Low-Cost, High Quality - What's Not to LOVE?

We are initiating coverage of Cannara Biotech Inc. with a BUY rating and a target price of $3.00: As the Canadian cannabis sector continues to consolidate, a select group of financially disciplined LPs with focused execution has emerged as consistent outperformers. Cannara stands out within this cohort by leveraging its low-cost Quebec operating base, in-house processing capabilities, and high-margin, consumer-focused product portfolio to drive both top-line growth and margin resilience. In FY2024, the company generated $6.4 million in net income and $15.1 million in adjusted EBITDA, representing an 18% margin. That momentum accelerated into FY2025, with $13 million in adjusted EBITDA (25% margin) and $5.6 million in net income already reported in the first half. These results reflect not only disciplined cost control but also strong execution in high-margin categories such as premium dried flower, vapes, pre-rolls, infused pre-rolls, and a variety of concentrate products.

Low-Cost Capacity Expansion with Embedded Operating Leverage: Cannara is scaling its production platform through a disciplined, modular expansion strategy that more than doubles current capacity for a total investment of just $22 million. The company is currently producing ~39,500 kg annually and is targeting 50,000 kg by FY2026, rising to 62,500 kg by FY2028. The remaining cultivation zones at its Valleyfield facility will be phased in based on demand signals, with each grow room costing only $1 million to bring online - capping annual CAPEX at $2 million in FY2026, $3 million in FY2027, and $3 million in FY2028. At full build-out, Valleyfield is capable of supporting 100,000 kg of annual production, providing Cannara with significant latent capacity and long-term operating leverage.

Processing Expansion to Unlock Downstream Leverage: Cannara plans to complete a $10 million processing centre at Valleyfield during FY2026, providing the drying and trimming capacity required to support canopy expansion across grow rooms 13 through 24. The buildout will include a larger-scale BHO extraction lab, expanded vault and storage infrastructure, and will enable on-site processing of the full 24-zone configuration, which is currently centralized at the Farnham facility. By relocating drying and trimming operations to Valleyfield, Cannara will unlock operational capacity at Farnham to scale higher-margin, downstream activities such as pre-roll production, vape cartridge filling, and concentrate manufacturing. The investment positions Cannara to capture incremental margin across its value chain while maintaining a low capital intensity profile.

Quebec Vape Legalization: A Structural Growth Driver for Cannara: Quebec's planned legalization of cannabis vapes in late 2025 represents a meaningful long-term growth catalyst for Cannara. Despite a current ban, an estimated 25% of consumers already use vapes via illicit channels. The SQDC's rollout of a limited number of SKUs, capped at 30% THC with no added flavouring permitted, will unlock an estimated ~$150 million category within Quebec. With an already ~12% market share and Canada's #1 live resin vape market share in the rest of Canada, Cannara is uniquely positioned to benefit by this category expansion in their home province.

Strategic, ROI-Focused Acquisition Platform. Cannara has demonstrated a disciplined and accretive acquisition strategy, targeting select assets that enhance core capabilities and support profitable national growth. The 2021 acquisition of the Valleyfield facility marked a step-change in Cannara's strategic trajectory, establishing one of Canada's largest licensed indoor cultivation platforms and providing the structural foundation for province-by-province expansion at scale. Cannara prioritizes value over volume, leveraging strategic partnerships (e.g., Exotic Genetix licensing) where full takeovers aren't justified. Backed by a strong balance sheet, positive EBITDA, and a focus on high-ROI deployment, Cannara's acquisition strategy strengthens its competitive moat without compromising capital discipline.

RATING & TARGET PRICE

Rating	BUY
Price	1.50
Price Target	3.00
Market Cap ($M)	137.10
Projected Return	100.0%

MARKET DATA

LOVE-TSXV	1.50
Average Daily Volume	56,000.00
52 Week Range	C$1.51 - C$0.52
Enterprise Value ($M)	181.0
Shares Out. (MM)	137.1

ANALYST INFORMATION

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Investment Highlights:

Scalable Operations with Expansion on Track: Cannara has developed a scalable, cost-advantaged cultivation platform that offers meaningful runway for both production growth and margin expansion. The company is currently producing approximately 39,500 kg annually, with capacity expected to reach 50,000 kg by FY2026 and 62,500 kg by FY2028. At full build-out, the Valleyfield facility is capable of supporting up to 100,000 kg of annual output, with expansion tied to demand signals and executed through a modular, capital-light approach—limiting the risk of oversupply while preserving balance sheet strength. The company's cultivation footprint benefits from structural cost advantages, including preferential electricity rates (~$0.059/kWh) and access to affordable labour, enabling Cannara to respond to provincial supply opportunities without incurring significant incremental CAPEX. This cultivation platform is complemented by a fully integrated 250,000 sq. ft. processing facility, purpose-built for Cannabis 2.0 formats. The buildout will include a larger-scale BHO extraction lab, expanded vault and storage infrastructure, and will consolidate drying, trimming, and processing at Valleyfield. This will enable high-throughput SKU execution while freeing up capacity at Farnham to scale packaging, pre-roll, vape, and concentrate manufacturing. Together, Cannara's integrated infrastructure, phased expansion strategy, and low-cost operating model position the company to continue capturing market share while maintaining brand quality, pricing discipline, and consumer loyalty.

Cost Leadership Driving Competitive Advantage: Cannara benefits from structural cost advantages rooted in its Quebec-based operations, which continue to drive margin expansion and support a value-led pricing strategy. Leveraging inexpensive hydroelectric power, affordable local labor, and fully owned cultivation infrastructure, the company is able to produce premium-quality cannabis at a fraction of the cost of its peers. Its vertically integrated model and economies of scale unlock meaningful cost efficiencies across the value chain. Cannara intentionally passes these savings through to consumers via aggressive pricing, without sacrificing product quality - thereby enhancing brand appeal and market penetration. Management has indicated that Cannara can consistently sustain gross margins in the 40% range, even while pricing at the high end of the value segment and low end of the premium segment. This margin durability reinforces the scalability and defensibility of the company's operating model and reflects the embedded efficiencies inherent to its infrastructure. The ability to combine high product quality with low delivered cost is a key competitive differentiator —enabling Cannara to attract price-sensitive consumers, convert illicit market users, and build long-term brand loyalty. At the same time, it raises barriers to entry for less efficient operators unable to match its price-for-quality proposition. Continued operational discipline and throughput optimization have further strengthened this advantage, as evidenced by improving free cash flow and margin performance in recent quarters.

SQDC's Local-Procurement Policy: Structural Tailwind for Cannara in Quebec: The Société québécoise du cannabis (SQDC) has implemented a formal local-preference procurement policy that has materially impacted competitive dynamics in Quebec's ~$700 million recreational cannabis market. Mandates outlined in the SQDC's 2021–2023 Social Responsibility Plan prioritize Quebec-based producers in product listings, explicitly favoring local suppliers in tie-break situations and targeting a 40% local product shelf share - targets that were exceeded by March 2023, with 41% of SKUs and 54% of suppliers originating from Quebec. This procurement bias creates a quasi-protected regional market where out-of-province LPs face structural barriers unless partnered with a local distributor. Unlike other provinces that merely highlight local brands, Quebec's policy materially limits competition and enhances in-province producers' listing velocity, shelf presence, and consumer loyalty. Montreal-based Cannara is a clear beneficiary. Prior to obtaining its sales license, Cannara secured a letter of intent (LOI) with the SQDC to allocate its entire initial production to the province. This early access, combined with scalable indoor capacity and competitive pricing, enabled Cannara to achieve ~12%+ market share in Quebec - significantly outperforming its low-single-digit share in other provinces. The company's "Made in Québec, For Québec" positioning has translated into superior per capita revenues in its home province, underscoring the advantage of being a local incumbent under SQDC's procurement framework.

