\$ 41,560	\$ 10,911,577
Accumulated depreciation							
Balance, July 31, 2020	\$ -	\$ 208,717	\$ 65,792	\$ 45,699	\$ 6,156	\$ 1,365	\$ 327,729
Depreciation	39,024	264,943	119,108	17,701	6,556	8,312	455,644
Reclassifications (iii)	-	29,949	-	(29,949)	-	-	-
Disposals	-	-	-	(1,277)	-	-	(1,277)
Balance, July 31, 2021	39,024	503,609	184,900	32,174	12,712	9,677	782,096
Depreciation (iv)	5,000	66,941	49,503	4,344	2,278	2,095	130,161
Balance, October 31, 2021	\$ 44,024	\$ 570,550	\$ 234,403	\$ 36,518	\$ 14,990	\$ 11,772	\$ 912,257
Net book value							
October 31, 2021	\$ 2,761,271	\$ 6,167,678	\$ 982,927	\$ 49,651	\$ 8,005	\$ 29,788	\$ 9,999,320
July 31, 2021	\$ 2,766,271	\$ 6,234,619	\$ 992,657	\$ 53,995	\$ 10,283	\$ 31,883	\$ 10,089,708

- (ii) On January 31, 2021, 1998643 Alberta Ltd. entered into a lease arrangement with a company that is owned by two directors and a significant shareholder of CanadaBis to lease an extraction machine over a 72-month term for a monthly payment of \$11,991 plus applicable taxes and residual value of \$1, with first payment due April 30, 2021. Considering the related party nature of this transaction and outside of the normal course of business, the rate implicit to the arrangement approved by the Board of Directors was 11.0% and the original vendor cost of the asset was supported by an arm's length transaction between the lender and the vendor. For accounting purposes, the incremental borrowing rate for the Company (lessee) was assessed as 12.0% supported by an independent financing quote but due to financing constraints the Company entered into this lease arrangement with a related party. As at January 31, 2021, a right-of-use asset of \$629,240 was recognized and a corresponding lease obligation (Note 14). The right-of-use asset is depreciated over the lease term on a straight-line basis, which is shorter than the asset's useful life.
- (iii) During the year ended July 31, 2021, certain assets within an asset class was reclassified to be aligned with a particular asset class based on underlying nature and use of asset. The resulting reclassification had no impact on useful lives and resulting determination of depreciation charge. Individual assets with an aggregate cost of \$163,733 were reclassified from "Plant and equipment" to "Building and Improvements", and assets used in cultivation with an aggregate cost of \$83,606 and accumulated depreciation of \$29,949 were reclassified from "Office equipment" to "Building and Improvements".
- (iv) This represents the aggregate depreciation charge for the three month period ended October 31, 2021 that is prior to the capitalization of \$11,854 to Biological Assets (Note 10) and reclassification of \$43,504 from the "Depreciation and amortization" financial statement line item to Cost of sales - extraction and tolling (Note 8) for presentation purposes.

13. Intangible assets

Cost	
Balance, July 31, 2020, July 31, 2021 and October 31, 2021	\$ 39,904
Accumulated amortization	
Balance, July 31, 2020	\$ 18,915
Amortization	13,274
Balance, July 31, 2021	32,189
Amortization	3,326
Balance, October 31, 2021	\$ 35,515
Net book value	
October 31, 2021	\$ 4,389
July 31, 2021	\$ 7,715

CANADABIS CAPITAL INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Month Periods Ended October 31, 2021 and 2020

(Canadian dollars)

14. 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 12). The changes in the net book value for the Company's right-of-use assets during the three month period ended October 31, 2021 were as follows:

Cost	Plant and equipment	Vehicle	Land	Total
Balance, July 31, 2020	\$ -	\$ 29,060	\$ 380,295	\$ 409,355
Additions	629,240	-	-	629,240
Balance, July 31, 2021 and October 31, 2021	629,240	29,060	380,295	1,038,595
Accumulated depreciation				
Balance, July 31, 2020	\$ -	\$ 921	\$ -	\$ 921
Depreciation	32,174	8,312	39,024	79,510
Balance, July 31, 2021	32,174	9,233	39,024	80,431
Depreciation	26,434	2,095	5,000	33,529
Balance, October 31, 2021	\$ 58,608	\$ 11,328	\$ 44,024	\$ 113,960
Net book value				
Balance, October 31, 2021	\$ 570,632	\$ 17,732	\$ 336,271	\$ 924,635
Balance, July 31, 2021	\$ 597,066	\$ 19,827	\$ 341,271	\$ 958,164

