



# CONSOLIDATED FINANCIAL STATEMENTS

For the years ended July 31, 2021 and 2020



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

BDO Canada LLP  
903 - 8<sup>th</sup> Avenue SW, Suite 620  
Calgary AB T2P 0P7  
Canada

---

## Independent Auditor's Report

---

To the Shareholders of CanadaBis Capital Inc.

### Opinion

We have audited the consolidated financial statements of CanadaBis Capital Inc. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at July 31, 2021 and July 31, 2020, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at July 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

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

### Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Group incurred a net loss of \$2,680,910, a negative cash flow from operations of \$1,806,656 during the year ended July 31, 2021 and current liabilities exceeds current assets by \$7,241,968. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

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

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

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

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



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

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

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

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

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

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

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

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

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



based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

*BDO Canada LLP*

Chartered Professional Accountants

Calgary, Alberta  
November 26, 2021

**CANADABIS CAPITAL INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

As at July 31, 2021 and July 31, 2020

(Expressed in Canadian dollars)

As at	July 31, 2021	July 31, 2020
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 849,503	\$ 167,002
Accounts receivable (Note 22(b))	672,507	1,072,341
Goods and services tax receivable	366	233,885
Prepaid expenses	127,230	98,568
Biological assets (Note 10)	29,027	71,718
Inventory (Note 11)	1,221,836	1,084,324
	<hr/> 2,900,469	<hr/> 2,727,838
Long-term deposit (Note 9)	274,449	-
Property, plant and equipment (Note 12)	10,089,708	9,766,770
Intangible assets (Note 13)	7,715	20,989
Due from related parties (Note 21)	11,570	6,432
	<hr/> \$ 13,283,911	<hr/> \$ 12,522,029
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,334,031	\$ 1,792,262
Due to related parties (Note 21)	1,631,286	1,235,579
Current portion of lease obligations (Note 14)	189,972	12,446
Current portion of long-term debt (Note 15)	6,987,148	4,694,594
	<hr/> 10,142,437	<hr/> 7,734,881
Deferred income liability (Note 15 (vi))	58,086	-
Lease obligations (Note 14)	806,793	391,645
Long-term debt (Note 15)	455,343	961,500
	<hr/> 11,462,659	<hr/> 9,088,026
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 17)	15,995,534	15,385,417
Share-based payments reserve	3,253,086	2,795,044
Deficit	(17,520,935)	(14,844,162)
Total equity attributed to own shareholders	<hr/> 1,727,685	<hr/> 3,336,299
Non-controlling interest (Note 16)	93,567	97,704
	<hr/> 1,821,252	<hr/> 3,434,003
	<hr/> \$ 13,283,911	<hr/> \$ 12,522,029

Going concern (Note 2)

Subsequent events (Note 29)

Approved by the Board of Directors

"Travis McIntyre "

Travis McIntyre

"Shane Chana"

Shane Chana

See accompanying notes to the consolidated financial statements

**CANADABIS CAPITAL INC.**  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
For the Years Ended July 31, 2021 and 2020  
*(Expressed in Canadian dollars)*

	Years ended	
	July 31, 2021	July 31, 2020
<b>REVENUE</b>		
Net revenues (Note 7)	\$ 6,866,305	\$ 4,428,831
Cost of sales (Note 8)	4,349,746	3,272,146
Gross profit	2,516,559	1,156,685
<b>EXPENSES</b>		
Depreciation and amortization	322,690	281,719
General and administration	4,021,475	2,905,695
Share-based payments (Note 18)	458,042	2,689,308
	4,802,207	5,876,722
Loss from operations	(2,285,648)	(4,720,037)
<b>Other income and expenses</b>		
Financing costs (Note 25)	(399,545)	(676,371)
Other income (expenses)	4,283	5,328
	(395,262)	(671,043)
Net loss and comprehensive loss for the year	(2,680,910)	(5,391,080)
Attributed to:		
Equity holders of the parent	(2,676,773)	(5,388,784)
Non-controlling interest	(4,137)	(2,296)
	\$ (2,680,910)	\$ (5,391,080)
Per share amount (Note 24)		
Basic and diluted	\$ (0.02)	\$ (0.04)

See accompanying notes to the consolidated financial statements

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

For the Years Ended July 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, 2019	\$ 10,567,243	\$ 1,742,011	\$ (9,455,378)	\$ 2,853,876	\$ -	\$ 2,853,876
Shares issued on asset acquisition (Note 6)	3,500,000	-	-	3,500,000	100,000	3,600,000
Shares issued (Note 6)	1,244,399	-	-	1,244,399	-	1,244,399
Shares issued on exercise of options	73,775	(36,275)	-	37,500	-	37,500
Share-based payments (Note 18)	-	1,089,308	-	1,089,308	-	1,089,308
Net loss and comprehensive loss	-	-	(5,388,784)	(5,388,784)	(2,296)	(5,391,080)
Balance, July 31, 2020	\$ 15,385,417	\$ 2,795,044	\$ (14,844,162)	\$ 3,336,299	\$ 97,704	\$ 3,434,003
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
Shares issued for debt (Note 17)	72,617	-	-	72,617	-	72,617
Share-based payments (Note 18)	-	458,042	-	458,042	-	458,042
Net loss and comprehensive loss	-	-	(2,676,773)	(2,676,773)	(4,137)	(2,680,910)
Balance, July 31, 2021	\$ 15,995,534	\$ 3,253,086	\$ (17,520,935)	\$ 1,727,685	\$ 93,567	\$ 1,821,252