Brand Innovation and Category Leadership: Driving Differentiation Through R&D and Consumer Alignment: Cannara has established a product-led growth strategy anchored in brand innovation and portfolio diversity, with flagship banners Tribal, Nugz, and Orchid CBD positioned across key consumer segments. The company maintains a disciplined pheno-hunting program and rapid product development cycle, allowing it to consistently introduce high-demand, trend-aligned SKUs. This innovation pipeline is strengthened through collaborations with top-tier breeders, including Exotic Genetix, which has enabled Cannara to launch proprietary strains and limited-edition cultivars that reinforce its premium value proposition. As a result, the company has achieved category leadership in several high-value segments. In Quebec, Cannara holds a >65% market share in the "Extracts" category, driven by the dominance of Tribal and Nugz infused pre-rolls. At the national level, the company is now the #1 LP in the mass-premium 3.5g flower segment, with an estimated 19% market share across Canada. Cannara's brand equity continues to be a key competitive advantage, underpinned by high repeat purchase rates and strong consumer retention across both premium and value segments. Its ability to consistently deliver potent, terpene-rich cannabis at competitive price points has cultivated loyalty among core customer cohorts, supporting sustained velocity at shelf. This brand strength - combined with Cannara's agile product innovation and vertically integrated supply chain - positions the company to respond to evolving consumer preferences and whitespace opportunities faster than peers, reinforcing its long-term growth trajectory.

Quebec Vape Legalization: A Multi-Year Growth Catalyst for Cannara: Quebec's move to legalize cannabis vape cartridges in late 2025 represents a material regulatory catalyst for the province's ~$700 million recreational market. Previously prohibited due to public health concerns, vapes have remained a key illicit format, with an estimated ~25% of Quebec consumers using vapes despite no legal supply. The SQDC's planned fall 2025 rollout - governed by a 30% THC cap, no flavoring, and a limited initial SKU count - opens a significant adjacent revenue stream while addressing an underserved demand segment and displacing illicit sales. In established provinces, vapes account for 15–25% of retail cannabis sales. If Quebec trends toward a 20% share, the addressable segment could reach ~$150 million annually. For Cannara, which holds ~12% share of the Quebec market, the legalization of vapes provides a compelling top-line growth opportunity. Cannara has proactively developed compliant vape SKUs under its Tribal, Nugz and Orchid CBD brands and brings prior success from the Ontario, B.C. and Alberta markets. Management expects an initial launch in Q1/FY2026, supported by existing extraction infrastructure and vertical integration. Given the margin profile of vapes and Cannara's advantaged positioning, we view the regulatory change as a high-conviction, multi-year growth driver that expands the company's Quebec addressable market and strengthens its category leadership.

Company Description:

Cannara Biotech Inc. is a vertically integrated Canadian licensed producer of premium-grade cannabis, strategically positioned to serve the national adult-use market with high-quality products at highly competitive prices. Headquartered in Quebec, the company operates one of the largest cultivation platforms in Canada, with a combined 1.1 million square feet of indoor, hybrid greenhouse, and cannabis processing space across its two Quebec facilities. This makes Cannara the largest producer in the province and the fourth largest nationally by facility footprint.

Cannara's operational platform currently supports an annualized production run rate of 39,500 kg, supported by its fully licensed, Quebec-based cultivation footprint spanning both the Valleyfield and Farnham facilities. The company is targeting 50,000 kg of capacity by FY2026, rising to 62,500 kg in FY2028, with full scalability to 100,000 kg annually at full build-out. In parallel with canopy expansion, Cannara will also complete the buildout of a dedicated processing centre at Valleyfield by FY2026 at a projected cost of $10 million.

Cannara has established a broad and growing national presence, with distribution across seven Canadian provinces: Quebec, Ontario, Alberta, British Columbia, Saskatchewan, Manitoba, and Nova Scotia. In July 2025, the company is set to launch its category-leading live resin vapes in Newfoundland & Labrador, further expanding its geographic reach and retail penetration. The company's retail strategy emphasizes measured, province-by-province expansion supported by scalable cultivation capacity and cost-efficient logistics from its Quebec base. As of Q2 FY2025, Cannara products were available in over 37,000 points of distribution, with listings across approximately 93% of licensed retail stores in its active provinces. This deep penetration reflects strong provincial buyer acceptance, efficient SKU execution, and consumer pull-through across multiple brands and formats. Canada's largest markets Quebec, Ontario, Alberta and B.C. remain Cannara's core markets, accounting for the majority of company revenue, while expansion into Manitoba and Nova Scotia during FY2024 has extended Cannara's addressable footprint. This growing retail presence, paired with an expanding product portfolio and consistent shelf-level velocity, positions Cannara to continue gaining share as provincial markets stabilize and rationalize.

Ranked as the 7th largest licensed producer by national sales and 2nd in Quebec, Cannara has built a strong foundation of brand loyalty and retail presence, supported by a focused strategy on quality, affordability, and product differentiation. Through its expanding portfolio of flower, pre-rolls, and derivative products, Cannara is positioned to emerge as a leading national cannabis brand house - converting consumers from legacy markets and underperforming incumbents to consistent, value-driven offerings.

Experienced Leadership Driving Strategic Growth:

Cannara Biotech is led by a seasoned management team whose complementary expertise has positioned the company as a standout performer in Canada's cannabis industry. CEO Zohor Krivorot, Cannara's founder and master grower, has been at the forefront since inception. With hands-on experience and a deep understanding of cannabis cultivation, Mr. Krivorot has led the company's journey toward becoming one of the first to achieve mass-scaled production of premium cannabis. His dedication to operational excellence and product quality continues to guide Cannara's strategic direction.

CFO Nicholas Sosiak brings a unique blend of financial leadership and product innovation to the executive team. In addition to overseeing the company's financial health, Mr. Sosiak plays a key role in brand and product creation, developing offerings that both resonate with consumers and drive profitability. His ability to translate market insights into commercially successful products has given Cannara a competitive edge in an increasingly crowded landscape.

In addition, management and the Board of Directors are strongly aligned with shareholder interests, collectively controlling just over 50% of Cannara's common shares. This significant ownership reinforces their commitment to long-term value creation and ensures that strategic decisions remain focused on sustainable, profitable growth.

Strategically Integrated Cultivation Platform:

Cannara Biotech operates two of the most strategically designed and operationally distinct cannabis production facilities in Canada - the Valleyfield Facility and the Farnham Facility, both located in Quebec. Together, these assets form the foundation of Cannara's vertically integrated business model, balancing premium, craft-style indoor cultivation with high-volume, scalable hybrid greenhouse production. Currently, the combined annual production capacity across both facilities is approximately 39,500 kg. Each facility is fully licensed, purpose-built, and engineered for long-term margin expansion, product innovation, and operational flexibility. The dual-site infrastructure provides Cannara with the ability to control genetics, environmental precision, and downstream processing, all while benefiting from Quebec's preferential energy rates and strong provincial distribution network. This platform positions the company to meet evolving consumer demand across both value and premium segments in the Canadian adult-use cannabis market.

Valleyfield Facility – Flagship Scalable Asset with Long-Term Expansion Potential: Cannara's Valleyfield facility, located in Salaberry-de-Valleyfield, Quebec, is the cornerstone of the company's cultivation platform and ranks among the largest cannabis production sites in Canada. Situated on a 70-acre site, the facility encompasses over 1.05 million square feet of purpose-built infrastructure designed for scalable indoor cultivation, Cannabis 2.0 processing, and long-term operational expansion.

The facility was originally constructed at a cost exceeding $250 million, but Cannara acquired the asset in June 2021 for only $27 million in an all-cash transaction, purchasing it from Medican Organic Inc., a wholly owned subsidiary of The Green Organic Dutchman Holdings Ltd. (BZAM-CSE - currently in CCAA). This highly strategic acquisition provided Cannara with a state-of-the-art, fully licensed production asset at a ~90% discount to replacement cost, positioning the company for scale without the capital overhang that has burdened many peers in the sector.

Figure 1 - Cannara - Valleyfield Facility

Source: Company documents

Operational Design and Differentiation: The modular architecture of Valleyfield allows for precise environmental control, strain-specific batch isolation, and enhanced biosecurity, all of which contribute to consistent high-quality output. Each grow zone is outfitted with (i) fully automated climate systems, (ii) light deprivation and blackout curtains, and (iii) smart-glass roofing for optimal spectral control.