Lease liabilities

	October 31, 2021	July 31, 2021
Balance, beginning of period	\$ 996,765	\$ 404,091
Plant and equipment (Note 12 (ii))	-	629,240
Lease payments	(50,068)	(104,330)
Interest expense	28,508	67,764
Balance, end of period	975,205	996,765
Less current portion	(188,716)	(189,972)
	\$ 786,489	\$ 806,793

Amounts recognized in profit and loss

	Three months ended	
	October 31, 2021	October 31, 2020
Lease expense on short-term lease (iii)	\$ 2,656	\$ 7,944
Interest expense on lease liabilities	28,508	11,054
Amounts expensed in profit and loss	\$ 31,164	\$ 18,998

Lease payments

The required undiscounted cash flows of lease payments of the lease liability as at October 31, 2021, are as follows:

	2022
Less than 1 year	\$ 200,272
1-5 years	896,703
More than 5 years	560,251
	\$ 1,657,226

15. Long-term debt

	CEBA loan	RRRF Loan (ii)	Vendor takeback		Commercial Mortgage Loan		Total
			mortgage	Demand mortgage	(iii)		
Balance, July 31, 2020	\$ 80,000	\$ -	\$ 1,163,200	\$ 4,412,894	\$ -	\$ -	\$ 5,656,094
Additional funding	40,000	330,814	-	-	6,985,000	-	7,355,814
Repayment of principal (i)	-	-	(1,183,763)	(4,413,774)	-	-	(5,597,537)
Accretion	-	4,529	-	880	2,148	-	7,557
Accrued interest on vendor takeback mortgage	-	-	20,563	-	-	-	20,563
Balance, July 31, 2021	120,000	335,343	-	-	6,987,148	-	7,442,491
Less current portion	-	-	-	-	(6,987,148)	-	(6,987,148)
	\$ 120,000	\$ 335,343	\$ -	\$ -	\$ -	\$ -	\$ 455,343

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15. Long-term debt (continued)

	CEBA loan	RRRF Loan	Commercial Mortgage Loan	Total
Balance, July 31, 2021	\$ 120,000	\$ 335,343	\$ 6,987,148	\$ 7,442,491
Repayment of principal	-	-	(129,976)	(129,976)
Accretion	-	4,589	6,381	10,970
Balance, October 31, 2021	120,000	339,932	6,863,553	7,323,485
Less current portion	-	-	(6,863,553)	(6,863,553)
	\$ 120,000	\$ 339,932	\$ -	\$ 459,932

