Quebec Grown
Premium Grade Cannabis

MANAGEMENT DISCUSSION & ANALYSIS

For the three and six-month periods ended
February 28, 2023

April 21, 2023

CANNARA BIOTECH INC.

TSXV: LOVE.V **OTCQB:** LOVFF **FRA:** 8CB

This Management Discussion and Analysis ("MD&A") of Cannara Biotech Inc. ("Cannara" or the "Company") has been prepared by management as of April 21, 2023, and should be read in conjunction with the condensed interim consolidated financial statements and related notes thereto of the Company for the three and six-month periods ended February 28, 2023 and 2022. The condensed interim consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Certain information and notes usually provided in the annual financial statements have been omitted or condensed. Therefore, this MD&A should also be read in conjunction with the information contained in the annual audited consolidated financial statements of the Company and the notes thereto for the year ended August 31, 2022.

All dollar amounts referred to in this MD&A are expressed in Canadian dollars unless indicated otherwise.

All references in this MD&A to "Q2 2023" and "second quarter of 2023" are to Cannara's fiscal quarter ended February 28, 2023, and "Q2 2023 YTD" to six-month period ended February 28, 2023. "Q2 2022" and "second quarter of 2022" are to Cannara's fiscal quarter ended February 28, 2022, and "Q2 2022 YTD" to six-month period ended February 28, 2022.

Additional information filed by us with the Canadian Securities Administrators, including quarterly reports, annual reports and other material contracts can be found on-line at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A may contain "forward-looking information" within the meaning of Canadian securities legislation ("forward-looking statements"). These forward-looking statements are made as of the date of this MD&A and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation. Forward-looking statements relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events and include, but are not limited to, the Company and its operations, its projections or estimates about its future business operations, its planned expansion activities, the adequacy of its financial resources, future economic performance, and the Company's ability to become a leader in the field of cannabis cultivation, production, and sales.

In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "intends" and "estimates". By their very nature, forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Such factors include, but are not limited to, the factors discussed in the section "Risk Factors" as well as those factors detailed from time to time in the Company's interim and annual financial statements and the related MD&A of those statements. Although the Company has attempted to identify important factors that could cause actual actions, events, or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended.

The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Historical results of operations and trends that may be inferred from the following discussions and analysis may not necessarily indicate future results from operations.

NON-GAAP MEASURES

Management has included certain financial performance measures that are not recognized or defined under IFRS ("non-GAAP measures"). There are no standardized methods of calculating these non-GAAP measures, management's methods may differ from those used by others, and accordingly, these measures may not be directly comparable to similarly titled measures used by others. Accordingly, these non-IFRS measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Management employs these measures internally to measure operating and financial performance. Management believes these non-IFRS financial measures, in addition to conventional measures prepared in accordance with IFRS, enable investors and analysts to evaluate the Company's operating results, underlying performance and future prospects in a manner similar to management.

The Company has identified Adjusted Earnings (Loss) before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") as a non-GAAP measure. Management defines Adjusted EBITDA as net income (loss) before net finance expense, tax, depreciation, amortization, write-down of inventory to net realizable value, impairment, share-based compensation, changes in fair value of inventory sold, unrealized gains and losses on changes in fair value of biological assets, gain on sublease on initial recognition and gains and losses on disposal of property, plant, and equipment. During the quarter, the Company has changed its definition of adjusted EBITDA to include write down of inventory to net realizable value. The exclusion of net finance expense eliminates the impact on earnings derived from non-operational activities. The exclusion of depreciation, amortization, impairment, write-down of inventory to net realizable value, share-based compensation, changes in fair value of inventory sold, unrealized gains and losses on changes in fair value of biological assets, gain on sublease on initial recognition and gains and losses on disposal of property, plant and equipment eliminates the non-cash impact of these items.

The Company believes that the use of Adjusted EBITDA allows investors and analysts to understand the results of operations of the Company by excluding the non-operational activities and non-cash items for the period. Although Adjusted EBITDA is frequently used by securities analysts, lenders, and others in their evaluation of companies, it has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of the Company's results as reported under IFRS. Adjusted EBITDA should not be considered either as discretionary cash available to invest in the growth of the business or as a measure of cash that will be available to meet the Company's obligations. From time to time, the Company may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring.

In order to provide additional information, we believe it is appropriate to measure free cash flow that is generated by our operations. Free cash flow is a non-GAAP measure and is defined as cash flow from operations excluding changes in non-cash operating working capital. The Company considers free cash flow to be an important indicator of the financial strength and liquidity of its business as it indicates how much cash is available for capital expenditures, to repay debt and/or to pursue business acquisitions. Management believes that free cash flow also provides investors with an important perspective on the cash available to us to service debt and to fund capital expenditures and acquisitions. This measure does not have any standardized meanings prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other companies.

COMPANY PROFILE

Cannara was incorporated under the laws of British Columbia on October 19, 2017, and is currently listed and publicly traded on the TSX Venture Exchange ("TSXV") under the symbol "LOVE.V", the OTCQB under the symbol "LOVFF" and the Frankfurt Stock Exchange under the symbol "8CB". The Company's headquarters are located in Montreal, Quebec.

Cannara Biotech Inc. is a vertically integrated producer of premium-grade cannabis and cannabis-derivative products for the Quebec and Canadian markets. The Company's main focus is to deliver premium quality "AAAA" products at disruptive retail pricing. Leveraging the province's low electricity costs, Cannara owns and operates two Quebec-based facilities spanning over 1,650,000 square feet. Cannara's first purpose-built, modern indoor cultivation facility is located in Farnham, Quebec, and measures 625,000 square feet, comprising 170,000 square feet of operational licensed area and 455,000 square feet of leased warehouse space ("Farnham Facility").

COMPANY PROFILE *(continued)*

The second facility ("Valleyfield Facility") is a massive purpose-built cannabis hybrid greenhouse that is being redesigned into an indoor facility zone by zone, to ensure consistent and premium flower cultivation. The Valleyfield Facility is over one million square feet and is comprised of 24 independent growing zones totaling 600,000 square feet, a 225,000 square feet cannabis 2.0 processing center and a 200,000 square feet rooftop greenhouse located in Valleyfield, Quebec. Cannara operates through its wholly owned subsidiaries, Cannara Biotech (Quebec) Inc. and Cannara Biotech (Valleyfield) Inc., both holding active licenses issued by Health Canada under the Cannabis Act.