Valleyfield also houses Cannara's butane hash oil (BHO) extraction lab (1 of only 3 operating in Canada) , positioning the company to execute on a fully vertical supply chain - from cultivation and extraction to processing and branded product distribution. This integrated model enhances cost efficiency, quality assurance, and time-to-market responsiveness.

Strategic Facility Attributes:

- **24 Independently Controlled Grow Zones:** Encompassing 600,000 sq. ft. of total indoor canopy, with 12 zones (300,000 sq. ft.) currently active. This supports an annualized production capacity of ~36,000 kg.

- **Expansion Underway:** Cannara is currently producing ~39,500 kg of cannabis annually and is targeting 50,000 kg of capacity by FY2026, rising to 62,500 kg by FY2028. Expansion will be executed through a modular, demand-driven approach, with each additional grow zone costing approximately $1 million to activate - limiting CAPEX to $2 million in FY2026, $3 million in FY2027, and $3 million in FY2028. Cannara plans to phase in the remaining grow zones over time, bringing the site to its full 24-zone configuration. At full build-out, Valleyfield is capable of producing up to 100,000 kg of cannabis annually; however, the pace of deployment will remain contingent on market conditions and demand signals.

- **Processing & Manufacturing Infrastructure:** Includes a 250,000 sq. ft. cannabis 2.0 processing hub currently under construction.The buildout will include a larger-scale BHO extraction lab, expanded vault and storage infrastructure, and will enable on-site processing of the full 24-zone configuration, which is currently centralized at the Farnham facility.

- **Hybrid Rooftop Greenhouse:** A 200,000 sq. ft. greenhouse engineered to replicate indoor conditions using climate-controlled smart-glass and blackout systems - enabling high-end flower production with lower energy costs.

- **Low-Cost Power Advantage:** The site benefits from direct connection to a dedicated Hydro-Québec substation, securing preferential electricity rates of ~$0.059/kw - materially below national industry averages and a key driver of gross margin expansion. Labor and electricity make up ~75% of production costs, so Cannara's low power costs give it a significant cost advantage over its competitors.

Farnham Facility - Indoor Cultivation Platform with Craft-Grade Production and Ancillary Revenue: Cannara's Farnham facility, located in Farnham, Quebec, is a fully indoor, precision-controlled cannabis cultivation and processing center with a total built footprint of 625,000 square feet. Of this, 170,000 square feet is licensed for cannabis operations, while the remaining 455,000 square feet is leasable warehouse space - partially monetized through third-party tenants, generating recurring non-cannabis rental income that enhances cash flow diversification. Licensed under the Cannabis Act and fully compliant with Health Canada regulations, Farnham is strategically designed to support premium brand positioning and operational flexibility.

Farnham's modular indoor architecture enables Cannara to maintain craft-level standards - such as hang drying, hand trimming, and slow curing - across scalable commercial volumes. This differentiates its output from low-cost bulk flower and positions Cannara as a premium flower producer within both the Quebec market and the broader Canadian retail network. Once the company's new cannabis processing facility is completed at Valleyfield, processing activities will transition away from Farnham. This shift will enable high-throughput SKU execution at Valleyfield while freeing up capacity at Farnham to scale packaging operations and expand pre-roll, vape, and concentrate manufacturing.

The facility also plays a central role in Cannara's innovation pipeline, serving as the company's R&D and product development hub for new genetics and high-margin cannabis 2.0 formats. Farnham also has a Health Canada-certified on-site laboratory, significantly saving on the cost of testing cannabis products and related logistics.

Figure 2 - Cannara - Farnham Facility

Source: Company documents

Facility Capabilities and Infrastructure:

- **Craft-Grade Indoor Cultivation:** Houses 11 independent grow rooms totaling 28,000 sq. ft. of high-quality indoor canopy, supporting annualized cannabis production of ~3,500 kg. The environment is tightly controlled for optimal strain-specific cultivation and consistency.

- **Genetics and R&D:** Includes a 23,000 sq. ft. dedicated to cloning and mother room for genetic preservation and propagation, along with an in-house research lab focused on phenotyping and cultivar development.

- **Processing and Derivatives:** Onsite facilities include a solventless hash lab, pre-roll manufacturing line, and a dedicated packaging and labeling center, enabling full-cycle production capabilities under one roof.

- **Energy Efficiency:** Operates on a fixed-rate electricity contract at approximately $0.078/kw, facilitating cost-effective, year-round indoor operations without compromising quality standards.

Multi-Tiered Brand Framework Bridging Craft, Scalable Value, and Wellness Segments:

Cannara has executed a disciplined, multi-tiered brand strategy designed to capture demand across distinct consumer price and quality segments within the Canadian adult-use cannabis market. By leveraging the differentiated capabilities of its Quebec-based assets, with Valleyfield focused on scalable, cost-efficient production and Farnham dedicated to pheno-hunting, rosin-focused cultivation, and supporting production or demand gaps from Valleyfield, Cannara is well-positioned to align supply with targeted market segments while optimizing facility utilization and gross margin performance.

Cannara has established a product-led growth strategy anchored in brand innovation and portfolio diversity, with flagship banners Tribal, Nugz, and Orchid CBD positioned across key consumer segments. The company maintains a disciplined pheno-hunting program and rapid product development cycle, allowing it to consistently introduce high-demand, trend-aligned SKUs. This innovation pipeline is strengthened through collaborations with top-tier breeders, including Exotic Genetix, which has enabled Cannara to launch proprietary strains and limited-edition cultivars that reinforce its premium positioning. As a result, the company has achieved category leadership in several high-value segments. In Quebec, Cannara holds a >65% market share in the "Extracts" category, driven by the dominance of Tribal and Nugz infused pre-rolls. At the national level, the company is now the #1 LP in the mass-premium 3.5g flower segment, with an estimated 19% market share across Canada. Cannara's brand equity continues to be a key competitive advantage, underpinned by high repeat purchase rates and strong consumer retention across both premium and value segments. Its ability to consistently deliver potent, terpene-rich cannabis at competitive price points has cultivated loyalty among core customer cohorts, supporting sustained velocity at shelf.

This brand strength - combined with Cannara's agile product innovation and vertically integrated supply chain - positions the company to respond to evolving consumer preferences and whitespace opportunities faster than peers, reinforcing its long-term growth trajectory. Recognition of Cannara's brand leadership was further solidified at the 6th Annual Grow Up Awards Gala (May 28, 2025), where the company received two nationally recognized honors: Tribal was named Brand of the Year, and the Nugz Happle accessory received the Accessory of the Year award. These awards reflect not only product quality but also growing national awareness and resonance across Cannara's multi-brand platform.

Figure 3 - Cannara's Brand Portfolio

Source: Company documents

Tribal - Premium cultivated flower - Flagship house of genetics delivering premium cannabis experiences: Tribal showcases Cannara's leading-edge phenohunting program, constantly surfacing new, flavour-rich cultivars for discerning consumers. From this foundation, Tribal offers Canada's #1 mass-premium 3.5 g flower and Canada's #1 live-resin vapes across multiple strains, including heroes such as Cuban Linx, which has remained a top seller for more than four years—a rarity in the cannabis industry—and newly launched genetics Neon Sunshine and Bubble Up.

Nugz - Value - Scaled, broad-appeal platform aligned with evolving consumer demand: Nugz captures the value-plus segment with a high-THC portfolio spanning dried flower, flavour-forward infused pre-rolls and vapes, and Canada's #1 premium hash rosin—all priced to drive volume while preserving margin. The brand's focus on potency and terpene expression resonates with mainstream consumers seeking elevated experiences at accessible price points. Nugz now commands a leading share of Quebec's infused pre-roll category, making it a dependable growth engine within Cannara's brand stack.

Orchid CBD -Wellness - oriented and non-intoxicating product line: Intentional, balanced, full-spectrum experiences focused on wellness, Orchid CBD serves consumers seeking alternatives to high-THC products, offering CBD and terpene-rich flower, pre-rolls, and live-resin vapes crafted for purposeful consumption. Anchored by CBD Runtz, Canada's #1 CBD flower, the brand is well-aligned with Health Canada's evolving regulatory framework, which increasingly encourages cannabinoid diversity beyond high-THC offerings.

