

Cannara Biotech Inc. reports Q2 2023 Financial Results with quarterly net revenues of \$13 million, a 76% increase compared to Q2 2022

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Cannara Biotech Inc. →
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Six-month net revenues of \$23.4 million, a 67% increase compared to first half 2022

Delivered its eighth consecutive quarter of positive Adjusted EBITDA of \$3.2M, a 1500% increase compared to Q2 2022

Continued to increase growing capacity to meet customer demand by activating an additional growing zone in its expanding Valleyfield Facility

All financial results are reported in Canadian dollars, unless otherwise stated.

MONTREAL, April 24, 2023 /CNW/ - Cannara Biotech Inc. ("**Cannara**" or the "**Company**") (TSXV: LOVE) (OTCQB: LOVFF) (FRA: 8CB), a vertically integrated producer of premium-grade cannabis and derivative product offerings at affordable prices with two mega facilities based in Québec spanning over 1,650,000 sq. ft., today announced its fiscal second quarter 2023 financial and operating results for the three and six-month periods ended February 28, 2023.



Fiscal Second Quarter 2023 Financial Highlights

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Selected Financial Highlights	Three-month periods ended		Six-month periods ended	
	February 28, 2023	February 28, 2022	February 28, 2023	February 28, 2022
Gross revenue ¹	\$ 12,847,904	\$ 7,272,059	\$ 23,089,318	\$ 13,599,394
Other income	187,852	150,295	258,043	387,536
	13,035,756	7,422,354	23,347,361	13,986,930
Gross profit, before fair value adjustments	4,030,629	2,635,607	8,054,027	5,649,632
% ²	31%	36%	34%	40%
Gross profit	4,261,722	3,015,577	9,094,317	5,635,619
% ³	33%	41%	33%	41%
Operating expenses	3,630,387	3,388,404	7,320,107	5,991,691
Operating income (loss)	631,335	(372,827)	1,774,210	(356,072)
% ⁴	5%	-5%	8%	-3%
Net finance expense	1,249,390	772,996	2,389,314	1,320,250
Net loss	(618,055)	(1,145,823)	(615,104)	(1,676,322)
% ⁵	-5%	-15%	-3%	-12%
Adjusted EBITDA ⁵	3,220,890	219,755	4,937,723	1,089,159
% ⁶	25%	3%	21%	8%
Basic loss per share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.02)

	February 28, 2023	August 31, 2022
Cash	\$ 4,140,492	\$ 12,114,691
Accounts receivable	8,208,503	8,526,918
Biological assets	4,636,034	5,712,456
Inventory	22,105,943	13,266,987
Working capital ⁷	25,592,853	29,127,599
Total assets	129,147,403	125,617,047
Total current liabilities	15,227,812	11,861,085
Total non-current liabilities	42,146,726	47,020,201
Net assets	71,772,865	66,735,761
Free cash flow ⁸	1,889,561	2,510,534

¹ Gross revenue included revenue from sale of goods, net of excise taxes, services revenues and lease revenues.

² Gross profit before fair value adjustments % is determined as Gross profit before fair value adjustments divided by Total revenues.

³ Gross profit % is determined as Gross profit divided by Total revenues.

⁴ Net loss % is determined as Net loss divided by Total revenues.

⁵ Operating income (loss) % is determined as Operating income (loss) divided by Total revenues.

⁶ Adjusted EBITDA, working capital and free cash flow are non-GAAP financial performance measures with no standard definition under IFRS.

Adjusted EBITDA % is a non-GAAP financial ratio and is determined as Adjusted EBITDA divided by total revenues.

⁷ Working capital is determined as total current assets minus total current liabilities.



Cannara Biotech Inc. reports Q2 2023 Financial Results (CNW Group/Cannara Biotech Inc.)



- Q2 2023 net revenue of \$13 million, and \$23.4 million for the first half of 2023, a 76% and 67% increase respectively, compared to the three and six-month period in 2022, in addition to a 26% increase in net revenue from Q1 2023.
- Q2 2023 gross profit before fair value adjustments was \$4 million, and \$8.1 million for the first half of 2023, a 54% and 42% increase respectively compared to the three and six-month period in 2022. Included in Q2 2023 gross profit was an impairment charge on inventory of \$1.4 million for inventory that is expected to be sold on the wholesale market in subsequent quarters. Q2 2023 gross profit before fair value adjustments, excluding the impairment charge would have been \$5.4 million, a 108% increase, and \$9.5 million for the first half of 2023, a 67% increase.
- Operating income increased to \$0.6 million for Q2 2023 and \$1.8 million for the first half of 2023, which compares to an operating loss of \$0.4 million incurred in Q2 2022 and the first half of 2022, resulting in an increase of 250% and 550% respectively.
- Delivered the Company's eighth straight quarter of positive Adjusted EBITDA of \$3.2 million, and Adjusted EBITDA of \$4.9 million for the first half of 2023, a 1500% and 346% increase respectively, compared to the three and six-month period in 2022.
- Net loss of \$600K, a 50% improvement compared to a \$1.2M net loss for Q2 2022. Excluding the \$1.4 million inventory write down, the Company would have achieved a net income figure of \$0.8 million for the three and six-month period ended February 28, 2023.
- Free cash flow for Q2 2023 increased to \$1.9 million from \$0.2 million in Q2 2022, an 850% increase, and \$3.8 million for the six-month period of 2023 from \$1.4 million earned in the same period of prior year, a 171% increase.
- The Company has \$25.6 million in working capital as of February 28, 2023, which includes \$4.1 million of cash on hand.