Cannara is a leading producer of premium "AAAA" quality cannabis. Cannara is transforming the cannabis buying experience by offering consumers what they have been asking for—high quality at great value, rotating genetics, transparent harvest and quality data, unique air-sealed packaging, attention to detail, and community responsiveness, all of which have a synergistic effect on product demand and market penetration.

Cannara promises a better value proposition for consumers, retailers, and investors alike—consumers save money when purchasing premium Cannara cannabis products, retailers experience a higher volume and velocity of sales, and investors benefit from a sustainable operation generating healthy gross margins. The Cannara platform consists of 2 low-cost facilities in Quebec, a lean labour force, and a passionate management team dedicated to product innovation, thought leadership, and maintaining a low cost-structure, all designed to allow for the highest quality products at some of the most disruptive prices in retail. The Cannara model has resulted in a grassroots following in Quebec, significant brand awareness and affinity amongst Ontario, British Columbia, and Saskatchewan retailers and consumers, and additional inquiries for product distribution across the rest of Canada. At the date of this release, Cannara products can be found in every single cannabis retail store in Quebec, more than half of all British Columbia stores and in over 88% of Ontario stores[1].

In the prior year, the Company launched operations at the Valleyfield Facility and activated 6 of its 24 growing zones (150,000 square feet of cultivation canopy) in order to grow production capacity to meet the Company's expanding demand. During Q1 2023 and Q2 2023, the Company activated its 7th and 8th growing zone, bringing its total active plants under cultivation to approximately 80,000 at the Valleyfield Facility with an additional 11,000 plants under cultivation at the Farnham Facility, together, capable of currently generating approximately 27,000 kg of cannabis per year, a 15% increase in production capacity over the prior quarter. Cannara has only completed 33% of its current Valleyfield Facility expansion plans and is focused on continuing to activate more growing zones to meet the growing demand for its products. The Company has set an objective for fiscal 2023, of activating 9 growing zones, a 50% annual capacity for the Valleyfield Facility. In Q2 2023, the Company generated $13 million of net revenue, a gross profit before fair value adjustments of $4 million or 31%, and an Adjusted EBITDA of $3.2 million.

In December 2022, the Company designed and launched several lines of apparel and accessories available for sale on its online website https://cannaraswag.shop (with certain provinces excluded due to provincial restrictions).

As of February 28, 2023, Cannara's distribution network services 4 provinces being Quebec, Ontario, Saskatchewan, and British Columbia, with Quebec and Ontario being its current major markets. The Company estimates its market share as of the second quarter of 2023 is approximately 7% in Quebec[2] (3rd largest licensed producer in Quebec by market share) and 2% in Ontario[3] (13th largest licensed producer in Ontario by market share).

[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

COMPANY PROFILE *(continued)*

Subsequent to quarter-end, the Company continues to expand its sales and distribution network achieving a market share in Quebec of 9.3%[4] and 3%[5] in Ontario for the month of March 2023. In addition to growing sales in existing Canadian markets, Cannara is expanding into a new Canadian market with cannabis retail sales in Alberta beginning May 2023, Canada's second largest cannabis market.

Additional information about Cannara may be found at www.cannara.ca.
Investor information may be found at www.investors.cannara.ca.
Cannara's Swag Shop may be found at https://cannaraswag.shop.

CANNARA FACILITIES

FACILITY	SIZE	CAPACITY	TYPE	ELECTRICITY	FACILITY HIGHLIGHTS
FARNHAM, QUEBEC	Licensed area : 170 000 sf Site: 625,000 sf Land: 1,430,000 sf	Active Grow Area: 28,000 sf 3,500 kg Revised phase 1 current capacity Active Cloning and Mother Area: 23,000 sf	Indoor	Power rate of approx. $0.065/kw	• Licensed area completed in 2019 • State-of-the-art • 11 independent grow rooms + cloning and mother rooms for both facilities • Automated cultivation systems • Solventless hash laboratory • Pre-roll manufacturing center • Packaging center • R&D facility
VALLEYFIELD, QUEBEC	Licensed area: 600,000 sf Roof top greenhouse: 200,000 sf Processing and cannabis 2.0 processing center: 225,000 sf Site: 1,030,000 sf Land: 3,130,000 sf	Active Grow Area: 200,000 sf (8 zones) 23,500 kg Current capacity 117,000 kg Full capacity	Indoor	Preferential contracted power rate of approx. $0.035/kw	• Purpose-built in 2020 • Onsite Hydro Quebec substation • Fully outfitted and automated • 24 independent grow rooms • Blackout & shading systems • Former purpose-built cannabis greenhouse converted to replicate indoor conditions • Processing center (under construction) • BHO extraction laboratory

[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

CANNARA BRAND PORTFOLIO

Cannara's portfolio consists of three flagship brands with distinctive identity and purpose, each filling a white space in Canada's current cannabis market. All three brands offer premium-grade cannabis, hang-dried, slow cured and trimmed perfectly to preserve the flower's natural properties. Our brand portfolio includes:

BRAND	STORY	PRODUCT MIX	MARKETS
TRIBAL	Tribal delivers uncompromised premium grade cannabis products to consumers who have a deep relationship with cannabis. From pheno-hunting rare genetics to unfolding each strain's lineage and flavour profiles, Tribal offers a continuous rotation of "AAAA" genetic strains at entry level pricing.	• Dried Flower • Pre-Rolls • Live Resin Full Spectrum Extract • Live Resin Vape Cartridges • Accessories	Quebec Ontario Saskatchewan British Columbia
Nugz	Nugz is a cult-worthy movement committed to abundance, quality, and value. Nugz offers an exceptional product at disruptive retail prices specifically designed for long-time cannabis enthusiasts who have a sharp sense for quality but are looking for a price break that aligns with consuming habits.	• Dried Flower • Pre-Rolls • Old School Hash • Ice Water Hash • Fresh Frozen Hash Rosin • Accessories	Quebec Ontario Saskatchewan British Columbia
ORCHID CBD	Orchid CBD is a wellness brand dedicated to providing premium CBD-dominant cannabis. Orchid CBD offers award winning strains of terpene-rich, trichome covered, oversized dried flowers that deliver softer blissful experiences with no compromise on quality and flavours.	• Dried Flower • Pre-Rolls • Oils	Quebec Ontario Saskatchewan British Columbia