New product innovation and genetic pipeline expansion: Cannara's multi-brand architecture is supported by a robust product innovation engine and a proprietary genetic development platform, both of which enable continued category leadership in high-growth segments such as infused pre-rolls, solventless extracts, and vapes. In Q2 FY2025, the company launched 10 new SKUs, including the paperless Nugz Hash Wrap (1 x 1.7g, Indica & Sativa), Orchid CBD's infused pre-roll (Grape Rntz, 3 x 0.6g), an extension of Tribal's Trifecta line (Galactic Rntz, 3 x 0.6g), and a new Nugz all-in-one vape (G Sherb). Building on this momentum, Cannara launched the Tribal G Mint Trifecta infused pre-roll in Quebec in Q3, reinforcing its position in a province where it already commands >65% market share in the extracts category. Additionally, with the legalization of vapes in Quebec expected by November 2025, Cannara has proactively developed compliant vape formulations tailored to the province's 30% THC cap. Backed by strong performance in live resin vapes across the rest of Canada, the company is well-positioned to gain early traction and lead category development as the Quebec vape market comes online.

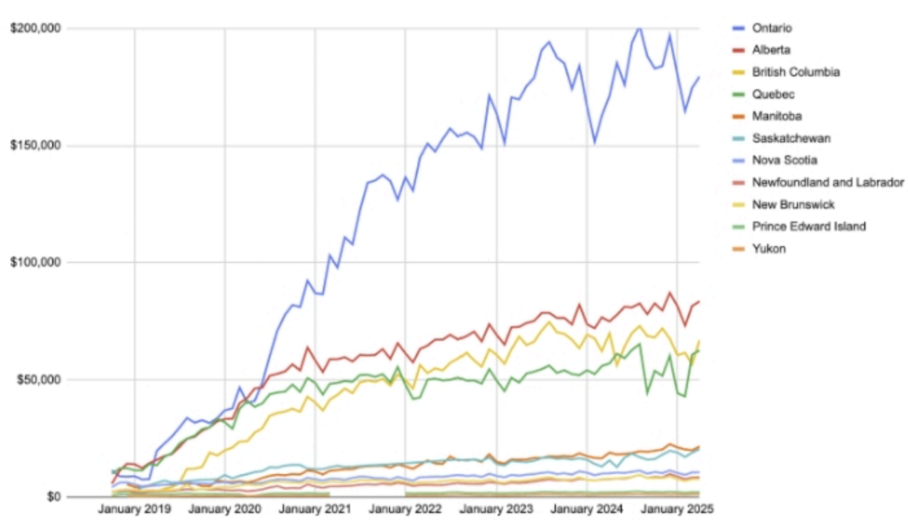
Cannara's innovation strategy is anchored by its proprietary genetics and ongoing phenotyping program, which systematically screens hundreds of cultivars to identify high-performing phenotypes. Selection criteria include potency, terpene profile, bud morphology, yield optimization, and market fit. The FY2025 pheno-hunt has already generated several proprietary genetics earmarked for future brand releases, providing a defensible pipeline of differentiated SKUs heading into FY2026.

Industry Overview:

Canadian Adult - Use Cannabis Market - Growth Moderating amid Maturation: Following the nationwide legalization of adult-use cannabis in late 2018, the Canadian recreational cannabis market experienced several years of rapid expansion. Between 2020 and 2022, industry sales were driven by retail buildout, increased product variety, and the gradual migration of consumers from the illicit to legal market. However, as the sector enters a mature phase, year-over-year growth has decelerated, signaling an increasingly saturated and competitive environment.

- **2020** marked the first full year of post-legalization sales, generating approximately **$2.6 billion,** a 120% increase from 2019, driven by new store openings and accelerated consumer conversion to legal channels.
- **2021** saw total sales rise to ~**$3.8 billion** (**+47% YoY**), supported by aggressive retail expansion in key provinces (notably Ontario), wider product assortment, and improved supply chain stability.
- **2022** revenue reached ~**$4.5 billion** (**+17.9% YoY**), though the pace of growth moderated. Market saturation began to emerge, with several provinces hitting peak store density and consumer access nearing full penetration in urban regions.
- In **2023**, sales crossed the $**5 billion** threshold for the first time, reaching ~**$5.1 billion** (**+12.2% YoY**). Monthly growth began to slow meaningfully by year-end, reflecting a transition toward market maturity. December 2023 sales were up only 11.4% YoY, compared to ~20% growth rates observed in prior periods.
- **2024** sales were ~**$5.2 billion**, representing 1–3% growth over 2023. Despite a record month in December (~$500 million), full-year sales remained relatively flat.
- **2025 (YTD)** trends suggest continued low single-digit growth. January 2025 saw an estimated 15% YoY increase, though this was largely a function of soft comps from January 2024. Broadly, the market appears to be stabilizing, with 2025 on track to modestly exceed 2024 if current trends persist. Early data indicates the legal market is nearing full consumer penetration, with incremental growth increasingly dependent on product innovation, pricing dynamics, and consolidation.

Figure 4 - Monthly retail trade sales by province & territory (x 1000)

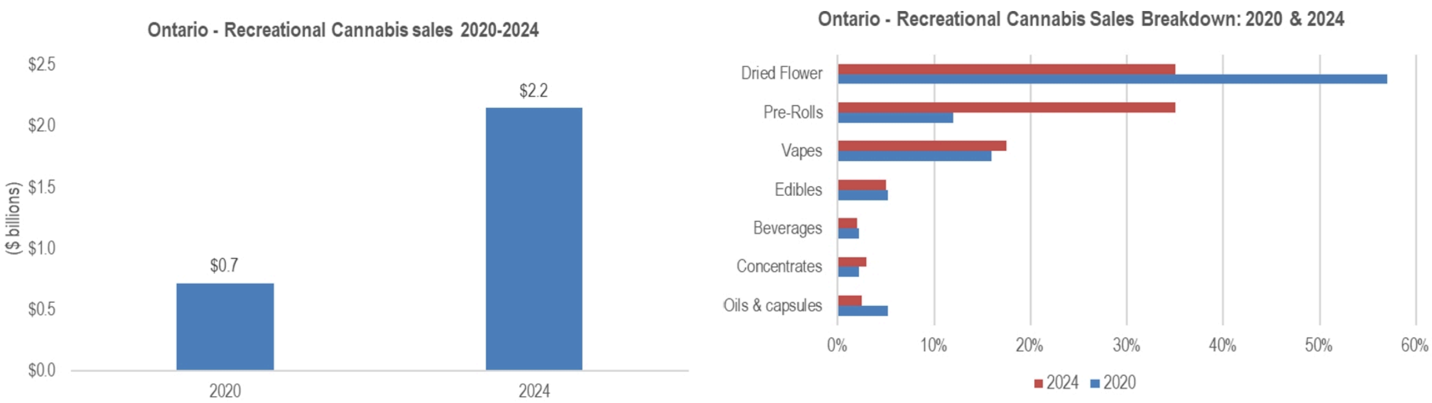


Source: stratcann.com

Provincial Market Landscape: Ontario, Alberta, B.C., & Quebec

Ontario Market Positioning – Navigating Scale, Competition, and Category Growth:

Figure 5 - Ontario – Recreational Cannabis Market and Category Breakdown



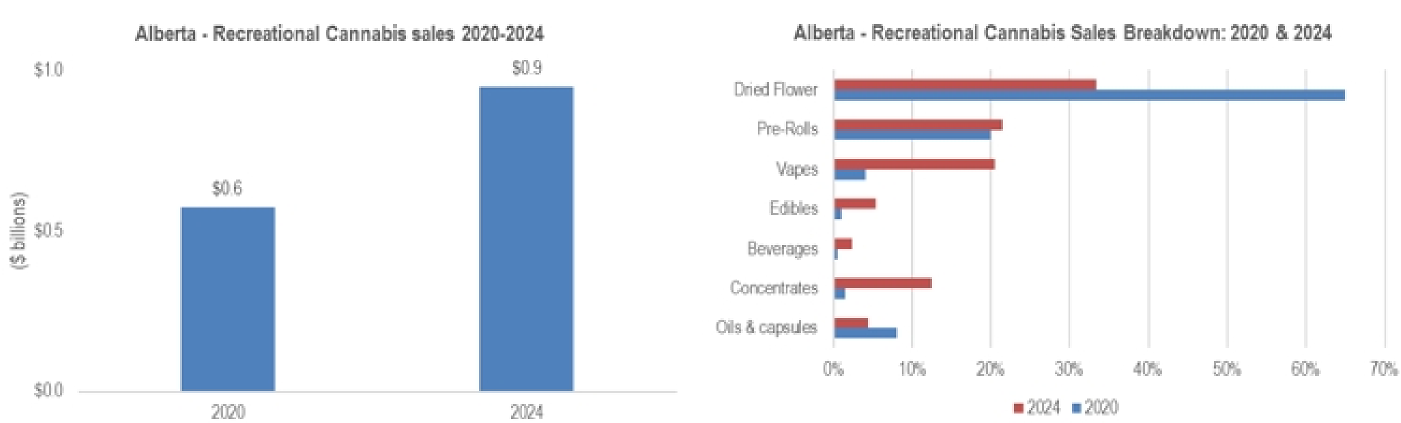
Statistics Canada, Provincial regualtors and company documents

Ontario remains the anchor of Canada's recreational cannabis market, consistently generating over one-third of national retail sales. The province's market is characterized by scale, diversity, and price stratification, supported by an expansive retail footprint of ~1,700 active storefronts. This infrastructure enables broad consumer reach and underpins a dynamic competitive environment for licensed producers (LPs). In 2024, retail cannabis sales grew by 10.8% year-over-year to approximately $2.2 billion.

Cannara is executing a focused, regionally responsive strategy in Ontario, emphasizing curated portfolio deployment and category depth. The company's market share in the province reached 2.9% in May 2025, up from 2.3% in Q4/FY2024, reflecting momentum from new SKU listings, stronger brand awareness, and expanded retail penetration. Cannara's products are now listed in 95% of all Ontario retail cannabis storefronts. This wide-scale presence ensures broad consumer accessibility across urban and rural regions, supporting velocity for proven SKUs while providing the foundation for incremental growth as new product listings are commercialized. Cannara now ranks as the 8th-largest licensed producer by sales through the Ontario Cannabis Store (OCS).

Alberta Market Penetration – Gaining Share in a Competitive, Volume-Driven Landscape:

Figure 6 - Alberta - Recreational Cannabis Market and Category Breakdown



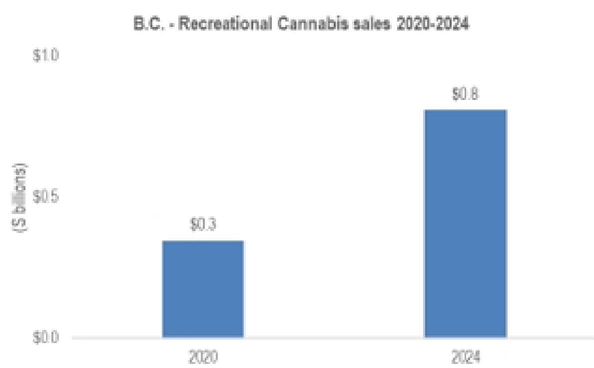
Source: Statistics Canada, provincial regulators, and company documents

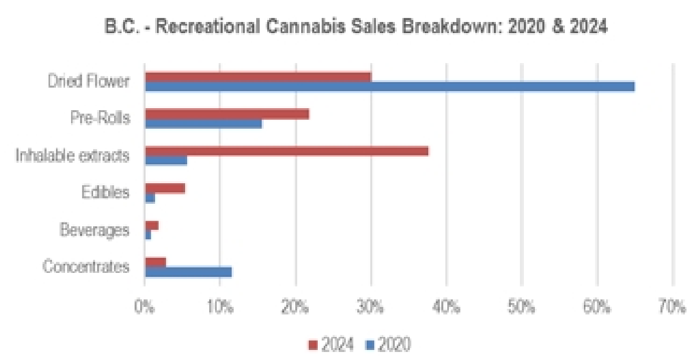
Alberta remains Canada's second-largest adult-use cannabis market, generating an estimated $950 million in recreational sales in 2024. The province operates under a fully privatized retail framework, supported by more than 700 licensed storefronts - one of the highest per capita across the country. This model has created a fragmented yet dynamic retail environment marked by price compression, SKU proliferation, and rapid shifts in consumer preferences. For licensed producers, Alberta presents a high-volume, low-margin market where operational agility, pricing power, and brand visibility are critical to sustained success.

Cannara entered the Alberta market in May 2023 and has rapidly established a foothold, scaling from a negligible baseline to a current 2.6% provincial market share. Growth has been driven by improved SKU listings with the Alberta Gaming, Liquor and Cannabis Commission (AGLC) and accelerating sell-through velocity. The portfolio has expanded from just 3 SKUs at launch to over 35, strengthening shelf presence across key categories and price tiers. Cannara now holds >5% share in both the vape and concentrate categories, reflecting strong execution in Alberta's format-led, value-conscious consumer landscape.

British Columbia – Expanding Presence in a Quality-Driven, Price-Sensitive Market:

Figure 7 - B.C. – Recreational Cannabis Market and Category Breakdown





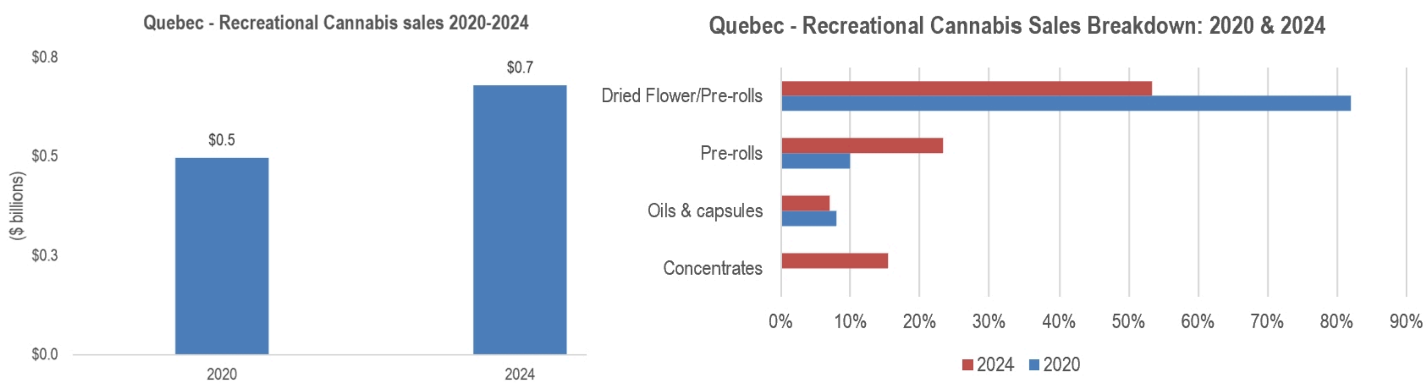
Statistics Canada, provincial regulators, and company documents

British Columbia ranks as Canada's third-largest recreational cannabis market, with retail sales reaching approximately $800 million in 2024. The province is recognized for its deep-rooted cannabis culture, strong demand for craft-quality products, and a well-developed retail infrastructure. However, B.C. also presents a challenging operating environment, marked by intense price competition, a persistent illicit market presence, and a 20% provincial vape tax - all of which pressure margins and demand strategic execution.

Cannara entered the B.C. market in September 2022, leveraging the structural cost advantages of its Quebec-based cultivation platform. Since entry, the company has delivered consistent market share growth, with its current market share reaching 1.7%, up from 1.4% in Q4/FY2024. This momentum reflects expanding retail coverage and improving SKU velocity, with additional portfolio expansion slated for the coming quarters. Cannara's B.C. strategy prioritizes formats aligned with regional consumer preferences, including live and cured resin vapes, infused pre-rolls, and dried flower, where its Tribal and Nugz brands have already demonstrated strong performance in Ontario, Quebec and Alberta. Despite the impact of the province's vape tax, Cannara's competitive pricing and formulation quality have helped mitigate category headwinds, enabling sustained sell-through across its retail partnerships.