See accompanying notes to the consolidated financial statements

**CANADABIS CAPITAL INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the Years Ended July 31, 2021 and 2020  
*(Expressed in Canadian dollars)*

	Years ended	
	July 31, 2021	July 31, 2020
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss	\$ (2,680,910)	\$ (5,391,080)
Items not affecting cash		
Accretion expense	8,183	1,079
Depreciation and amortization (Notes 12 and 13)	468,918	281,719
Loss on the disposition of property, plant and equipment	2,339	-
Realized fair value on inventory sold	111,068	148,829
Change in fair value of biological asset	(57,635)	61,286
Loss on extinguishment of debt (Note 17)	16,758	-
Non-cash interest expense	24,355	65,180
Share-based payments	458,042	2,689,308
Expenses paid for by related parties (Note 22)	-	138,147
Changes in non-cash working capital (Note 26)	(157,774)	(1,613,786)
	(1,806,656)	(3,619,318)
<b>Financing activities</b>		
Issuance of shares	537,500	1,281,899
Advances from related parties	797,407	856,613
Repayment of amounts due to related parties	(410,630)	(6,694)
Proceeds from long-term debt	7,368,979	3,771,567
Payment of financing cost on long-term debt	(225,000)	-
Repayment of long-term debt	(5,597,537)	(29,752)
Long term deposit	-	25,000
Lease obligation (Note 14)	(104,330)	(49,577)
	2,366,389	5,849,056
<b>Investing activities</b>		
Purchase of property, plant and equipment	(152,331)	(4,964,420)
Purchase of Intangible assets	-	(1,089)
Cash on acquisition (Note 6)	-	2,000,000
Proceeds on disposal of property, plant and equipment	650	-
Changes in non-cash working capital (Note 26)	274,449	577,975
	122,768	(2,387,534)
Net change in cash and cash equivalents	682,501	(157,796)
Cash and cash equivalents		
Beginning of the year	167,002	324,798
End of the year	849,503	167,002
<b>Supplemental cash flow information</b>		
Interest paid	\$ 299,242	\$ 258,380

See accompanying notes to the consolidated financial statements

# CANADABIS CAPITAL INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended July 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 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 for the year ended July 31, 2021, the Company incurred a net loss of \$2,680,910 (July 31, 2020 - \$5,391,080), current liabilities exceeding current assets by \$7,241,968 (July 31, 2020 - \$5,007,043), and negative cash flow from operations of \$1,806,656 (July 31, 2020 - \$3,619,318). 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 29 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 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") as issued by the International Accounting Standards Board ("IASB").

These Financial Statements were approved and authorized for issue by the Board of Directors on November 26, 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 CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended July 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

A summary of the significant accounting policies, which have been applied consistently to all periods presented in the accompanying Financial Statements are set out below. 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 8, 10 and 27.

#### (a) Cash and cash equivalents

Cash and cash equivalents include cash in banks and short term investments with maturities of less than 90 days at purchase. Fixed term redeemable deposits or similar instruments with a term longer than 90 days are cash equivalents if readily convertible to a known amount of cash throughout its term and subject to an insignificant risk of change in value assessed against the amount at inception i.e. principal will be returned either in full or substantially when redeemed.

#### (b) Biological assets

While the Company's biological assets are accounted for using IAS 41 "Agriculture", the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria under IAS 2 "Inventories". They include the direct costs of growing supplies and direct labor costs as well as other indirect costs such as utilities, supplies used in the growing process, cleaning, insurance, and depreciation and amortization. All direct and indirect costs of biological assets are capitalized as they are incurred and are subsequently recorded within the financial statement line item "cost of goods sold" on the consolidated statement of loss and comprehensive loss in the period that the end product is sold. Unrealized fair value gains/losses on growth of biological assets are recorded separately and disclosed in the notes to the Financial Statements. Biological assets are measured at their fair value less costs to sell on the consolidated statement of financial position.

#### (c) Inventory

The direct and indirect costs of inventory include the fair value of biological assets at the time of harvest. All direct and indirect costs related to harvested inventory are capitalized as they are incurred and upon sale of the end product are subsequently recorded within the "cost of goods sold" in the consolidated statement of loss and comprehensive loss.

Dry products consists of capitalized direct costs to purchase from suppliers and indirect costs that include testing packaging. Extraction inventory consists of capitalized direct and indirect costs associated with the extraction of cannabinoids. Direct costs include the cost of purchased cannabis, extraction wages, chemicals and supplies used in the extraction process. Indirect costs include: testing, packaging and insurance. Extraction inventory cost is determined using the specific inventory item method. If the net realizable value subsequently increases, a reversal of the loss initially recognized is applied to cost of goods sold.

Retail store inventory consists of packaged cannabis and cannabis products.

Inventory is valued at the lower of cost and net realizable value. The Company records inventory reserves for obsolete and slow-moving inventory. Inventory reserves are based on inventory obsolescence trends, historical experience and application of the specific identification method. As at July 31, 2021 and 2020, there was no inventory reserves recorded.