CANNARA GENETIC PORTFOLIO

In partnership with Exotic Genetix, Cannara has established an extensive bank of genetics which includes exclusive strains only available from the Company in the Canadian market. By undergoing pheno-hunting selection methods, Cannara has the ability to further broaden the product mix for each one of its brands by providing users with unique, dedicated cannabis experiences from carefully selected cultivars for years to come. Our lineup of unique genetics available in the retail market as at February 28, 2023, include:

GENETIC	BRAND	LAUNCH DATE	THC – CBD	TYPE	AROMAS & FLAVOURS
GELATO MINT Pheno #5	Tribal	Feb 2021	THC ≈ 24% CBD ≈ 1%	Indica	Gelato Mint is best known for its overwhelming fresh flavours and aromas. As its name suggests, Gelato Mint smells like a fresh mint dessert with pepper and earthy pine undertones.
CUBAN LINX Pheno #1	Tribal	June 2021	THC ≈ 25% CBD ≈ 1%	Sativa	Cuban Linx packs a rich lemony aroma accentuated by hints of gassy diesel and a touch of spice.
TERPLE Pheno #8	Tribal	Mar 2022	THC ≈ 24% CBD ≈ 1%	Hybrid – Sativa	Terple's aroma and flavour is complex with elements of sweet oranges, sour citrus, and spicy diesel.
POWER SHERB Pheno #3	Tribal	May 2022	THC ≈ 24% CBD ≈ 1%	Indica	Power Sherb is silky smooth on the exhale and evokes a truly unique smell and taste of sweet gas and Neapolitan ice cream.
TRIPLE BURGER Pheno # 72	Tribal	Nov 2022	THC ≈ 26% CBD ≈ 1%	Indica	Triple Burger complements Cannara's genetic library with heavy gas aroma and hints of skunk, rubber, and cheese and a touch of sweetness.

CANNARA GENETIC PORTFOLIO (*continued*)

GENETIC	BRAND	LAUNCH DATE	THC – CBD	TYPE	AROMAS & FLAVOURS
GALACTIC RNTZ Pheno #30	Tribal	Nov 2022	THC ≈ 25% CBD ≈ 1%	Indica	Galactic Rntz's complex aroma and flavour provides a strong gas flavour with fruity, sour undertones.
EARLY LEMON BERRY Pheno #92	Nugz	Mar 2021	THC ≈ 23% CBD ≈ 1%	Sativa	Early Lemon Berry features overwhelming citrus flavours thanks to its higher percentage of myrcene and ocimene terpenes. It smells like a mix of sweet grapefruit, lemons, and berries.
SLAPZ Pheno #25	Nugz	May 2022	THC ≈ 22% CBD ≈ 1%	Indica	Slapz delivers incredibly sweet sour-gassy aromas with a mix of light earthy flavours.
CBD RUNTZ Pheno #7	Orchid CBD	June 2021	THC ≈ 8% CBD ≈ 15%	Hybrid - Sativa	CBD Runtz is an award-winning CBD strain that offers an abundance of terpenes, a fruity and sweet aroma that delivers a candy-like flavour. A rare combination for a 1:2 CBD flower.

MARKET INSIGHT

Each of Cannara's market launches has demonstrated positive consumer response to its brand strategy, pricing strategy, product offering, and genetic mix across retail outlets in Quebec, Ontario, British Columbia, and Saskatchewan. The Company's premium "AAAA" quality cannabis at disruptive pricing has resulted in demand levels that keep growing quarter over quarter in Canada, which reinforces Cannara's plan to continue to expand production at its Valleyfield Facility. Additionally, Cannara's attention to detail, transparency, unique packaging, and community responsiveness have collectively added to its value proposition, which in turn has had a compounding effect on customer demand, market penetration, and satisfaction. Some notable examples of Cannara's value proposition include:

Quality, attention to detail and transparency

Cannara delivered award winning cannabis flower, sticking true to craft like procedures including hang dry and hand trimming cannabis even as it scales its production capacity significantly. Attention to detail in all packaging product lines, including offering air-sealed tuna style cans preserving humidity and product integrity in an ecofriendly format and a re-usable tin included in the purchase of its live resin vape cart, purposefully designed to fit into the everyday lives of its consumers. Cannara continues to demonstrate transparency across all product labels by providing consumers with harvest dates, terpene percentages, production details and strain phenotypes for each lot.

Price competitiveness

Cannara has continued to maintain a value-based pricing approach to the pricing of its products all while not compromising quality of the product. The Company expects to continue to adopt the approach of value-based pricing while constantly seeking to improve quality and invest in research and development to bring new and innovative products and genetics to the market.

Innovation in products

Cannara continues to innovate with new product launches in FY2023 including its Nugz Smalls in a 14-gram format, Pheno Hunter in a 15-gram format, and the Nugz Wrap 1-gram hemp cone pre-roll with glass tip, offering consumer's different strains from the Company's genetic library on rotation, and its Tribal Live Resin Vape Cartridge and Live Resin Full Spectrum Extract. The Company also received approval for 17 new SKUS to be launched in Ontario in Summer 2023.

MARKET INSIGHT *(continued)*

Innovation in genetics	Cannara's diligence in its phenotyping process allowed the Company to identify unique THC and CBD cultivars in order to fill whitespaces in the current market resulting in the release of its CBD Runtz product line in a segment previously neglected. Cannara has an extensive genetic bank allowing the Company to release exclusive products into the market. In 2022, Cannara signed an exclusive brand partnership with 50-time award-winning US-based cannabis breeder, cultivator and hash maker, Exotic Genetix Ltd. Granting Cannara an exclusive license to use, market, sell and distribute Exotic Genetix branded products throughout Canada. In addition, Exotic Genetix will provide Cannara with ongoing consultation services with respect to providing knowledge and insights into cannabis genetics, plant growing methodologies and marketing services.
Community responsiveness	Cannara has taken an active strategy to be very responsive with the community of consumers and retailers to receive timely feedback and continuously improve its products. The Company launched its Discord community channel, https://discord.gg/cannara, which will be utilized to further interactions with the community of consumers and retailers.