Quebec Market Leadership – Defensible Share in a Structurally Constrained, High-Volume Market:

Figure 8 - Quebec - Recreational Cannabis Market and Category Breakdown



Source: Statistics Canada, provincial regulators, Weedcrawler, and company documents

Quebec remains one of Canada's most structurally unique cannabis markets, operating under a centralized, government-run distribution and retail model via the SQDC. Unlike privatized provinces such as Alberta or Ontario, Quebec maintains strict format and channel controls, including a ban on vapes (in place until at least late 2025) and tight limits on edible availability. While this restricts product breadth and retail density, it provides a predictable, high-volume route to market for licensed producers that are operationally aligned with provincial preferences.

The province continues to demonstrate steady maturation. For the three months ending November 30, 2024, SQDC revenues reached ~ $213.8 million, with FY2023 sales totaling $688 million. Store expansion has been gradual but consistent, with locations growing from 28 in 2020 to over 100 by late 2024. Still, retail density remains structurally limited (~1 store per 100,000 people) compared to Ontario and B.C. (1 per 10,000), placing greater emphasis on supply chain efficiency, brand loyalty, and SKU productivity. Notably, Quebec has shifted 62.8% of consumption into the legal market (vs. 58.5% in the prior year), a clear sign of improving consumer engagement and regulatory traction.

Operating within one of Canada's most tightly regulated provincial markets, Cannara has established itself as a top-tier LP, currently ranking #2 in Quebec by market share. The company has more than doubled its SKU count over the past 18-months, growing from 22 SKUs at the start of FY2023 to 42 by late 2024, reflecting its ability to scale innovation within the province's strict regulatory framework. Cannara's share in Quebec currently stands at 12.3%, up from 11.9% at the end of FY2024 and 8.5% at the end of FY2023, underscoring sustained share gains driven by portfolio depth and format leadership.

Performance continues to be anchored in high-quality dried flower and pre-rolls, the core categories of Quebec's legal market. Recent launches - Nugz infused pre-rolls and proprietary cultivars such as Neon Sunshine, Bubble Up, and Meat Pie - have further accelerated growth, resonating with both new and returning consumers. Looking ahead, the anticipated legalization of vape products in November 2025 presents a potential step-change opportunity. With established brand equity, compliant production capabilities, and a strong partnership with the SQDC, Cannara is well-positioned to secure early leadership in this high-growth, currently untapped category - pending supplier selection.

Canadian Cannabis Industry Trends and Structural Evolution (2020–2025)

- **Consumer Preferences Shift Toward Convenience and Potency**: Between 2020 and 2025, Canadian cannabis consumers increasingly favoured convenient, fast-acting, and higher-potency formats. Pre-rolls grew from a secondary format into near-parity with dried flower by 2024, accounting for over 30% of total recreational sales in certain provinces (OCS, 2024). Vape cartridges and infused pre-rolls gained share rapidly due to their discreet format and strong effects, while edibles remained popular - especially gummies, which represented ~70% of edible sales nationwide by 2023 (Health Canada, 2023). This shift has diversified the average consumer's basket from flower-only in 2018 to multi-format in 2025.
- **Sustained Price Compression and Margin Headwinds**: The oversupply of cultivation capacity post-legalization led to prolonged price compression, particularly in dried flower. Average legal prices have declined from approximately $10 per gram in 2019, and

today, 28g "value ounce" products routinely sell for under $100. However, this affordability has come at the expense of LP margins, particularly for low-cost SKUs. Compounding the issue, federal excise taxes - set at the greater of $1/gram or 10% of sale price - have resulted in an effective 30–40% take rate on many products, especially high-THC vapes and concentrates (Cannabis Council of Canada, 2024). While prices began to stabilize by late 2024 as marginal producers exited the market, cost inflation - particularly in labour and energy - has limited the ability of many LPs to recover margin.

- **Industry Consolidation and Rationalization**: Following a period of over expansion, the Canadian cannabis sector has undergone substantial consolidation. From 2020 to mid-2025, over 300 licensed producers exited the market via insolvency, acquisition, or license surrender, according to Health Canada data. Major M&A transactions include Tilray's (TLRY-Q) merger with Aphria (2021), Tilray's acquisition of Hexo (2023), and Organigram's (OGI-TSX) acquisition of Motif Labs (2024). On the retail side, Fire & Flower filed for creditor protection in June 2023, while Ontario's store count began to decline from the ~1,700 peak reached in 2022. This wave of exits and consolidation has helped reduce industry overcapacity and eliminate underperforming participants. The departure of lower-tier competitors is enabling better-managed operators to thrive, with reduced competition for shelf space and greater pricing power. Larger survivors are now optimizing scale, focusing on vertical integration, and executing disciplined SKU strategies - supporting a more sustainable, EBITDA-positive industry profile going forward.

- **Illicit Market Erosion, But Not Elimination**: A key goal of cannabis legalization was to eliminate the illicit market. While Canada has made substantial progress, the illicit segment remains resilient. As of 2025, legal cannabis accounts for an estimated 75–78% of total sales, according to a study from RAND/Waterloo research published in early 2025. This is up from roughly two-thirds in 2023 (Health Canada), and about 50% in 2021 (Statistics Canada). The shift reflects falling legal prices, improved product quality, and expanded retail access. However, an estimated 22–25% of cannabis purchases remain illicit, driven by lower prices, higher potencies, and greater convenience - particularly in underserved regions. In Quebec, for instance, the illicit share still sits around 37% (SQDC data, Jan 2025), partly due to a limited number of government-run outlets. Unlicensed delivery services and online mail-order sites continue to offer restricted products like high-potency edibles or flavored vapes, which are banned under current regulations. While provincial enforcement teams and federal agencies have ramped up actions against illegal operators, a persistent niche may remain for ultra-low-cost or high-THC products. Still, the trend is clearly moving toward broader legal adoption, signaling continued progress in displacing the illicit market (Deloitte Cannabis Report 2025).

- **Policy Constraints and Reform Momentum:** The federal Cannabis Act review concluded in early 2025, confirming industry-wide challenges around taxation, THC limits, and marketing restrictions. Excise taxes have become especially burdensome at low price points and have been cited by the Cannabis Council of Canada and LPs as a barrier to sustainable profitability. Meanwhile, the 10 ㎎ THC limit on edibles and the 30% THC cap in Quebec continue to push some high-tolerance users to illicit supply (Health Canada, 2024). While regulatory relief has yet to materialize, the legislative review acknowledged the need for reform - particularly in tax policy and product flexibility.

- **Emergence of Disciplined Operators:** As the Canadian cannabis sector consolidates, a select group of financially disciplined LPs with focused execution strategies has emerged as consistent outperformers. Cannara is a clear example of this cohort - leveraging its low-cost Quebec operating base, in-house processing capabilities, and disciplined SKU expansion to drive growth and margin resilience. The company delivered 32% year-over-year revenue growth in the first half of FY2025, while maintaining gross margins near 40%. With approximately 12% market share in Quebec and rising penetration in Ontario and Alberta, Cannara has achieved profitable scale in a sector where many peers continue to operate at a loss.

Financial Forecast:

Cannara Biotech Inc. - Financial Forecast through FY2027E

YE Aug 31 ($000)	FY2024	FY2025E	FY2026E	FY2027E
Revenue	$82,150	$104,025	$121,241	$137,207
Gross profit	$27,864	$40,372	$50,969	$58,514
Gross margin	33.9%	38.8%	42.0%	42.6%
EBITDA	$15,135	$23,386	$30,378	$35,347
EBITDA margin	18%	22%	25%	26%
Net Income	$6,438	$9,351	$15,178	$18,049
EPS f.d.	$0.07	$0.10	$0.16	$0.20

Company documents and RCC

Valuation & Recommendation:

We are initiating coverage of Cannara Biotech Inc. with a BUY recommendation and a target price of $3.00. Our target is derived using an 8.0x EV/EBITDA multiple applied to our FY2027 EBITDA forecast, which we view as a reasonable premium within the Canadian cannabis peer group, given Cannara's superior financial and operational profile.