- (i) On July 23, 2021, the Company settled the Vendor takeback mortgage and demand mortgage debt using the funding received under the New Credit Facility (Note 15 (iii)).
- (ii) On February 23, 2021, the Company through one of its wholly-owned subsidiaries secured funding of \$393,428 under the Regional Relief and Recovery Fund ("RRRF"), an economic relief program under Canada's overall COVID-19 Economic Response Plan to fund ongoing non-capital operations. Repayment of this loan commences on January 31, 2023 with 35 consecutive monthly installments of \$10,930 and one final payment of \$10,878 due on December 31, 2025. Interest will be charged at an average bank rate plus 3% from commencement of repayment on January 31, 2023 to December 30, 2025. Considering the interest free period and that received funding at an interest rate below market, the funding was deemed a government grant resulting in a deferred income liability recognized representing the benefit received. As at October 31, 2021, the deferred income liability outstanding was \$53,496 net of \$4,589 recognized during the three month period ended October 31, 2021 as other income representing recognition of this benefit over the term of the funding agreement. An annual effective interest rate of 5.45% was considered reflective of a market rate available at a financial institution under similar terms of repayment. A corresponding accretion expense of \$4,589 was recognized during this period to accrete the loan outstanding, resulting in a net impact of \$Nil to net loss for the three month period ended October 31, 2021.
- (iii) On June 3, 2021, the Company announced that a binding commitment letter was signed on May 24, 2021 with Connect First Credit Union (the "Credit Union") for a new credit facility of \$9.6 million to be comprised of a 5-year term, \$8,850,000 commercial mortgage loan bearing interest at a fixed rate of 4.35% per annum (calculated daily and payable monthly in arrears) (the "Commercial Mortgage Loan") and a \$750,000 on demand line of credit bearing interest at a rate of the lender's prime lending rate plus 1.00% per annum (calculated daily and payable monthly in arrears) (collectively, the "New Credit Facility"). On July 23, 2021, the first tranche of \$7,210,000 was released upon the meeting customary closing conditions and was used to settle exiting long-term debt (vendor takeback mortgage and demand mortgage). Aggregate financing costs associated with the New Credit Facility incurred was \$225,000 that was allocated against the Commercial Mortgage Loan. The costs associated with the loan form part of the amortized costs of the loan used to determine the effective interest rate of 3.63%. The monthly payable of principal and accrued interest of the Commercial Mortgage Loan is \$91,081. The second tranche of \$1,640,000 shall be advanced upon completion and delivery of the Company's July 31, 2021 year-end audited financial statements, the 2022 projections and following compliance with debt covenants for two (2) quarters of the year ending July 31, 2022. Upon receipt of the second tranche, this funding will be used to settle the related party debt (Note 20). As at October 31, 2021, the demand line of credit was not drawn down.
- The New Credit Facility is secured through the First Coverage Demand Collateral Mortgages over the properties held by 1998643 Alberta Ltd. and 2103157 Alberta Ltd. in the amounts of \$8,850,000 and \$750,000, respectively. Also, first charge security interest over all present and acquired personal property, unlimited guarantees and postponement of claims by Goldstream Cannabis Inc. and 1926360 Alberta Ltd., and the assignment and postponement of all related party debt to the amount of \$1,640,000 is in place.
- The commitment letter requires that the Company maintains the following debt covenants: 1) a debt service coverage ratio not less than 1.40:1 to be tested annually; 2) a debt to equity ratio not greater than 1.00:1.00 to be tested annually; and 3) a current ratio not less than 1.25:1.00 to be tested monthly. As at October 31, 2021, the Company was in non-compliance with the debt service coverage ratio at (0.0082):1, the debt to equity ratio at 7.72 and the current ratio at 0.27. Therefore, the Commercial Mortgage Loan as at October 31, 2021 of \$6,863,553 was classified as current. The Credit Union confirmed in writing to the Company that payment of the Commercial Mortgage as at July 31, 2021 is not demanded due to this non-compliance with debt covenants and that this loan will be classified as long-term for purposes of their assessments.

16. Non-controlling interests

The changes in non-controlling interests are as follows:

Balance, July 31, 2020	\$ 97,704
Share of net loss for the period	(4,137)
Balance, July 31, 2021	93,567
Share of net loss for the period	(791)
Balance, October 31, 2021	\$ 92,776

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. At October 31, 2021, the Company held a 95% ownership interest (July 31, 2021 – 95%) in Goldstream, located in British Columbia, Canada. The following table represents the summarized information for Goldstream before intercompany eliminations.

	October 31, 2021	July 31, 2021
Current assets	\$ 5,508	\$ 4,876
Non-current assets	2,306,283	2,311,283
Current liabilities	85,680	72,828
Non-current liabilities	368,966	370,376
Net revenues for the periods ended October 31, 2021 and 2020	-	-
Net loss for the periods ended October 31, 2021 and 2020	\$ 15,830	\$ 35,118

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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, 2020	131,840,611	\$ 15,385,417
Shares issued (Note 17 (b)(i))	3,583,333	537,500
Shares issued for debt (Note 17 (b)(ii))	558,590	72,617
Balance, July 31, 2021 and October 31, 2021	135,982,534	15,995,534

(i) 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.

(ii) On January 27, 2021, the Board approved the settlement of \$55,859 vendor payables by issuance of 558,590 common shares of the Company, at a price of \$0.10. On February 25, 2021, the Company obtained approval for issuance of shares for debt, from the TSX Venture Exchange, and these fully paid and outstanding shares were issued with a hold period of 4 months and 1 day and the debt outstanding extinguished. The fair value assigned to the shares issued for debt was determined using the closing share price of the Company on February 25, 2021. The loss on extinguishment of debt of \$16,758 was included in general and administrative expenses for the year ended July 31, 2021 consistent with initial classification of underlying vendor invoices.