Cannara's approach to the cannabis market has been driven by its pursuit for customer satisfaction and a commitment to delivering value to the market as a whole, from new entrants to experienced consumer segments. Over the course of the last year, the Company has exemplified thought leadership by bringing disruption and innovation to the Canadian cannabis market. 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

As a result, market response has solidified the Company's plans to continue its production capability expansion at its Valleyfield Facility, one of Quebec's largest cannabis cultivation and manufacturing facilities. The Valleyfield Facility can produce 117,000 kg of cannabis per year once at full capacity, allowing the Company to increase its supply of quality cannabis products to grow market share in existing markets while simultaneously expanding into new markets. The Company estimates its market share as of the second quarter of 2023 is approximately 7% in Quebec[6] (3rd largest licensed producer in Quebec by market share) and 2% in Ontario[7] (13th largest licensed producer in Ontario by market share). Subsequent to quarter-end, The Company continues to expand its sales and distribution network achieving a market share in Quebec of 9.3%[8] and 3%[9] in Ontario (10th largest licensed producer by market share) for the month of March 2023. Given the Company's strong value proposition and increasing capacity and sales growth, the Company strongly believes that its market share can continue to expand in current markets coupled with the ability to enter new markets, such as Alberta, Canada's second largest cannabis market, where the Company expects to begin sales in May 2023.

For the third fiscal quarter ended December 31, 2022, the SQDC's sales amounted to $187 million, an increase of 22% year-over-year[10]. For the fiscal year ended March 26, 2022, the provincial distributor of Quebec reported over $600 million in revenue, up from $537 million in fiscal 2021 and $311.6 million in fiscal 2020. Their retail footprint has expanded from 28 stores in fiscal year 2020 to 92 current locations as of the date of this release and has significant room for growth as Quebec has approximately one store per 100,000 people, as compared to Ontario and British Colombia that have approximately one store per 10,000 people. To date, the provincial distributor of Quebec expects to have captured 58.5% of the illicit market, a trend which is expected to continue to rise as consumers migrate from the illicit trade to experience quality traceable products, competitive pricing, and an improved in-store buying experience[11]. As a result, the Company expects to increase its revenue figures as the market continues to expand in Quebec with 24 active SKUs now in market as of the date of this release.

[6] Based on estimated sales data provided by Weed Crawler, for the period of December to February 2023
[7] Based on actual wholesale sales OCS data program for the period of December to February 2023
[8] Based on estimated sales data provided by Weed Crawler, for the period of March 2023
[9] Based on actual wholesale sales OCS data program for the period of March 2023
[10] SQDC, Q3 Release, Posted February 20, 2023
[11] SQDC, Annual Report 2022

MARKET INSIGHT *(continued)*

The Ontario market is leading recreational cannabis sales nationally. For the fiscal year ended March 31, 2022, the Ontario Cannabis Store (OCS) reported $1.2 billion in total sales, compared to sales of $652 million in the prior year[12]. This achievement is primarily driven by the rapid growth of brick-and-mortar stores which reached over 1,600 retail stores across the province as of the date of this release. Increased product supply will enable the Company to further penetrate the Ontario market and gain market share. The Company currently has 26 listed SKUs in the Ontario market as of the date of this release, 3 new SKUs 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 80% by Summer 2023. Cannara products can be found in over 1400 retail stores across Ontario[13], being represented in over 88% of stores in Ontario.

In addition to further establishing its position in the Quebec and Ontario cannabis markets, Cannara is well positioned for national growth given its production capabilities, brand strategy, superior cannabis products and lower operating costs. Cannara entered the British Columbia market in September 2022 with a significant cost advantage when compared to producers in other parts of the country as Quebec offers some of the lowest electricity and labour rates across Canada; the two largest cost inputs in cannabis cultivation. At the date of this release, Cannara maintains over 50% distribution within BC retail stores[13]. The Company also expects to begin retail sales in Alberta beginning May 2023, Canada's second largest cannabis market. Growing demand and competitive production costs will enable Cannara and its brands to increase market share by focusing on offering premium-grade cannabis products at competitive prices to the market.

LOOKING AHEAD

Cannara is constantly monitoring growth opportunities that support its commitment to continue to report increased positive Adjusted EBITDA and free cash flows. The Company will allocate resources to existing and new activities over the course of the 2023 fiscal year which include:

FY 2023 Activities

1. Respond to market demand by increasing production capabilities and sales initiatives
2. New product offerings including new formats of dried flower, milled and pre-roll products, live resin full spectrum extracts, live resin vape cartridges, infused pre-rolls, budget-friendly vape carts and cannabis accessories
3. New genetic releases in partnership with Exotic Genetix
4. Increase market penetration in Quebec, Ontario, Saskatchewan, British Columbia and expansion into Alberta
5. Continued positive Adjusted EBITDA

Respond to market demand by increasing production capabilities

Since the beginning of the retail launch, reaction from consumers have been very positive, and has resulted in the requirement of the Company to expand its production capacity. During Q2 2023, the Company activated its 8th growing zone of 25,000 square feet at its Valleyfield Facility, reaching a total of 200,000 square feet of active canopy, or approximately 80,000 plants under cultivation. The Company has set an objective for fiscal 2023 to have 9 growing zones activated, a 50% annual capacity increase over its prior fiscal year. The Facility has a total of 24 growing zones built out, providing Cannara the ability to organically increase production capacity. This increase in production capacity, coupled with increase in sales initiatives, naturally improves market penetration as exemplified with three of the Company's 3.5-gram SKUs now in the top 10 most distributed premium flowers in Ontario[11]. In addition to penetration, consumer response to the Company's value proposition remains strong as demonstrated by the Company's Tribal Cuban Linx 3.5-gram SKU in Ontario continuing to maintain it's top-three best selling 3.5-gram flower product in the Ontario Market[14].

New Product Offering

The Company is focused on the innovation of new products for FY 2023 across all 3 of its flagship brands. At the beginning of 2023, Cannara launched its solvent-based hydrocarbon extracts in Ontario under the Tribal brand with a live Resin vape cartridge and 1-gram full spectrum extract (FSE). Three new formats of dry flower were also introduced: a 14-gram Nugz Smalls, a 15-gram Pheno Hunter pack and a 1-gram Nugz Wrap hemp cone pre-roll, all of which will offer different strains on a rotational basis.

---

[12] Ontario Cannabis Store, 2021-2022 Annual Report
[13] Trellis Distribution Insights, April 2023
[14] Headset Flower Data; ranking based on trailing 90 days units sold dated April 10th, 2023

LOOKING AHEAD (continued)

New Product Offering

The Company also improved its value proposition to consumers in the pre-roll sector by increasing the size of each pre-roll from 0.5-gram to 0.6-gram, thereby increasing the total amount of cannabis in each pack from 2.5 grams to 3 grams, while maintaining the same retail price.