#### (d) Financial instruments

##### Recognition

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

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

##### Derecognition

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

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

##### Classification

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

- Amortized cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost.
- Fair value through other comprehensive income ("FVOCI"): assets that were held for contractual cash flows and of selling the financial assets, where the asset's cash flow represents solely payment of principal and interest, are measured at FVOCI.
- FVTPL: assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL.

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

**CANADABIS CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended July 31, 2021 and 2020

Canadian dollars)

**4. Significant accounting policies (continued)**

(d) Financial instruments (continued)

**Presentation**

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

**Impairment**

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

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

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

(e) Property, plant and equipment

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

Depreciation of property, plant and equipment is not recorded until such time as the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted. Depreciation is recognized on a straight-line basis to depreciate the cost over the estimated useful life of property, plant and equipment, as follows:

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

(f) Intangible assets

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

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

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

(g) Impairment of non-financial assets

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

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

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

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

(h) Revenue recognition

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

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

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

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

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

The Company is required to remit excise tax to the Canada Revenue Agency ("CRA") on the sale of recreation cannabis and extract products in Canada. The Company becomes liable for these excise taxes when cannabis products are delivered to the customer. In accordance with IFRS 15 Revenue from contracts with customers, revenue presented in the consolidated statement of loss and comprehensive loss, represents revenue from the sale of cannabis and cannabis related products less applicable excise tax.

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

# CANADABIS CAPITAL INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended July 31, 2021 and 2020

Canadian dollars)

### 4. Significant accounting policies (continued)

(i) Per share amounts

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

(j) Provisions

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

(k) Equity instruments

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

(l) Share-based payments

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

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

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

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

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

(m) Income taxes

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

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

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

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

(n) Leases

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

To assess whether a contract conveys a right to control the use of an identified asset, the Company assess whether:

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

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

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

# CANADABIS CAPITAL INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended July 31, 2021 and 2020

Canadian dollars)

### 4. Significant accounting policies (continued)

- (o) New accounting standards and amendments effective from August 1, 2020

#### *Business Combinations*

On August 1, 2020, the Company adopted the amendments to IFRS 3 "Business Combinations" that clarified the definition of a business and included an election to use a concentration test. The concentration test provide for a simplified assessment of an acquisition transaction that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If an election to use the concentration test is not made, or the test failed, then the assessment focuses on the existence of a substantive process. An asset acquisition does not result in the recognition of goodwill, which can only be recognized as a result of acquiring a business. These amendments had no impact on the Company's Financial statements, as no acquisitions closed during the year ended July 31, 2021.

- (p) New standards and amendments issued but not effective yet

The following amendments will be effective for the Company's period commencing on August 1, 2021, for which the impact on the Financial Statements will be assessed for this future reporting period:

#### IBOR Phase 2 Amendments

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"), which provides clarity on the changes after the reform for an interest rate benchmark. These 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. The Company expects these amendments will not have a material effect on the Company's consolidated financial statements.

The following amendments will be effective for the Company's period commencing on August 1, 2022, for which the impact on the Financial Statements will be assessed for this future reporting period:

#### IFRS 3 "Business Combinations"

Adds a new concept to the recognition principle in order to ensure the accounting remains unchanged for present obligations that exist at date of acquisition as a result of past events.

#### IAS 16 "Property, plant and equipment"

Prohibits and entity from deducting from the cost of the underlying asset amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, an entity will recognize such sales proceeds and related costs in profit and loss.

#### IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"

Specifies which costs an entity includes when assessing whether a contract will be in a loss-making position, i.e. onerous contracts. Costs that relate directly to a contract consists of both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

#### IAS 41 "Agriculture"

Removes a requirement to exclude cash flows from taxation when measuring fair value thereby aligning the fair value measurement requirements in IAS 41 with those in other IFRS standards.

#### IFRS 9 "Financial Instruments"

Clarifies the fees in the "10 per cent" test for derecognition of financial liabilities. An entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial

#### IFRS 16 "Leases"

Amends illustrative examples by removing the reimbursement of leasehold improvements example, to prevent potential for confusion regarding whether the reimbursement would meet the definition of lease incentives.

### 5. Critical accounting estimates and judgements

The preparation of these Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets, liabilities, and the disclosure of contingent assets and liabilities. These estimates and judgements concern matters that are inherently complex and uncertain. Judgements and estimates are continually evaluated and are based on historical experience and expectation of future events. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

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

- (a) Inventory

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

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

- (b) Biological assets

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

Depending on the cultivation efforts period to period, the following could be significant assumptions applied in determining the fair value of biological assets, categorized as a Level 3 in the fair value hierarchy based on the inputs to the valuation technique used, are as follows:

- (i) Expected yield based on average historical growing results;
- (ii) Percentage of costs incurred to date as compared to the estimated total costs to be incurred ("point in growth cycle");
- (iii) 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.

**CANADABIS CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended July 31, 2021 and 2020  
 Canadian dollars)

**5. Critical accounting estimates and judgements**

(b) Biological assets (continued)

(iv) Estimated costs to sell.