The Canadian cannabis sector is undergoing a structural reset. Over the past 12 months, deteriorating investor sentiment has been shaped by sector-wide challenges: persistent oversupply, ongoing price compression, regulatory inertia, and continued net losses across major licensed producers (LPs). U.S. federal reform remains stalled, domestic policy progress has been modest, and access to capital remains constrained amid rising interest rates. These dynamics have led to a wave of layoffs, insolvencies, distressed asset sales, and underwhelming demand growth. In turn, cannabis equities are trading near 52-week lows, with investors awaiting a clear re-rating catalyst.

Cannara stands in stark contrast to this broader backdrop. It is one of the few publicly traded Canadian LPs to consistently deliver positive net income, adjusted EBITDA, and free cash flow – key financial metrics that remain elusive for larger peers such as Tilray (TLRY), Aurora (ACB-TSX), and Organigram (OGI). In FY2024, Cannara reported $6.4 million in net income and $15.1 million in adjusted EBITDA, representing an 18% margin. Momentum has accelerated into FY2025, with $13 million of EBITDA (25% margin) and $5.6 million in net income already achieved in the first half. These results reflect a disciplined cost structure and focused execution in high-margin categories, including premium dried flower, live resin vapes, and infused pre-rolls.

Cannara has also distinguished itself by avoiding value-destructive strategies that have plagued the sector. Management has maintained a disciplined capital allocation framework, monetizing non-core assets, executing on share buybacks, and avoiding dilutive equity raises. The company's robust balance sheet and strong cash generation enhance its ability to scale profitably in a capital-constrained environment.

Figure 9 - Cannara Biotech Inc. - Industry Comparables

Company	Symbol	Current $	Market Cap ($000s)	EV ($000s)	EBITDA 2025E	EBITDA 2026E	EV/EBITDA 2025E	EV/EBITDA 2026E	EPS 2025E	EPS 2026E	P/E 2025E	P/E 2026E
Canadian Comparables												
Tilray Brands	TLRY-Q	$0.54	$545	$612	$56	$75	10.9x	8.2x	-$1.03	-$0.18	nm	nm
SNDL Inc.	SNDL-T	$1.75	$464	$392	na	na	na	na	-$0.03	-$0.09	nm	nm
Aurora Cannabis	ACB-T	$6.20	$349	$357	$31	$61	11.5x	5.8x	$0.28	$0.26	22.1x	23.8x
Canopy Growth	WEED-T	$1.75	$327	$500	-$46	-$10	nm	nm	-$5.54	-$0.54	nm	nm
Organigram Global	OGI-T	$1.91	$256	$296	$20	$31	15.1x	9.4x	$0.13	$0.00	9.8x	nm
Village Farms	VFF-Q	$1.27	$143	$192	$17	$36	11.6x	5.4x	-$0.06	$0.10	nm	12.7x
Decibel Cannabis	DB-V	$0.07	$40	$83	$22	$28	3.8x	3.0x	$0.01	$0.03	7.0x	2.8x
Average							**10.6x**	**6.4x**			**13.0x**	**13.1x**
US Comparables												
Green Thumb Ind.	GTII-Q	$7.25	$1,535	$1,893	$344	$370	5.5x	5.1x	$0.18	$0.26	40.3x	27.9x
Curaleaf Holdings	CURA-T	$0.83	$630	$1,886	$283	$324	6.7x	5.8x	-$0.22	-$0.17	nm	nm
Trulieve Cannabis	TRUL-CSE	$3.88	$742	$748	$409	$404	1.8x	1.9x	-$0.33	-$0.08	nm	nm
Verano Holdings	VRNO-NEO	$0.67	$241	$684	$239	$254	2.9x	2.7x	-$0.12	-$0.09	nm	nm
Cresco Labs	CL-CSE	$0.48	$213	$617	$147	$168	4.2x	3.7x	-$0.13	-$0.09	nm	nm
TerrAscend	TSND-T	$0.28	$102	$326	$64	$74	5.1x	4.4x	-$0.11	-$0.06	nm	nm
Average							**4.4x**	**3.9x**			**nm**	**nm**
Cannara Biotech Inc.	LOVE-TSXV	$1.50	$137.1	$181.0	$23	$30	5.9x	4.5x	$0.10	$0.16	14.8x	9.1x

*Closing prices July 3, 2025

Source: Thomson One & RCC

Peer Context & Multiple Justification

- Cannara has delivered 16 consecutive quarters of positive EBITDA, positive net income in 7 of the last 8 quarters, and free cash flow in 6 of the last 8 quarters – a level of consistency unmatched by most domestic peers. This performance supports a relative valuation premium.

- Canadian cannabis equities are currently trading at an average of 10.6x EV/EBITDA (2025) and 6.4x EV/EBITDA (2026). Within this group, Tilray trades at 8.2x and Organigram at 9.4x, despite continued earnings volatility. In our view, Cannara's track record of profitability, capital discipline, and focused growth strategy justify a valuation multiple at the upper end of the peer range.

- Applying an 8.0x multiple to our FY2027 EBITDA estimate yields a target price of $3.00, implying meaningful upside from current levels. In our view, Cannara represents a rare combination of sustainable earnings, operational agility, and embedded growth optionality. As the Canadian market consolidates and institutional capital selectively re-engages with the sector, we believe Cannara is positioned for a re-rating.

Appendix 1: Detailed Financial Forecast

Figure 10 - Cannara Biotech Inc. - Income Statement

August 31	2023	%	2024	%	2025E	%	2026E	%	2027E	%
Net Revenue	**57,563**	**100**	**82,150**	**100**	**104,025**	**100**	**121,241**	**100**	**137,207**	**100**
Cost of goods sold	36,493		54,285		63,653		70,272		78,693	
Gross Profit	**21,069**	**36.6**	**27,864**	**33.9**	**40,372**	**38.8**	**50,969**	**42.0**	**58,514**	**42.6**
Change in FV of inventory	(14,638)		(23,227)		(27,872)		(30,659)		(33,725)	
Unreal. gain on changes of FV of BA	21,102		25,551		30,661		33,727		36,257	
	27,533		**30,189**		**43,161**		**54,037**		**61,046**	
G&A	7,967	14	9,836	12	11,100	11	12,210	10	13,721	10
R&D	1,031	2	1,121	1	693	1	800	1	905	1
Marketing	2,909	5	6,675	8	10,197	10	11,641	10	12,843	9
Consulting fees	889	2	1,159	1	1,081	1	1,197	1	1,257	1
Gain on disposal of assets	0	0	(2,039)	(2)	0	0	0	0	0	0
Loss on disposal of PPE	133	0	5	0	2	0	0	0	0	0
Operating Income	**14,603**	25	**13,431**	16	**20,088**	19	**28,188**	23	**32,320**	24
Depn' & Amortization	962	2	1,376	2	1,147	1	1,300	1	1,400	1
Finance expense	4,942	9	5,594	7	4,746	5	4,596	4	4,446	3
Share based comp.	1,754	3	1,977	2	1,250	1	1,500	1	1,750	1
Other	0	0	0	0	0	0	0	0	0	0
Earnings before taxes	**6,945**		**4,484**		**12,944**		**20,792**		**24,724**	
Current taxes	0	0	0	0	0	0	2,740	2	6,676	5
Future Taxes	0	0	(1,955)	(2)	3,594	3	2,873	2	0	0
Taxes	0	0	(1,955)	(2)	3,594	3	5,614	5	6,676	5
Net Income	**6,945**	12	**6,438**	8	**9,351**	9	**15,178**	13	**18,049**	13
EPS Basic	$0.08		$0.07		$0.10		$0.17		$0.20	
EPS f.d.	$0.08		$0.07		$0.10		$0.16		$0.20	