Cannara has grown to be a disruptor in solventless extracts. Building from its early launch of THC and CBD balanced Old School and Ice Water Hash in Quebec, Cannara expanded its line of hash SKUs in Ontario with higher potency Fresh Frozen Hash Rosin in May 2022 and a THC dominant Old School Hash in September 2022. At the date of this release, Nugz Old School Hash has maintained 2nd best selling concentrate in Ontario for over 6 months[15]. A THC dominant Nugz Ice Water Hash and Fresh Frozen Hash Rosin were subsequently launched in British Columbia in October 2022 and in January 2023 in Ontario. Cannara expects to launch 17 new SKUS in Ontario in Summer 2023, which will introduce new formats of products including 7-gram milled cannabis, 0.3-gram pre-rolls, 0.6-gram infused pre-rolls and a budget-friendly vape cart under the Nugz in Ontario in addition to more flower, live resin extracts and vape carts under the Tribal and oils under the Orchid CBD.

New Genetic Releases

The Company is actively researching for new genetics, with at least 2 more new genetics expected to be brought to market during 2023. Unique and exclusive genetic cultivars of cannabis continue to resonate with Canadian consumers and set licensed producers apart. Two new genetic releases were launched in November 2022 under Tribal (Triple Burger in Quebec, Galactic Rntz in Quebec and Ontario). New genetic releases are a product of the Company maintaining a rigorous pheno-hunting program that involves hand selecting only a few winning plants out of hundreds of different varieties of cannabis strains and phenotypes. Strain and phenotype selection is based on cultivar-brand fit, potency of cannabinoids and terpenes, bud structure, yield, and anticipated market appeal.

Consumers in Quebec have the opportunity to sample strains produced during the pheno-hunting program with the 15-gram Pheno Hunter SKU that launched in the Fall of 2022 and in Ontario in Summer 2023. Furthermore, Cannara's brand partnership with 50-time US award-winning seed breeder, Exotic Genetix, grants Cannara an exclusive license to use, sell and distribute Exotic Genetix branded products throughout Canada in addition to providing access to direct breeder's knowledge and insights on Exotic Genetix cannabis strains. A testament to the quality of its cannabis, Exotic Genetix strains comprise five of the eight genetics grown by Cannara, including Gelato Mint, Power Sherb, Galactic Runtz, CBD Runtz, and Slapz, each of which has obtained overwhelmingly positive consumer feedback.

Increasing market penetration in current markets and Expanding into New Provinces

During fiscal 2023, the Company will focus on increasing its market share in Quebec, Ontario, British Columbia, and Saskatchewan, all while expanding into the Alberta market. As of the date of this report, Cannara has continued to significantly increase market share quarter over quarter across all provinces it operates in. In September 2022, Cannara launched its products into the British Columbia market. The Company was also deemed eligible to hold a cannabis representative registration by the province of Alberta in November 2022, paving the way for it to sell cannabis into the Alberta retail market. In March 2023, Alberta Gaming Liquor and Cannabis (the "AGLC") has accepted the first 3 live resin vape carts under the Tribal launching beginning May 2023.

Continued Positive Adjusted EBITDA

Cannara's objective is to continue to report positive quarterly Adjusted EBITDA throughout FY 2023 and beyond resulting from the Company's focus on premium-grade cannabis products at disruptive retail pricing, its lean operational model, as well as its two mega facilities benefiting from Quebec's low electricity cost and competitive labour rates. Additionally, the development of an in-house pre-roll manufacturing centre, a solventless hash lab and butane hash oil ("BHO") extraction lab that delivers the ability to fully utilize all cannabis raw inputs provides Cannara with a significant cost advantage and competitive advantage. Furthermore, the Company's agility and commitment to profitability will drive the Company to pursuing the development of high demand SKUs that will generate healthy gross margins. During Q2 2023, the Company generated a positive Adjusted EBITDA of $3.2 million compared to $0.2 million in Q2 2022.

[15] Headset Concentrate Data; ranking based on trailing 90 days units sold dated April 10th, 2023

Q2 2023 YEAR-TO-DATE AND SUBSEQUENT EVENT HIGHLIGHTS

OPERATIONAL

December 2022 – February 2022 – Further Expansion into British Columbia market; 9 new SKUs launched in QC and ON

During the second quarter of 2023, Cannara continued to grow its distribution in British Colombia across its 7 listed SKUs in dried flower, pre-roll, and hash products, now in over 50% of retailers within the province.

In addition, Cannara launched 9 new SKUs of its premium-grade cannabis in Quebec and Ontario:

Q2 FY 2023 Cannara Product Launches

Brand	Product Name	Category	Province
Tribal	Triple Burger	3.5-gram dried flower	Quebec
Tribal	Triple Burger	5 x 0.6-gram pre-rolls	Quebec
Tribal	Terple	1-gram live resin full spectrum extract	Ontario
Tribal	Terple	5 x 0.6-gram pre-rolls	Ontario
Tribal	Power Sherb	5 x 0.6-gram pre-rolls	Ontario
Tribal	G Mint	1-gram live resin full spectrum extract	Ontario
Tribal	Cuban Linx	1-gram live resin vape cartridge	Ontario
Nugz	Wrap	1-gram hemp cone pre-roll	Ontario
Nugz	THC Ice Water Hash	1-gram temple ball extract	Ontario

At the date of this release, the Company has successfully expanded its 1-gram live resin extract product lines (vape cartridge and/or dabbable extract) across 4 of its Tribal genetics—containing only fresh frozen flower with zero additives, for a true-to-cultivar, full flavour experience. Cannara's exclusive partnership with Yocan, a well-known premium vape manufacturer, to create a premium Tribal branding universal 510 vape battery has supported market penetration and entrance into new markets such as Alberta. The Tribal UNI Pro ARK is sold through retailers across Canada, direct to consumer via www.tribal.ca/ark, and listed by the OCS.

December 2022 – Termination of services management agreement

The Company terminated an agreement to provide services management to a third party and will re-appropriate the growing zones at its Valleyfield Facility previously allocated for the execution of these services for its own production.

December 2022 – Awarded certification for international export

In December 2022, the Company's Farnham Facility received its CUMCS Equivalency IMC-G.A.P. certification (the "Certification"), a leading certification standard for medical cannabis cultivation, harvest, and primary processing.