"In the past quarter, Cannara achieved unprecedented revenue, bolstered gross profits, and enhanced adjusted EBITDA, reflecting our unwavering commitment to executing the growth strategy we envisioned from the start," said Zohar Krivorot, President & Chief Executive Officer of Cannara. "Our market share has made significant strides in Quebec, where we now stand as the third largest producer in the province. With the upcoming launch of 17 new SKUS in Ontario this summer, our expansion into the thriving Alberta market, Canada's second largest cannabis market, and the activation of additional growing zones, the future of Cannara has never been more promising. As we continue to purposively build out our product offerings across our 3 flagship brands and enter new markets, we've launched an online community channel to authentically engage and support our customer community. Although we still have

milestones to reach in achieving our long-term objectives, I am confident that with the support of our knowledgeable and dedicated team, Cannara is well on its way to becoming a leading cannabis producer in Canada," concluded Mr. Krivorot.

Nicholas Sosiak, Chief Financial Officer of Cannara commented, "When compared to the second quarter of 2022, our financial performance across all metrics has seen substantial improvement. This remarkable growth led to the expansion of our workforce, which was crucial in activating additional growing zones. Cannara's market share in Quebec has grown more rapidly than any of our competitors in March 2023, and we're thrilled to see increasing traction in the Ontario market as well. As Alberta prepares to carry Cannara's products next month and increased sales and marketing initiatives across all markets, we anticipate our revenues to keep increasing quarter over quarter. I am proud to announce our eighth consecutive quarter of positive adjusted EBITDA, and I am confident that our solid working capital position will allow us to achieve our yearly goals without diluting the holdings of our current and loyal shareholders," concluded Mr. Sosiak.

Fiscal Second Quarter 2023 and Subsequent Sales and Operational Highlights

- Cannara activated its 8th of 24 individual 25,000 square foot growing zones at its Valleyfield Facility, reaching a total of 200,000 square feet of active canopy. Combined with its Farnham Facility, the Company's current annual production capacity is approximately 27,000 kg of premium-grade cannabis per year, which will increase up to 120,000 kg of premium-grade cannabis per year when the Valleyfield Facility is fully built out.
- During the first half of 2023, Cannara invested \$5.0 million in capital expenditures which was mainly attributable to the activation of the 7th and 8th growing zone, the construction of a butane extraction lab, office and warehouse space, and initial costs related to the processing center build out at the Valleyfield Facility, in addition to capital expenditures for increased post-harvest requirements.
- The Company has set an objective by its fiscal year end, August 2023, to activate 9 growing zones, a 50% capacity increase at the Valleyfield Facility compared to the previous fiscal year end. Subsequent to quarter-end, the 9th growing zone was activated.
- Increased employee headcount from 175 employees in Q2 2022 to 270 employees in Q2 2023; a 54% increase to support operational growth.
- Approximately 860,000 units were sold across 3 flagship brands during the second quarter of 2023 and 1,480,000 units were sold during the six-month period of 2023, a 140% increase and 92% increase respectively, compared to the same three and six-month periods of 2022.
- Tribal, Cannara's leading brand, saw sales increase by 124% in Q2 2023 compared to Q2 2022, and by 92% in the six-month period of 2023 compared to the same period in 2022.
- Nugz sales increased by 1030% in Q2 2023 compared to Q2 2022, and by 528% for the six-month period of 2023 compared to the same period in 2022.
- Orchid CBD sales increased by 19% in Q2 2023 compared to Q2 2022, and by 42% for the six-month period of 2023 compared to the same period in 2022.
- Cannara received approval to start expanding into a new Canadian market with cannabis retail sales in Alberta, Canada's second largest cannabis market, beginning in May 2023. Subsequent to quarter-end, the Alberta Gaming, Liquor and Cannabis ("AGLC") Commission accepted the listing of Tribal's three currently available live resin vape cartridges.
- Cannara continued to grow its distribution in British Columbia across its 7 listed SKUs in dried flower, pre-roll, and hash products, and is now carried in over 50% of provincial retailers.