(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, 2021, 33,548,403 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 before April 30, 2020 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, 2020 to October 31, 2021:

	Number of options	Weighted average exercise price
Outstanding, July 31, 2020	12,847,500	\$ 0.31
Cancelled and forfeited	(5,075,833)	\$ 0.45
Granted	1,050,000	\$ 0.20
Outstanding, July 31, 2021	8,821,667	\$ 0.31
Cancelled and forfeited	(91,667)	\$ 0.31
Outstanding, October 31, 2021	8,730,000	\$ 0.21
Options exercisable as at October 31, 2021	7,451,666	\$ 0.21

The following table summarizes information about the stock options as at October 31, 2021:

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	0.35	\$ 0.10	425,000	\$ 0.10
\$0.20	7,790,000	3.75	\$ 0.20	6,701,666	\$ 0.20
\$0.29	65,000	3.09	\$ 0.29	25,000	\$ 0.29
\$0.50	450,000	2.50	\$ 0.50	300,000	\$ 0.50
	8,730,000	3.52	\$ 0.21	7,451,666	\$ 0.21

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18. Share-based payments (continued)

(b) The following table summarizes information about the stock options as at July 31, 2021:

Range of exercise prices	Number outstanding	Options Outstanding		Options Exercisable	
		Weighted average remaining life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.10	425,000	0.60	\$ 0.10	425,000	\$ 0.10
\$0.20	7,810,000	4.01	\$ 0.20	6,711,666	\$ 0.20
\$0.29	70,000	3.34	\$ 0.29	25,000	\$ 0.29
\$0.34	66,667	3.00	\$ 0.34	66,667	\$ 0.34
\$0.50	450,000	2.75	\$ 0.50	300,000	\$ 0.50
	8,821,667	3.77	\$ 0.21	7,528,333	\$ 0.21

(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, 2021	July 31, 2021
Dividend yield	-	0.00%
Expected volatility	-	95.07%
Risk-free interest rate	-	0.39%
Forfeiture rate	-	2.00%
Expected life (years)	-	2.95
Weighted average fair value of options	\$ -	\$ 0.12

During the three month period ended October 31, 2021 no options were exercised nor granted.

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. In accordance with the Company's accounting policy, the full value of the unit proceeds were allocated to common shares.

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. In accordance with the Company's accounting policy, the full value of the unit proceeds were allocated to common shares.

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. In accordance with the Company's accounting policy, the full value of the unit proceeds were allocated to common shares.

During the year ended July 31, 2020, 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, 2020, July 31, 2021 and October 31, 2021	3,888,143	\$ 0.50
Exercisable at end of each period noted above	3,888,143	\$ 0.50

The following table summarizes information about the Company's outstanding warrants as at October 31, 2021:

Issuance date	Expiry date	Warrants outstanding		Warrants exercisable	
		Number outstanding	Weighted average remaining life	Number exercisable	Weighted average exercise price
November 9, 2018	November 9, 2021	2,611,143	0.02	2,611,143	\$ 0.50
February 11, 2019	February 11, 2022	277,000	0.28	277,000	\$ 0.50
April 24, 2019	April 25, 2022	1,000,000	0.48	1,000,000	\$ 0.50

On November 9, 2021, 2,611,143 warrants expired.

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20. Related party transactions

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

Amount due from related party	October 31, 2021		July 31, 2021	
890859 Alberta Ltd.	\$	12,200	\$	11,570

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 for rental income of \$600 (October 31, 2020 - \$600) for the three month period ended October 31, 2021.

Amount due to related parties	October 31, 2021		July 31, 2021	
SS Pipelines Ltd. (i)	\$	689,744	\$	689,745
Runaway Developments Ltd. (ii)		653,792		930,985
Director and shareholders (iii)		10,556		10,556
	\$	1,354,092	\$	1,631,286

(i) 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.