Through the IMC-G.A.P. certification process, CU has declared that the Company's dried cannabis products are compliant in accordance with the World Health Organization's ("WHO") guidelines on Good Agricultural Practices ("GACP") Medicinal Plants, the European Medicines Agency's ("EMEA"), Guideline on GACP for Herbal Medical Products, and the Israeli Medical Cannabis GACP. Obtaining the Certification provides documented evidence that Cannara has met IMC-G.A.P.'s, WHO's and EMEA's strict standards for quality and consistency in the cultivation, harvest and primary processing of cannabis needed for export of cannabis inputs to certain international jurisdictions, including Israel, Europe and Australia, for further processing into finished good via a GMP certified production facility. As of the date of this report, Cannara has not yet began any international sales as the demand in Canada for its products is expected to outpace its current production capacity.

December 2022 – Launch of Cannara Swag Shop

Based on building consumer demand, the Company designed and launched several lines of apparel and accessories to be sold online at https://cannaraswag.shop, including Cannara's cannabis accessories: the Tribal Uni Pro Ark and the Nugz Häpple. Products purchased from the Cannara Swag Shop have already been shipped across Canada (except for certain provinces due to provincial restrictions) both direct to consumers, and wholesale to retailers.

Q2 2023 YEAR-TO-DATE AND SUBSEQUENT EVENT HIGHLIGHTS *(continued)*

OPERATIONAL *(continued)*

December 2022 – Winter KIND event in Toronto, Ontario

Following the Company's success with exhibiting at KIND Summer Fair, Canada's first ever legal budtender sampling event taking place within the Company's second largest market, Ontario, Cannara returned as one of only two presenting partners for the KIND Winter Fair in December 2022.

Prior to the Kind Winter Fair, Cannara attended the third annual KIND Awards gala—Canada's largest consumer facing awards voted by budtenders from coast-to-coast. At this event, Cannara took home the most awards of any licensed producer, highlighting the company's focus on brands and high-quality flower:

- Brand of the Year: Tribal
- Terpene Profile of the Year: Tribal
- CBD Product of the Year: Orchid CBD Runtz

January 2023 – New Lease agreement signed for the Valleyfield site

The Company 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 income and free cash flow using an area of the Valleyfield Facility that would otherwise have been unused as it is not licensed for cannabis production.

February 2023 – Activation of 8th growing zone at the Valleyfield Facility

The Company activated its 8th 25,000 sq. ft. growing zone at its Valleyfield Facility, bringing the total of cultivation area to 200,000 sq. ft.

March 2023 – Alberta Gaming, Liquor & Cannabis ("AGLC") accepted first derivatives products for launch in third quarter of 2023

Cannara is pleased to announce that AGLC has accepted the listing of 3 of Tribal's live resin vape cartridge products for launch in May 2023. Currently, Cannara offers its Tribal G Mint, Cuban Linx and Power Sherb live resin 1-gram vape cartridges in Ontario which will now soon be available in Alberta.

April 2023 – KIND Gardens event, Calgary, Alberta

In sync with the Company's May 2023 launch in Alberta, the Company was the presenting partner at the April KIND Gardens event held in Calgary to educate over 550 retailer and budtender attendees about Cannara, its products and future releases. This was Alberta's first event where educational samples were permitted under AGLC guidance. The Company also partnered with KIND for a post-show event so that attendees could further develop a greater understanding of the Company's fit within the community, and unique commitment to quality, consistency, and affordability.

April 2023 – Launch of 4 additional SKUs at the OCS

Cannara will launch 4 additional SKUs in the Spring 2023 OCS product call including a permanent listing of its previous "4/20" limited time cannabis holiday offering, the Nugz Joints fry-pack, and 2 additional Tribal live resin vape cartridges:

OCS Spring 2023 Cannara Product Launches – Ontario

Brand	Product Name	Category
Tribal	Power Sherb	1-gram live resin vape cartridge
Tribal	Galactic Rntz	1-gram live resin full spectrum extract
Tribal	Terple	1-gram live resin vape cartridge
Nugz	Joints	12 x 0.6-gram pre-rolls in fry pack

April 2023 – Activation of 9th growing zone at the Valleyfield Facility

The Company activated its 9th 25,000 sq. ft. growing zone at its Valleyfield Facility, bringing the total of cultivation area to 225,000 sq. ft.

Q2 2023 YEAR-TO-DATE AND SUBSEQUENT EVENT HIGHLIGHTS *(continued)*

CAPITAL TRANSACTIONS

During the second quarter of 2023, the Company obtained approval from shareholders during the AGM 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 (10) pre-consolidation common shares for every one (1) post-consolidation common shares. The Company's authorized share capital is an unlimited number of common shares without par value. 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. As result, the Company's share price on this date was adjusted from $0.09 to $0.90 per outstanding common share. All the share capital, stock options and RSU numbers were adjusted retrospectively.

During the first quarter of 2023, the Company granted a total of 750,0000 stock options at an exercise price of $1.00 and 1,400,000 stock options at an exercise price of $1.80 to employees and 22,500 to board members at an exercise price of $1.80, subject to certain vesting conditions in accordance with the employee share option plan. In addition, a total of 50,000 stock options were exercised at a price of $1.00 per share for a total consideration of $50,000, resulting in the issuance of 50,000 new common shares of the Company.

At the Annual General Meeting ("AGM") held on January 25, 2023, an ordinary resolution of disinterested shareholders was passed approving the creation of a new control person arising from the conversion of convertible debentures (the "Convertible Debentures") held by Olymbec Investments Inc. ("Olymbec") into common shares of the Company. 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.

On November 11, 2022, Cannara obtained the approval from the TSX-V for a normal course issuer bid (the "NCIB") to be transacted through the facilities of the TSX-V. Pursuant to the NCIB, Cannara may purchase up to 1,500,000 of its common shares, or approximately 1.5% of its float for cancellation over a 12-month period. Purchases will be made at prevailing market prices commencing December 3, 2022, and ending December 2, 2023. During the six-month period ended February 28, 2023, the Company purchased 30,000 common shares having an average book value of $29,340 for cash consideration of $28,443. The excess of the book value over the purchase price value of the shares of $897 was charged to deficit. All shares purchased were cancelled. Subsequent to quarter-end, the Company purchased 88,000 additional common shares having an average book value of $86,064 for cash consideration of $74,015. All shares purchased were cancelled.