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

(c) Useful lives of depreciable assets

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

(d) Share-based payments

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

(e) Impairment

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

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

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

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

(f) Allowance for expected credit losses

The allowance for expected credit loss amount is sensitive to changes in circumstances and of forecast economic conditions and may not be indicative of actual credit losses. The minimum allowance is determined as outlined in note 22 to these Financial Statements and increased amounts determined depending on circumstances at each period end.

(g) Taxes

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

**6. Acquisition**

*Goldstream Canadabis 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
<b>Identifiable net assets acquired</b>		
Cash	\$	2,000,000
Right-of-use asset – Land		380,295
Lease liability		(380,295)
Non-controlling interest		(100,000)
Identifiable net assets acquired		1,900,000
<b>Unidentifiable net assets acquired</b>		
Share-based payments		1,600,000
Total net assets and share-based payments	\$	3,500,000

**7. Net revenues**

	Years ended	
	July 31, 2021	July 31, 2020
Extraction and tolling	\$ 5,292,016	\$ 3,166,097
Retail	1,267,168	935,879
Cultivation and wholesale	307,121	326,855
	\$ 6,866,305	\$ 4,428,831

**CANADABIS CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended July 31, 2021 and 2020

Canadian dollars)

**8. Cost of sales**

	Years ended	
	July 31, 2021	July 31, 2020
Extraction and tolling	\$ 3,202,953	\$ 2,376,656
Retail	894,403	665,491
Cultivation and wholesale	252,390	229,999
	\$ 4,349,746	\$ 3,272,146

During the years ended July 31, 2021 and 2020, the depreciation charge of \$99,289 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 years ended July 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 \$111,068 and \$148,829, respectively sold during these periods presented.

**9. Long-term deposit**

In connection with the new debt facility (see Note 15 (vii)), 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 Company which the Company deems without merit and filed a counterclaim.

**10. Biological Assets**

	July 31, 2021	July 31, 2020
Balance, beginning of period	\$71,718	\$32,266
Capitalized cost of biological assets	445,534	665,605
Changes in fair value	57,635	(61,286)
Cash cost transferred to inventory upon harvest	(545,860)	(564,867)
	\$ 29,027	\$ 71,718

During the year ended July 31, 2021, the depreciation charge of \$46,939 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 years ended July 31, 2021 and 2020, the gross profit included the changes in fair value related to the biological assets of \$57,635 and \$(61,286), respectively.

During the year ended July 31, 2021, the Company successfully completed its seventh, eighth, ninth and tenth harvests. At July 31, 2021, the remaining plants were 43% to 99% complete relative to the next expected harvests. During the three month period ended April 30, 2021, the selling price used in the valuation process was decreased from \$4.5 per gram to \$3.15 per gram for dried cannabis flowers to be aligned with current market considerations factoring other considerations including but not limited to THC content and variety of strains. This selling price remained unchanged for the three month period ended July 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 – 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 July 31, 2021 and July 31, 2020.

	10% change as at		10% change as at	
	July 31, 2021	July 31, 2021	July 31, 2020	July 31, 2020
Selling price	\$3.15 p/gram	\$3,500	\$4.50 p/gram	\$7,200
Yield	42 grams	\$3,500	42 grams	\$7,200
Survival rate	95.0%	\$5,300	95.0%	\$7,200

**11. Inventory**

	July 31, 2021	July 31, 2020
Retail	\$ 296,426	\$ 154,902
Harvested cannabis	127,760	171,438
Extraction and tolling	797,650	757,984
	\$ 1,221,836	\$ 1,084,324

**CANADABIS CAPITAL INC.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended July 31, 2021 and 2020

Canadian dollars)

**12. Property, Plant and Equipment**

	Land	Building and improvements (i)	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 (Note 14)	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
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
<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 (iv)	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
<b>Net book value</b>							
July 31, 2021	\$ 2,766,271	\$ 6,234,619	\$ 992,657	\$ 53,995	\$ 10,283	\$ 31,883	\$ 10,089,708
July 31, 2020	\$ 2,805,295	\$ 6,186,131	\$ 597,537	\$ 125,777	\$ 11,835	\$ 40,195	\$ 9,766,770

- (i) 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.
- (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 year ended July 31, 2021 that is prior to the capitalization of \$46,939 to Biological Assets (Note 10) and reclassification of \$99,289 from the "Depreciation and amortization" financial statement line item to Cost of sales - extraction and tolling (Note 8) for presentation purposes.

**13. Intangible assets**

<b>Cost</b>	
Balance, July 31, 2019	\$ -
Adjustments	38,815
Additions	1,089
Balance, July 31, 2020 and July 31, 2021	\$ 39,904
<b>Accumulated amortization</b>	
Balance, July 31, 2019	\$ -
Amortization	18,915
Balance, July 31, 2020	18,915
Amortization	13,274
Balance, July 31, 2021	\$ 32,189
<b>Net book value</b>	
July 31, 2021	\$ 7,715
July 31, 2020	\$ 20,989

**CANADABIS CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended July 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 year ended July 31, 2021 were as follows:

<b>Cost</b>	<b>Plant and equipment</b>	<b>Vehicle</b>	<b>Building and Improvements</b>	<b>Land</b>	<b>Total</b>
Balance, July 31, 2019	\$ -	\$ -	\$ -	\$ -	-
Opening balance adjustment IFRS 16 adoption (i)	-	-	3,712,436	-	3,712,436
Goldstream acquisition	-	-	-	380,295	380,295
Additions	-	29,060	-	-	29,060
Derecognition as right-of-use asset (i)	-	-	(3,712,436)	-	(3,712,436)
Balance, July 31, 2020	-	29,060	-	380,295	409,355
Additions (Note 12 (ii))	629,240	-	-	-	629,240
Balance, July 31, 2021	\$ 629,240	\$ 29,060	\$ -	\$ 380,295	\$ 1,038,595
<b>Accumulated depreciation</b>					
Balance, July 31, 2019	\$ -	\$ -	\$ -	\$ -	-
Depreciation	-	921	-	-	921
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
<b>Net book value</b>					
<b>Balance, July 31, 2021</b>	<b>\$ 597,066</b>	<b>\$ 19,827</b>	<b>\$ -</b>	<b>\$ 341,271</b>	<b>\$ 958,164</b>
Balance, July 31, 2020	\$ -	\$ 28,139	\$ -	\$ 380,295	\$ 408,434

**Lease liabilities**

	<b>July 31, 2021</b>	<b>July 31, 2020</b>
Balance, beginning of period	\$ 404,091	\$ -
Opening balance adjustment IFRS 16 adoption (i)	-	3,712,436
Derecognized on exercise of purchase option (i)	-	(3,712,436)
Goldstream acquisition (ii)	-	380,295
Vehicle lease	-	29,060
Plant and equipment (Note 12 (ii))	629,240	-
Lease payments	(104,330)	(49,577)
Interest expense	67,764	44,313
Balance, end of period	996,765	404,091
Less current portion	(189,972)	(12,446)
	<b>\$ 806,793</b>	<b>\$ 391,645</b>

**Amounts recognized in profit and loss**

	<b>Years ended</b>	
	<b>July 31, 2021</b>	<b>July 31, 2020</b>
Lease expense on short-term lease (iii)	\$ 26,483	\$ 60,076
Interest expense on lease liabilities	67,765	45,945
Amounts expensed in profit and loss	<b>\$ 94,248</b>	<b>\$ 106,021</b>

**Lease payments**

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

	<b>2021</b>
Less than 1 year	\$ 200,272
1-5 years	934,286
More than 5 years	572,736
	<b>\$ 1,707,294</b>

# CANADABIS CAPITAL INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended July 31, 2021 and 2020

Canadian dollars)

### 14. Lease obligations (continued)

- (i) 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-day 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.

- (ii) With the acquisition of Goldstream Cannabis Inc. (see Note 6), 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 right-of-use asset is depreciated over the lease term of 19
- (iii) 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.

### 15. Long-term debt

	CEBA loan	RRRF Loan	Vendor takeback mortgage	Demand mortgage	Commercial Mortgage Loan	Total
Balance, July 31, 2019	\$ -	\$ -	\$ 1,142,333	\$ 750,000	\$ -	\$ 1,892,333
Acquisition of building and improvements	-	-	-	3,482,500	-	3,482,500
Proceeds on fixed term mortgage (Note 15(ii))	-	-	-	209,067	-	209,067
Canada Emergency Business Account (CEBA) Note (15 (v))	80,000	-	-	-	-	80,000
Repayment of principal	-	-	-	(29,752)	-	(29,752)
Accretion	-	-	-	1,079	-	1,079
Accrued interest on vendor takeback mortgage (Note 15 (ii))	-	-	20,867	-	-	20,867
Balance, July 31, 2020	80,000	-	1,163,200	4,412,894	-	5,656,094
Less current portion	-	-	(281,700)	(4,412,894)	-	(4,694,594)
	\$ 80,000	\$ -	\$ 881,500	\$ -	\$ -	\$ 961,500

	CEBA loan	RRRF Loan	Vendor takeback mortgage	Demand mortgage	Commercial Mortgage Loan	Total
Balance, July 31, 2020	\$ 80,000	\$ -	\$ 1,163,200	\$ 4,412,894	\$ -	\$ 5,656,094
Additional funding (Note 15 (v), (vi) and (vii))	40,000	335,342	-	-	6,985,000	7,360,342
Repayment of principal (Note 15 (i), (ii) and (iii))	-	-	(1,183,763)	(4,413,774)	-	(5,597,537)
Accretion	-	-	-	880	2,148	3,028
Accrued interest on vendor takeback mortgage (Note 15 (ii))	-	-	20,563	-	-	20,563
Balance, July 31, 2021	120,000	335,342	-	-	6,987,148	7,442,490
Less current portion	-	-	-	-	(6,987,148)	(6,987,148)
	\$ 120,000	\$ 335,342	\$ -	\$ -	\$ -	\$ 455,342