(ii) Runaway Developments Ltd. is a company owned by a shareholder of the Company. The amounts due to Runaway Developments Ltd. bears interest at 7% per annum and matured on September 30, 2020. Subsequent to July 31, 2020 year-end, the maturity was extended to December 31, 2021. Subsequent to July 31, 2021, additional funds of \$277,193 advanced for operational purposes during the year were repaid. As at October 31, 2021, the balance outstanding includes accrued interest of \$3,792.

(iii) As at October 31, 2021, an aggregate amount of \$10,556 (July 31, 2021 - \$10,556) was due to a Director and shareholders of the Company. These amounts are due on demand, unsecured and interest free.

(b) During the three months ended October 31, 2021 and 2020, no operational and capital expenses were paid by the related parties on behalf of the Company. During the three month period ended October 31, 2021, non-cannabis products sales of \$2,400 (October 31, 2020 - \$Nil) to the related parties were made. The Company is leasing an extraction machine from a company that is owned by three directors of CanadaBis. See Notes 12(ii) and 14 for further details. During the year ended July 31, 2021, the Company entered into an agreement to rent for a twelve-month period a vape filling machine from a director and shareholder of the Company. During the three month period ended October 31, 2021, an aggregate equipment rental expense of \$27,112 was incurred representing a rental fee of \$1 per vape filled.

21. Financial instruments and risk management

(a) Fair value

The carrying values of cash and cash equivalents, 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, 2021		July 31, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Fair value through profit and loss				
Cash and cash equivalents	\$ 19,810	\$ 19,810	\$ 849,503	\$ 849,503
Loans and receivables				
Accounts receivable	921,102	921,102	672,507	672,507
Due from related party	12,200	12,200	11,570	11,570
Financial liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	1,761,803	1,761,803	1,334,031	1,334,031
Due to related parties	1,354,092	1,354,092	1,631,286	1,631,286
Long-term debt	7,323,485	7,323,485	7,442,491	7,442,491
Deferred income liability	53,496	53,496	58,086	58,086
Lease liability	975,205	975,205	996,765	996,765

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21. Financial instruments and risk management

(a) Fair value (continued)

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.

(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. For presentation purposes below, the Commercial Mortgage Loan included in the long-term debt, is presented using contractual maturities and not presented as payable on demand due to non-compliance with debt covenants (see Note 15 (iii)).

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

	<1 Year	1-2 Years	3-5 Years	> 5 years
Accounts payable and accrued liabilities	\$ 1,761,803	\$ -	\$ -	\$ -
Due to related parties	1,354,092	-	-	-
Lease obligations	200,272	399,133	497,570	560,251
Long-term debt	1,092,977	2,185,954	5,100,560	-
Deferred income liability	-	-	53,496	-
	\$ 4,409,144	\$ 2,585,087	\$ 5,651,626	\$ 560,251

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 four financial institutions at October 31, 2021, 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, 2021, approximately 93% of the accounts receivable balances were with four parties. The Company has a credit concentration risk as it deals with counterparties that are in the licensed cannabis industry. The Company's expected credit loss allowance is determined based on 1% of not past due amounts, 5% for 1-30 days, 10% for 31- 60 days, 25% up to 90 days and 50% up to 90 days.

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

	October 31, 2021	July 31, 2021
Accounts receivable		
Not past due	\$ 795,126	\$ 612,886
1-30 days	125,231	2,812
31-90 days	17,721	39,383
90+ days	534,568	554,466
Total gross carrying amount	1,472,646	1,209,547
Loss allowance	(551,544)	(537,040)
Total carrying amount	\$ 921,102	\$ 672,507

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.

	October 31, 2021	July 31, 2021
Loss allowance		
Balance, beginning of period	\$ 537,040	\$ 85,500
Increase in loss allowance for the period	14,504	451,540
Balance, end of the period	\$ 551,544	\$ 537,040

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21. Financial instruments and risk management (continued)

(b) Risk management (continued)

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 15). A 1% increase to the interest rate would have an approximate impact of \$18,309 on pre-tax earnings for the three months ended October 31, 2021.

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 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, 2021, the Company had net debt of \$8,700,655 (July 31, 2021 - \$8,550,620). As at October 31, 2021, the Company is noncompliant with the certain externally imposed covenants, see Notes 2, 15 and 28 for detailed discussion on action steps management is undertaking to address noncompliance.