In connection with the NCIB, the Company established a share purchase plan with its designated broker to facilitate the purchase of shares under the NCIB at times when the Company would ordinarily not be permitted to purchase its shares due to regulatory restrictions or self-imposed blackout periods.

During the second quarter of 2023, 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 RSUs to certain board members, subject to certain vesting conditions.

During the second quarter of 2023, 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

Q2 2023 vs Q2 2022 Highlights

- Total revenues increased to $13 million in Q2 2023 from $7.4 million in Q2 2022, a 76% increase;
- Gross profit, before fair value adjustments, increased to $4 million in Q2 2023 from $2.6 million in Q2 2022, a 54% increase. Included in Q2 2023 gross profit, before fair value adjustments, is an impairment charge on cannabis inventory of $1.4 million;
- Gross profit, before fair value adjustments % decreased to 31% in Q2 2023 from 36% in Q2 2022, a 5% decrease, as a result of the inventory impairment of $1.4 million;
- Operating income increased to $0.6 million in Q2 2023 from an operating loss of $0.4 million in Q2 2022, a 250% increase;
- Net loss decreased to $0.6 million in Q2 2023 from $1.2 million in Q2 2022, a 50% decrease;
- Adjusted EBITDA increased to $3.2 million in Q2 2023 from $0.2 million in Q2 2022;
- Cash flow from operating activities amounted to $0.4 million in Q2 2023 compared to cash flow used of $1.3 million in Q2 2022; and
- Free cash flow for Q2 2023 increased to $1.9 million from $0.2 million in Q2 2022, an 850% increase.

Quarter over Quarter ("QoQ") Highlights – Q2 2023 vs Q1 2023

- Total revenues increased to $13 million in Q2 2023 from $10.3 million in Q1 2023, a 26% increase;
- Gross profit, before fair value adjustment amounted to $4 million in Q2 2023 and Q1 2023;
- Gross profit, before fair value adjustments % decreased to 31% in Q2 2023 from 39% in Q1 2023, a 8% decrease, as a result of the inventory impairment of $1.4 million;
- Operating income decreased to $0.6 million in Q2 2023 from $1.1 million in Q1 2023, a 45% decrease explained by the reason previously mentioned;
- Net loss amounted to $0.6 million in Q2 2023 due to the inventory impairment compared to a net income of $3,000 in Q1 2023;
- Adjusted EBITDA increased to $3.2 million in Q2 2023 from $1.7 million in Q1 2023;
- Cash flow from operating activities amounted to $0.4 million in Q2 2023 compared to cash flow used of $0.3 million in Q1 2023; and
- Free cash flow remained stable QoQ, as free cash flow for Q2 2023 were $1.9 million compared to $2 million in Q1 2023.

Q2 2023 YTD vs Q2 2022 YTD Highlights

- Total revenues increased to $23.4 million in Q2 2023 YTD from $14 million in Q2 2022 YTD, a 67% increase. Increase in revenues are attributable to increased cannabis retail sales due to higher cannabis production;
- Gross profit, before fair value adjustments, increased to $8.1 million in Q2 2023 YTD from $5.7 million in Q2 2022 YTD, a 42% increase. Included in Q2 2023 YTD gross profit, before fair value adjustments, is an impairment charge on cannabis inventory of $1.4 million;
- Gross profit, before fair value adjustments % decreased to 34% in Q2 2023 YTD from 40% in Q2 2022 YTD, a 6% decrease, as a result of the inventory impairment of $1.4 million;
- Operating income increased to $1.8 million in Q2 2023 YTD from an operating loss of $0.4 million in Q2 2022 YTD, a 550% increase;
- Net loss decreased to $0.6 million during Q2 2023 YTD from $1.7 million in Q2 2022 YTD, a 65% decrease;
- Adjusted EBITDA increased to $4.9 million during Q2 2023 YTD from $1.1 million during Q2 2022 YTD, a 346% increase. As the operations scale up and more sales are generated, the Company was able to manage efficiently its costs which resulted in an increase in the Adjusted EBITDA;
- Cash flow from operating activities amounted to $62,000 in Q2 2023 YTD compared to cash flow used of $1.2 million in Q2 2022 YTD; and
- Free cash flow for Q2 2023 YTD increased to $3.9 million from $1.4 million in Q2 2022 YTD, a 179% increase. The increase is attributable to additional cannabis sales received compared to previous period.

SELECTED FINANCIAL INFORMATION *(continued)*

Selected Financial Highlights	Three-month periods ended February 28, 2023	Three-month periods ended February 28, 2022	Six-month periods ended February 28, 2023	Six-month periods ended 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[6]	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.
A reconciliation of these measures is presented elsewhere in this MD&A.
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.

SELECTED FINANCIAL INFORMATION *(continued)*

	Three-month periods ended		Six-month periods ended	
Adjusted EBITDA	February 28, 2023	February 28, 2022	February 28, 2023	February 28, 2022
Net loss	$ (618,055)	$ (1,145,823)	$ (615,104)	$ (1,676,322)
Adjustments:				
Changes in fair value of inventory sold	3,948,425	1,269,679	5,947,752	3,136,159
Unrealized gain on changes in fair value of biological assets	(4,179,518)	(1,649,649)	(6,988,042)	(3,122,146)
Amortization, including amortization in cost of good sold	972,614	629,027	1,730,881	1,221,586
Write-down of inventory to net realizable value	1,375,360	185,757	1,411,709	204,649
Loss on disposal of property, plant and equipment	37,267	6,444	63,247	31,106
Gain on sublease	-	-	-	(12,876)
Share-based compensation, including share-based compensation in cost of good sold	435,407	151,324	997,966	117,200
Net finance expense	1,249,390	772,996	2,389,314	1,189,803
Adjusted EBITDA[1]	$ 3,220,890	$ 219,755	$ 4,937,723	$ 1,089,159
Free cash flow				
Cash from (used) in operating activities	$ 376,962	$ (1,325,035)	$ 61,874	$ (1,211,575)
Adjustment:				
Changes in non-cash operating working capital	(1,512,599)	(1,558,655)	(3,825,225)	(2,619,714)
Free cash flow[1]	$ 1,889,561	$ 233,620	$ 3,887,099	$ 1,408,139

[1] Adjusted EBITDA and free cash flow is a non-GAAP financial performance measure with no standard definition under IFRS.