- (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 was due on maturity date of April 15, 2024. One of the shareholders of the vendor is a director of CanadaBis. On July 23, 2021, the Company settled this debt using the funding received under the New Credit Facility (Note 15 (vii)).
- (ii) On acquisition of 2103157AB, 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 which was not settled as at January 31, 2021. The lender can trigger demand for payment. The principal plus accrued interest is due on maturity. The mortgage is secured by a fixed charge over the land. On July 23, 2021, the Company settled this debt using the funding received under the New Credit Facility (Note 15 (vii)).
- (b) A fixed term mortgage in the amount of \$1,000,000, due on demand. On April 27, 2021, the Company renewed the facility payable in monthly blended installments of \$4,747 bearing interest at lender's prime rate lending rate plus 1.55% per annum until April 1, 2022. The mortgage was secured by a fixed charge over the building, land, and improvements as well as a personal guarantee in the amount of \$500,000 issued by an Officer and Director of the Company. On July 23, 2021, the Company settled this debt using the funding received under the New Credit Facility (Note 15 (vii)).
- (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%, expired on June 1, 2021. The mortgage was 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. On July 23, 2021, the Company settled this debt using the funding to received under the New Credit Facility (Note 15 (vii)).

# CANADABIS CAPITAL INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended July 31, 2021 and 2020

Canadian dollars)

### 15. Long-term debt (continued)

- (iv) At July 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 year ended July 31, 2020 was 4.0%. No letter of credit was issued and outstanding as at July 31, 2021 as cancelled with the New Credit Facility.
- (v) On April 9, 2020, the Government of Canada announced the Canada Emergency Business Account ("CEBA") loan program to small Canadian businesses to assist these businesses with working capital requirement during the COVID-19 pandemic. The maximum amount available under the program is \$40,000, of which \$10,000 is forgiven if the loan is repaid prior to December 31, 2022. The Company, through its two wholly owned subsidiaries, have applied for and received \$80,000 under the CEBA loan program. During the year ended July 31, 2021, additional funding of \$20,000 was secured by each of these entities with same repayment terms as initial funding received. The loan is non-interest bearing until December 31, 2022. An annual interest rate of 5% accrues from January 1, 2023 until December 31, 2025, the maturity date.
- (vi) 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 July 31, 2021, the deferred income liability outstanding was \$58,086 net of \$6,023 recognized during the year ended July 31, 2021 as other revenue 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 \$6,023 was recognized during this period to accrete the loan outstanding, resulting in a net impact of \$nil to net loss for the year ended July 31, 2021.
- (vii) 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 21). As at July 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 July 31, 2021, the Company was in non-compliance with the debt service coverage ratio at (0.26):1, the debt to equity ratio at 6.63 and the current ratio at 0.29. Therefore, the Commercial Mortgage Loan as at July 31, 2021 of \$6,987,148 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, 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		(4,137)
Balance, July 31, 2021	\$	93,567

At July 31, 2021, the Company held a 95% ownership interest (July 31, 2020 – 95%) in Goldstream, located in British Columbia, Canada. The following table represents the summarized information for Goldstream before intercompany eliminations.

	July 31, 2021	July 31, 2020
Current assets	\$ 4,896	\$ 2,448
Non-current assets	2,311,283	2,350,307
Current liabilities	72,828	21,420
Non-current liabilities	370,376	375,624
Net revenues for the years then ended	-	-
Net loss for the years then ended	\$ 82,736	\$ (45,920)

**CANADABIS CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended July 31, 2021 and 2020  
 Canadian dollars)

**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, 2019	111,502,952	\$ 10,567,243
Shares issued (Note 17 (b)(i))	11,666,666	3,500,000
Shares Issued (Note 17 (b)(ii))	8,295,993	1,244,399
Options exercised (Note 17 (b)(iii))	375,000	73,775
Balance, July 31, 2020	131,840,611	15,385,417
Shares issued (Note 17 (b)(iv))	3,583,333	537,500
Shares issued for debt (Note 17 (v))	558,590	72,617
Balance, July 31, 2021	135,982,534	\$ 15,995,534

(i) 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. At July 31, 2021, no shares associated with this transaction were held in escrow.

(ii) 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.

(iii) During the year ended July 31, 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.

(iv) 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.

(v) 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 July 31, 2021, 47,175,302 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, 2019 to July 31, 2021:

	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
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	\$ 0.21
Options exercisable as at July 31, 2021	7,528,333	\$ 0.21

**CANADABIS CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended July 31, 2021 and 2020  
 Canadian dollars)

**18. Share-based payments (continued)**

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

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

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	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:

	July 31, 2021	July 31, 2020
Dividend yield	0.00%	0.00%
Expected volatility	95.07%	100.04%
Risk-free interest rate	0.39%	1.49%
Forfeiture rate	2.00%	2.00%
Expected life (years)	2.95	5.00
Weighted average fair value of options	\$ 0.12	\$ 0.30

On February 26, 2021, the Company granted 1,050,000 share purchase options to employees and consultants of the Company. No other options were granted during the year ended July 31, 2021.

**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, 2019, July 31, 2020 and July 31, 2021	3,888,143	\$ 0.50
Exercisable at end of each period noted above	3,888,143	\$ 0.50

**CANADABIS CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended July 31, 2021 and 2020

Canadian dollars)

**19. Warrants (continued)**

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

Issuance date	Expiry date	Warrants outstanding			Warrants exercisable	
		Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable	Weighted average exercise price
November 9, 2018	November 9, 2021	2,611,143	0.28	\$ 0.50	2,611,143	\$ 0.50
February 11, 2019	February 11, 2022	277,000	0.53	\$ 0.50	277,000	\$ 0.50
April 24, 2019	April 25, 2022	1,000,000	0.73	\$ 0.50	1,000,000	\$ 0.50

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

**20. Income taxes**

(a) The following table reconciles the estimated income tax expense using Canadian Federal and Provincial tax rate of 25% (2020 - 25%) to the reported tax expense.