- The Company currently has 26 listed SKUs in the Ontario market, 3 new SKUs have been accepted to be launched in the spring of 2023, and an additional 17 new SKUs accepted by the OCS to be launched in Summer 2023, increasing its SKU count in Ontario by 77%. Cannara products can be found in over 1400 retail stores across Ontario¹, being represented in over 88% of stores in Ontario.
- The Company estimates its current market share as of the second quarter of 2023 is approximately 7%² in Quebec and 2%³ in Ontario. Subsequent to quarter-end, The Company continues to expand its sales and distribution network achieving a market share in Quebec of 9.3%⁴, the third largest producer in the province and 3%⁵ in Ontario, the tenth largest producer in the province for the month of March 2023.
- In December 2022, the Company designed and launched several lines of apparel and accessories available for purchase on its online website <https://cannaraswag.shop>.
- In December 2022, Cannara was awarded three awards at the third annual KIND Awards, Canada's largest consumer-facing awards chosen by budtenders, for:
 - Brand of the Year: Tribal
 - Terpene Profile of the Year: Tribal
 - CBD Product of the Year: Orchid CBD Runtz
- In an ongoing effort to improve its products and customer service, Cannara launched its Discord community channel, <https://discord.gg/cannara>, which will be utilized to further interactions with the community of consumers and retailers.
- Cannara signed a lease agreement with a new tenant for a building that is under construction at its Valleyfield site. The start of the lease term is set for January 2024 with a term of 11 years. This transaction will generate an accretive asset and additional free cash flow using an area of the Valleyfield site that would otherwise have been unused as it is not licensed for cannabis production.

¹ Trellis Distribution Insights, April 2023

² Based on estimated sales data provided by Weed Crawler, for the period of December to February 2023

³ Based on actual wholesale sales OCS data program for the period of December to February 2023

⁴ Based on estimated sales data provided by Weed Crawler, for the period of March 2023

⁵ Based on actual wholesale sales OCS data program for the period of March 2023

Capital Transactions

- The Company obtained approval from shareholders during the Annual General Meeting and from TSX-V for its proposal to consolidate all of the issued and outstanding common shares of the Company on the basis of ten pre-consolidation common shares for every one post-consolidation common share. At the date of the conversion, on February 13, 2023, the 907,035,460 shares issued and outstanding were converted into 90,703,552 common shares, after rounding for the fractional shares. All the share capital, stock options and RSU numbers were adjusted retrospectively.
- On February 7, 2023, the Company received a notice of conversion from Olymbec to convert \$5,319,745 (principle and accrued interest to date) into 2,955,414 common shares of the Company. On February 9, 2023, the Company issued shares from treasury in relation to the conversion, following TSX Venture Exchange ("TSX-V") approval, thereby reducing overall long-term debt obligations of the Company by this amount.
- During the quarter, the Company obtained approval from shareholders during the AGM and from TSX-V for the implementation of a Restricted Share Units ("RSU") plan. On February 9, 2023, the Company granted an aggregate of 789,183 RSU to certain board members, subject to certain vesting conditions.
- During the quarter, the Company granted a total of 37,800 stock options at an exercise price of \$1.80, subject to certain vesting conditions in accordance with the employee share option plan.
- Subsequent to quarter-end, the Company granted a total of 20,000 stock options at an exercise price of \$1.80, subject to certain vesting conditions in accordance with the employee share option plan.

Selected Financial Information

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Outstanding Shares

As at the date of this report, the Company had 90,585,552 common shares, 4,423,274 stock options and 789,183 RSUs issued and outstanding. For further information, the complete condensed interim Consolidated Financial Statements and Management's Discussion and Analysis, along with additional information about the Company and all of its public filings that are available at sedar.com and the Company's investor website, investors.cannara.ca.

About Cannara Biotech Inc.

Cannara Biotech Inc. (TSXV: LOVE) (OTCQB: LOVFF) (FRA: 8CB) is a vertically integrated producer of affordable premium-grade cannabis and cannabis-derivative products for the Québec and Canadian markets. Cannara owns two mega facilities based in Québec spanning over 1,650,000 sq. ft., providing the Company with 120,000kg of potential annualized cultivation output. Leveraging Québec's low electricity costs, Cannara's facilities produce premium-grade cannabis products at an affordable price. For more information, please visit cannara.ca.

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statements herein, and therefore these statements should not be read as guarantees of future performance or results. All forward-looking statements are based on the Company's current beliefs as well as assumptions made by and information currently available to it as well as other factors. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this press release. Due to risks and uncertainties, including the risks and uncertainties identified by the Company in its public securities filings, actual events may differ materially from current expectations. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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