Company documents & RCC

Figure 11 - Cannara Biotech Inc. - Balance Sheet

August 31	2023		2024		2025E		2026E		2027E	
Assets										
Cash	4,271	3	6,620	4	12,051	7	18,829	10	23,720	12
Accounts receivable	10,593	7	13,307	9	18,204	11	20,611	11	23,325	11
Biological assets	5,774	4	6,650	4	7,000	4	8,650	5	9,975	5
Inventories	27,998	20	33,424	22	40,570	24	44,859	24	50,081	25
Prepaid expenses	3,061	2	2,846	2	3,487	2	3,974	2	4,489	2
Asset held for sale & other	0	0	4,898	3	4,898	3	4,898	3	4,898	2
Inc. tax credit receivable	0	0	0	0	0	0	0	0	0	0
Total Current Assets	**51,696**	**37**	**67,744**	**44**	**86,210**	**51**	**101,821**	**54**	**116,487**	**57**
Gross prop., plant & equip.	103,228	73	104,400	67	109,400	64	119,400	63	125,400	62
Less: accum. depreciation	13,968	10	20,059	13	26,173	15	32,441	17	39,109	19
Net property, plant & equip.	89,260	63	84,341	55	83,227	49	86,959	46	86,291	43
Right-of-use assets	177	0	595	0	305	0	15	0	(275)	(0)
Deferred tax asset	0	0	1,955	1	0	0	0	0	0	0
Other assets	390	0	356	0	356	0	356	0	356	0
Total Assets	**141,522**	**100**	**154,720**	**100**	**170,097**	**100**	**189,150**	**100**	**202,859**	**100**
Liabilities										
Bank Term Debt	3,000	2	6,259	4	6,259	4	6,259	3	0	0
Accounts payable	8,886	6	9,842	6	14,043	8	14,549	8	15,093	7
Excise tax payable	5,040	4	6,097	4	6,975	4	7,381	4	8,016	4
Sales tax payable	1,051	1	1,423	1	1,993	1	2,271	1	2,437	1
Current portion of convertible debentures	1,000	1	1,000	1	0	0	0	0	0	0
Current portion of lease liabilities	79	0	280	0	280	0	280	0	280	0
Current portion of term loan	1,966	1	1,966	1	1,966	1	1,966	1	1,966	1
Other	161	0	135	0	135	0	135	0	135	0
Total Current Liabilities	**21,183**	**15**	**27,002**	**17**	**31,651**	**19**	**32,841**	**17**	**27,926**	**14**
LTD	34,888	25	33,011	21	31,500	19	29,500	16	27,500	14
Lease liabilities	97	0	369	0	369	0	369	0	369	0
Deferred tax liability	0	0	0	0	1,639	1	4,513	2	4,513	2
Convertible debenture	4,753	3	5,442	4	5,442	3	5,442	3	5,442	3
Other	857	1	945	1	945	1	945	0	945	0
Total Liabilities	**61,778**	**44**	**66,768**	**43**	**71,546**	**42**	**73,609**	**39**	**66,694**	**33**
Shareholders Equity										
Common stock & paid-in cap.	88,804	63	88,523	57	89,765	53	90,076	48	90,901	45
Additional paid in cap.	10,280	7	12,326	8	12,334	7	13,834	7	15,584	8
Retained earnings	(19,340)	(14)	(12,898)	(8)	(3,547)	(2)	11,631	6	29,679	15
Total Shareholder's Equity	**79,744**	**56**	**87,951**	**57**	**98,552**	**58**	**115,541**	**61**	**136,165**	**67**
Total Liab. & Shareholders Eq.	**141,522**	**100**	**154,720**	**100**	**170,097**	**100**	**189,150**	**100**	**202,859**	**100**

Source: Company documents & RCC

Figure 12 - Cannara Biotech Inc. - Statement of Cash Flows

August 31	2023	2024	2025E	2026E	2027E
Operating Activities					
Net income	6,945	6,438	9,351	15,178	18,049
Amortization	4,815	6,096	6,114	6,268	6,668
Amortization of right of use asset	127	257	290	290	290
Change in FV of inventory sold	14,638	23,227	23,227	30,659	33,725
UR gain on changes in FV of biological assets	(21,102)	(25,551)	(25,551)	(33,727)	(36,257)
Deferred income tax expense	0	(1,955)	3,594	2,873	0
Financing costs	3,671	4,119	4,746	4,596	4,446
Financing income	(240)	(179)	0	0	0
Share based compensation	1,754	1,977	1,250	1,500	1,750
Acc. on financing and amort. of financing costs	860	727	0	0	0
Other	81	(1,976)	0	0	0
Cash Flow from ops. before NCWC	**11,550**	**13,181**	**23,020**	**27,638**	**28,671**
Net change in working capital	(5,639)	(2,499)	(4,465)	(4,575)	(5,900)
Cash Flow from operations	**5,911**	**10,683**	**18,555**	**23,063**	**22,771**
Investing Activities					
Purchase of capital assets	(9,311)	(7,071)	(5,000)	(10,000)	(6,000)
Acquisitions & other	(568)	(398)	0	0	0
Interest received	212	164	0	0	0
Proceeds from disposal of capital assets	190	2,116	0	0	0
Other	0	0	0	0	0
Total	**(9,478)**	**(5,188)**	**(5,000)**	**(10,000)**	**(6,000)**
Financing Activities					
Inc. (dec.) in LTD	976	1,095	(1,511)	(2,000)	(8,259)
Issue of common shares	(324)	(277)	0	312	825
Repayment of convertible notes	0	0	(1,000)	0	0
Principal lease payments	(274)	(259)	0	0	0
Financing costs	(4,094)	(2,836)	(4,746)	(4,596)	(4,446)
Other	(477)	(868)	(868)	0	0
Total	**(4,193)**	**(3,145)**	**(8,125)**	**(6,284)**	**(11,880)**
Inc. (dec.) in cash position	(7,760)	2,350	5,430	6,778	4,891
Effect of FX	(84)	0	0	0	0
Cash position, beg. of year	12,115	4,271	6,620	12,051	18,829
Cash position, YE (bank indebt.)	**4,271**	**6,620**	**12,051**	**18,829**	**23,720**

Source: Company documents & RCC

Company Description:

Cannara Biotech Inc. is a vertically integrated Canadian licensed producer of premium-grade cannabis, strategically positioned to serve the national adult-use market with high-quality products at highly competitive prices. Headquartered in Quebec, the company operates two of the largest cultivation assets in the country, totaling over 1.65 million square feet of indoor and hybrid greenhouse space, making it the largest producer in Quebec and the 4th largest nationally by facility footprint.

Risks:

Regulatory Compliance and Licensing. Cannara operates in a heavily regulated and evolving legal environment governed by the ***Cannabis Act***, Health Canada, and various provincial and stock exchange regulations. Compliance imposes significant costs and operational complexity. Any failure to obtain, renew, or comply with necessary licenses can lead to penalties, license revocation, or operational shutdowns. Regulatory changes, tax reforms, or shifts in enforcement practices could materially impact growth, increase compliance burdens, and limit market participation.

Legal and Operational Uncertainty. The cannabis industry is still maturing, with evolving interpretations of laws and emerging legal risks. Health Canada can alter its frameworks or revoke licenses at any time. Additionally, regulatory asymmetries across provinces create operational challenges. Any unfavorable changes could reduce Cannara's addressable market and delay business objectives.

Competitive and Illicit Market Pressure. Cannara faces intense competition from both licensed producers and illicit market participants. Larger competitors may have more resources for R&D, production, and marketing. Unlicensed sellers can offer cheaper or unregulated products, eroding legal market share. Failure to differentiate Cannara's offerings, manage pricing pressures, or scale efficiently could materially affect profitability and growth.

Excise Tax Risks. Canada's excise duty framework imposes financial and operational burdens. Any increase in duty rates or adverse interpretations of the ***Excise Act, 2001*** could compress margins, raise costs, and impact Cannara's competitiveness. Failure to renew CRA licenses or adapt to new tax rules could significantly disrupt operations.

Marketing Restrictions. Strict federal limitations on cannabis advertising and branding hinder Cannara's ability to promote products or build customer loyalty. Restrictions on lifestyle branding, packaging, and endorsements reduce brand visibility and market penetration, making customer acquisition more difficult and potentially impacting long-term revenue growth.

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