	July 31, 2021	July 31, 2020
Loss before income taxes	\$ (2,680,910)	\$ (5,388,784)
Statutory tax rates	25%	25%
Expected income tax recovery	(670,228)	(1,347,196)
Effect on taxes of:		
Rate change	-	44,283
Share-based payments	114,511	672,327
Non-deductible expenses	8,189	24,681
Fair value adjustments to inventory	(14,409)	87,854
Share and debt issuance costs on acquisition	-	-
Non-capital losses on acquisition	-	-
True-up of opening timing differences	-	15,396
Deferred tax assets not recognized	561,937	502,655
	\$ -	\$ -

(b) The changes in deferred income tax assets and liabilities during the years ended July 31, 2021 and 2020 were as follows:

	July 31, 2020	Deferred tax assets (liabilities) recognized in net loss	Deferred tax assets (liabilities) assumed on acquisition	Deferred tax assets (liabilities) on change in tax rates	July 31, 2021
Property, plant and equipment	\$ (90,370)	\$ 42,453	\$ -	\$ -	\$ (47,917)
Biological assets	69,516	(51,691)	-	-	17,825
Lease liabilities	92,931	156,260	-	-	249,191
Non-capital losses	967,360	423,150	-	-	1,390,510
Share and debt issuance costs	24,995	(8,235)	-	-	16,760
Net deferred tax assets	1,064,432	561,937	-	-	1,626,369
Deferred tax assets not recognized	(1,064,432)	(561,937)	-	-	(1,626,369)
	\$ -	\$ -	\$ -	\$ -	\$ -

	July 31, 2019	Deferred tax assets (liabilities) recognized in net loss	Deferred tax assets (liabilities) assumed on acquisition	Deferred tax assets (liabilities) on change in tax rates	July 31, 2020
Property, plant and equipment	\$ (2,840)	\$ (87,530)	\$ -	\$ -	\$ (90,370)
Biological assets	1,855	67,661	-	-	69,516
Lease liabilities	-	5,473	87,458	-	92,931
Non-capital losses	497,312	470,048	-	-	967,360
Share and debt issuance costs	12,925	12,070	-	-	24,995
Net deferred tax assets	509,252	467,722	87,458	-	1,064,432
Deferred tax assets not recognized	(509,252)	(467,722)	(87,458)	-	(1,064,432)
	\$ -	\$ -	\$ -	\$ -	\$ -

**CANADABIS CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended July 31, 2021 and 2020

(Canadian dollars)

**20. Income taxes (continued)**

(c) As at July 31, 2021, the Company has non-capital loss carry-forwards that can be used to offset taxes in future years. These non-capital loss carry-forwards expire as follows:

2041	\$	1,728,181
2040		2,197,186
2039		1,461,239
2038		446,865
2037		93,695
2036		6,929
	\$	5,934,095

**21. Related party transactions**

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

Amount due from related party	July 31, 2021	July 31, 2020
890859 Alberta Ltd.	\$ 11,570	\$ 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 for rental income of \$2,400 (July 31, 2020 - \$2,000) for the year ended July 31, 2021.

Amount due to related parties	July 31, 2021	July 31, 2020
SS Pipelines Ltd. (i)	\$ 689,745	\$ 580,640
Runaway Developments Ltd. (ii)	930,985	650,000
Director and shareholders (iii)	10,556	4,939
	\$ 1,631,286	\$ 1,235,579

(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 July 31, 2021, the balance outstanding includes accrued interest of \$3,792.

(iii) As at July 31, 2021, an aggregate amount of \$10,556 was due to a Director and shareholders of the Company. These amounts are due on demand, unsecured and interest free. During the year ended July 31, 2021, an aggregate \$344,000 were advanced for operational purposes and repaid in full.

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

	Years ended	
	July 31, 2021	July 31, 2020
Expenses paid on behalf of the Company	\$ -	\$ 138,147
Goods and services tax paid on behalf of the Company	-	7,050
Capital expenditures paid on behalf of the Company	-	2,857
	\$ -	\$ 148,054

During the year ended July 31, 2021, non-cannabis products sales of \$2,400 (July 31, 2020 - \$9,205) 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 year ended July 31, 2021, an aggregate equipment rental expense of \$54,140 was incurred representing a rental fee of \$1 per vape filled.