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

	Three months ended	
	October 31, 2021	October 31, 2020
Weighted average number of common shares		
Basic and diluted	135,982,534	133,671,227

24. Financing costs

	Three months ended	
	October 31, 2021	October 31, 2020
Interest on long-term debt	\$ 92,889	\$ 60,977
Interest on lease liabilities	28,508	11,054
Accretion expense	10,970	297
	\$ 132,367	\$ 72,328

25. Changes in non-cash working capital

	Three months ended	
	October 31, 2021	October 31, 2020
<i>Operating activities</i>		
Accounts receivable	\$ (248,595)	\$ 843,543
Goods and services tax receivable	(1,449)	(6,706)
Inventory	(319,291)	(216,697)
Prepaid expenses	(78,648)	(23,213)
Accounts payable and accrued liabilities	423,804	(1,045,747)
	\$ (224,179)	\$ (448,820)
<i>Investing activities</i>		
Accounts payable and accrued liabilities	\$ -	\$ 436,084

As at October 31, 2021, included in inventory is \$6,422 (October 31, 2020 - \$26,354) of biological assets that was transferred to harvested cannabis inventory on hand.

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. For segment information presentation purposes, the change to fair value on biological assets and realized fair value on finished goods sold (See Note 8) are included in "Extraction and tolling" segment as to date the Company used its own harvested cultivations in entirety the extraction process.

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26. Segmented information (continued)

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:

For the three months ended October 31, 2021	Cultivation and wholesale	Retail	Extraction and tolling	Eliminations	Consolidated
Net revenue (external customers)	\$ 156,848	\$ 198,010	\$ 1,490,439	\$ -	\$ 1,845,297
Cost of sales	106,005	145,273	661,690	-	912,968
Gross profit	50,843	52,737	828,749	-	932,329
General and administrative					970,770
Depreciation and amortization					78,130
Share-based payments					27,171
Loss from operations					(143,742)
Financing costs					(132,367)
Other income					5,190
Loss before taxes					\$ (270,919)

For the three months ended October 31, 2020 (Restated)	Cultivation and wholesale	Retail	Extraction and tolling	Eliminations	Consolidated
Net revenue (external customers)	\$ 60,271	\$ 339,912	\$ 774,402	\$ -	\$ 1,174,585
Cost of sales	56,773	232,514	463,325	-	752,612
Gross profit	3,498	107,398	311,077	-	421,973
General and administrative					814,996
Depreciation and amortization					121,040
Share-based payments					117,613
Loss from operations					(631,676)
Financing costs					(72,328)
Other income					628
Loss before taxes					\$ (703,376)

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 Company has applied for, qualified for, and received funding from certain government economic stimulus programs (See Note 15 (ii)). Subsequent to May 1, 2021, various provinces have announced gradual de-confinement regulations and re-opening plans. 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, including the possible impact on future financing opportunities. It is possible that estimates in these 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.

28. Subsequent event

On November 5, 2021, the Company announced that it is proceeding with the previously announced amended private placement (the "Amended Private Placement") and withdrew its previously announced short-form prospectus offering of units. The Amended Private Placement of 11,538,462 units (the "Units") of the Corporation at a price of \$0.13 per unit for gross proceeds of \$1,500,000 (collectively, the "Amended Private Placement"). Each Unit shall be comprised of one (1) common share of the Company ("Common Share") and one (1) common share purchase warrant ("Warrant"). Each Warrant will entitle the holder thereof to purchase one (1) Common Share ("Warrant Share") at an exercise price of \$0.25 per Warrant Share for three years from the date of issuance of such Warrants. The Common Shares and warrants comprising the Units are subject to a hold period of four months and one day.

On December 3, 2021, the Company announced that it closed the first tranche of its previously announced non-brokered private placement consisting of 1,153,846 Units at a price of \$0.13 per Unit to raise gross proceeds of \$150,000. Each unit consisted of one common share and one common share warrant. Each Warrant entitles the holder to purchase one additional share at a price of \$0.25 per share for a period of three years following closing or until December 1, 2024. As at the date of approval of these Financial Statements, the second tranche of the Amended Private Placement has not closed.