(c) Key management compensation

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

	Years ended	
	July 31, 2021	July 31, 2020
Short-term employer benefits	\$ 257,449	\$ 180,078
Share-based payments	301,960	1,119,703
	\$ 559,409	\$ 1,299,781

**CANADABIS CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended July 31, 2021 and 2020  
 Canadian dollars)

**22. 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:

	July 31, 2021		July 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Fair value through profit and loss				
Cash and cash equivalents	\$ 849,503	\$ 849,503	\$167,002	\$167,002
Loans and receivables				
Accounts receivable	672,507	672,507	1,072,341	1,072,341
Due from related party	11,570	11,570	6,432	6,432
<b>Financial liabilities</b>				
Other financial liabilities				
Accounts payable and accrued liabilities	1,334,031	1,334,031	1,792,262	1,792,262
Due to related parties	1,631,286	1,631,286	1,235,579	1,235,579
Long-term debt	7,442,491	7,442,491	5,672,515	5,672,515
Deferred income liability	58,086	58,086	-	-
Lease liability	996,765	996,765	404,091	404,091

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 (vii)).

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	\$ 1,334,031	\$ -	\$ -	\$ -
Due to related parties	1,631,286	-	-	-
Lease obligations	200,272	400,742	533,544	572,736
Long-term debt	1,092,977	2,185,954	5,234,193	-
Deferred income liability	-	-	58,086	-
	\$ 4,258,566	\$ 2,586,696	\$ 5,825,823	\$ 572,736

**CANADABIS CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended July 31, 2021 and 2020

Canadian dollars)

**22. Financial instruments and risk management (continued)**

*Credit risk*

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Financial instruments that would potentially subject the Company to concentrations of credit risks consist principally of cash and accounts receivable. All of the Company's cash was held at three financial institutions at July 31, 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 July 31, 2021, approximately 75% 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:

	July 31, 2021	July 31, 2020
Accounts receivable		
Not past due	\$ 612,886	\$ 1,084,417
1-30 days	2,812	39,522
31-90 days	39,383	33,902
90+ days	554,466	-
Total gross carrying amount	1,209,547	1,157,841
Loss allowance	(537,040)	(85,500)
Total carrying amount	\$ 672,507	\$ 1,072,341

*Reconciliation of the loss allowance*

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

	July 31, 2021	July 31, 2020
Accounts receivable		
Balance, beginning of year	\$ 85,500	\$ -
Increase in loss allowance for the year	451,540	85,500
Balance, end of the year	\$ 537,040	\$ 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 15). A 1% increase to the interest rate would have an approximate impact of \$74,425 on pre-tax earnings for the year ended July 31, 2021.

**23. 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 July 31, 2021, the Company had net debt of \$8,550,620 (July 31, 2020 - \$6,353,756). As at July 31, 2021, the Company is noncompliant with the certain externally imposed covenants, see Notes 2, 15 and 29 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.

**24. Per share amounts**

	Years ended	
	July 31, 2021	July 31, 2020
Weighted average number of common shares		
Basic and diluted	135,220,903	124,944,727

**CANADABIS CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended July 31, 2021 and 2020

*Canadian dollars*)

**25. Financing costs**

	Years ended	
	July 31, 2021	July 31, 2020
Inventory financing	\$ -	\$ 351,732
Interest on long-term debt	323,597	279,247
Interest on lease liabilities	67,765	44,313
Accretion expense	8,183	1,079
	\$ 399,545	\$ 676,371

**26. Changes in non-cash working capital**

	Years ended	
	July 31, 2021	July 31, 2020
<i>Operating activities</i>		
Accounts receivable	\$ 399,834	\$ (1,072,341)
Goods and services tax receivable	233,519	(156,605)
Inventory	(148,254)	(1,240,759)
Prepaid expenses	(28,662)	(5,419)
Short-term deposits	-	20,000
Accounts payable and accrued liabilities	(614,211)	841,338
	\$ (157,774)	\$ (1,613,786)
<i>Investing activities</i>		
Accounts payable and accrued liabilities	\$ 274,449	\$ 577,975

As at July 31, 2021, included in inventory is \$88,946 (2020 - \$nil) of biological assets that was transferred to harvested cannabis inventory on hand.

**27. 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.

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:

**CANADABIS CAPITAL INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended July 31, 2021 and 2020

(Canadian dollars)

**27. Segmented information (continued)**

For the year ended July 31, 2021	Cultivation and wholesale	Retail	Extraction and tolling	Eliminations	Consolidated
Net revenue (external customers)	\$ 307,121	\$ 1,267,168	\$ 5,292,016	\$ -	\$ 6,866,305
Cost of sales	252,390	894,403	3,202,953	-	4,349,746
Gross profit	54,731	372,765	2,089,063	-	2,516,559
General and administrative					4,021,475
Depreciation and amortization					322,690
Share-based payments					458,042
Loss from operations					(2,285,648)
Financing costs					(399,545)
Other income					4,283
Loss before taxes					\$ (2,680,910)

For the year ended July 31, 2020	Cultivation and wholesale	Retail	Extraction and tolling	Eliminations	Consolidated
Net revenue (external customers)	\$ 326,855	\$ 935,879	\$ 3,166,097	\$ -	\$ 4,428,831
Cost of sales	229,999	665,491	2,376,656	-	3,272,146
Gross profit	96,856	270,388	789,441	-	1,156,685
General and administrative					2,905,695
Depreciation and amortization					281,719
Share-based payments					2,689,308
Loss from operations					(4,720,037)
Financing costs					(676,371)
Other income					5,328
Loss before taxes					\$ (5,391,080)

**28. 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). 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.

**29. 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. As at the date of approval of these Financial Statements, the Amended Private Placement has not closed.