SELECTED SEGMENT RESULTS OF OPERATIONS

The Company operates in two segments: (1) Cannabis operations which encompasses the cultivation, processing and sale of dried cannabis and cannabis derivatives for the Canadian market and other cannabis services or accessories (“Cannabis operations”) and (2) Real estate operations related to the Farnham and Valleyfield building (“Real estate operations”).

The chief operating decision-maker assesses performance based on segment operating results which were defined as segment operating income (loss) before share-based compensation, Categorized as Other are items related to U.S. hemp-based CBD products revenues and related operating costs.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Selected Segment Financial Highlights	Three-month period ended February 28, 2023				Three-month period ended February 28, 2022			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Gross revenue[1]	$ 11,951,851	$ 896,053	$ -	$ 12,847,904	$ 6,439,624	$ 827,187	$ 5,248	$ 7,272,059
Other income	187,852	-	-	187,852	150,295	-	-	150,295
	12,139,703	896,053	-	13,035,756	6,589,919	827,187	5,248	7,422,354
Gross profit (loss), before fair value adjustments	3,251,970	778,659	-	4,030,629	1,887,028	751,323	(2,744)	2,635,607
%[2]	27%	87%	-	31%	29%	91%	-52%	36%
Gross profit (loss)	3,483,063	778,659	-	4,261,722	2,266,998	751,323	(2,744)	3,015,577
%[3]	29%	87%	-	33%	34%	91%	-52%	41%
Operating expenses	2,878,728	-	-	2,878,728	2,898,408	-	27,321	2,925,729
Segment operating income (loss)[4]	604,335	778,659	-	1,382,994	(631,410)	751,323	(30,065)	89,848
%[5]	5%	87%	-	11%	-10%	91%	-573%	1%
Net finance expense	-	-	1,249,390	1,249,390	-	-	772,996	772,996
Other	-	-	751,659	751,659	-	-	462,675	462,675

Selected Segment Financial Highlights	Six-month period February 28, 2023				Six-month period February 28, 2022			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Gross revenue[1]	$ 21,325,353	$ 1,763,965	$ -	$ 23,089,318	$ 11,855,605	$ 1,726,191	$ 17,598	$ 13,599,394
Other income	258,043	-	-	258,043	387,536	-	-	387,536
	21,583,396	1,763,965	-	23,347,361	12,243,141	1,726,191	17,598	13,986,930
Gross profit, before fair value adjustments	6,492,037	1,561,990	-	8,054,027	4,067,316	1,579,899	2,417	5,649,632
%[2]	30%	89%	-	34%	33%	92%	14%	40%
Gross profit	7,532,327	1,561,990	-	9,094,317	4,053,303	1,579,899	2,417	5,635,619
%[3]	35%	89%	-	39%	33%	92%	14%	40%
Operating expenses	5,685,897	-	-	5,685,897	5,267,112	-	52,341	5,319,453
Segment operating income (loss)[4]	1,846,430	1,561,990	-	3,408,420	(1,213,809)	1,579,899	(49,924)	316,166
%[5]	9%	89%	-	15%	-10%	92%	-284%	2%
Net finance expense	-	-	2,389,314	2,389,314	-	-	1,320,250	1,320,250
Other	-	-	1,634,210	1,634,210	-	-	672,238	672,238

[1] Gross revenue included revenue from sale of goods, net of excise taxes, services revenues and lease revenues.
[2] Gross profit (loss) before fair value adjustments % is determined as Gross profit (loss) before fair value adjustments divided by Total revenues.
[3] Gross profit (loss) % is determined as Gross profit (loss) divided by Total revenues.
[4] Segment operating income (loss) is determined as Segment operating income (loss) before non-cash items defined as other in the table above.
[5] Segment operating income (loss) % is determined as Segment operating income (loss) divided by Total revenues.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Cannabis operations

For the three and six-month period ended February 28, 2023, the segment generated $11.7 million and $20.1 million in cannabis-related and cannabis accessories revenues, net of excise taxes, compared to $5.2 million and $10.7 million for the same period of the prior year, an increase of $6.5 million or 125% and $9.4 million or 88%. The main source of revenues is from the retail market, primarily from the Quebec and Ontario market. The increase in sales is attributable to the increased production at the Valleyfield Facility and increasing demand for its products in Quebec, Ontario, Saskatchewan and British Colombia. From Q1 2023 to Q2 2023, revenues derived from cannabis operations increased from $8.4 million to $11.7 million, an increase of $3.3 million or 39% quarter over quarter growth. The Company also utilizes its wholesale distribution network as leverage to generate additional revenues from time to time.

Highlights of the six-month period of 2023 are as follows:

- Activation of the 7th growing zone during the first quarter of 2023 and the 8th during the second quarter of 2023 at the Valleyfield Facility – a total of 200,000 square foot of cultivation area is actively operating at the Valleyfield Faciliy at the end of February 2023;
- Introduction of 2 new genetics in the Quebec market: Triple Burger and Galactic Rntz (Q1 2023);
- Launch of the butane extracted live resin vape cartridge and the live resin full spectrum extract in the Ontario Market (Q1 2023);
- Introduction of Nugz 14-gram Smalls and Nugz 15g Pheno Hunter – new dry flower format SKUs (Q1 2023);
- Launch of CBD oil products in the Quebec market in a variety of formats and concentrations of THC/CBD (Q1 2023);
- Launch of cannabis accessory in Ontario with the Tribal UNI Pro Ark Battery for vape cartridge (Q1 2023);
- Launch of Nugz 1-gram Wrap joint in Ontario (Q2 2023);
- Increased employee's headcount from approximately 175 employees in Q2 2022 to 270 employees in Q2 2023; a 54% increase, to support the growth of the operations;
- Approximately 2,036 kg of cannabis flower sold and 380 kg of estimated equivalent of cannabis flower for derivative products sold, or 675,000 units sold across 3 flagship brands during the first quarter of 2023;
- Approximately 2,800 kg of cannabis flower sold and 780 kg of estimated equivalent of cannabis flower for derivative products sold, or 860,000 units sold across 3 flagship brands during the second quarter of 2023, a 48% increase in cannabis sold compared to Q1 2023. This also compares to 1,192 kg of cannabis flower and 110 kg of estimated equivalent of cannabis flower for derivative products sold, or 364,000 units sold in the second quarter of 2022, a 175% increase in cannabis sold; and
- Approximately 4,836 kg of cannabis flower sold and 1,160 kg of estimated equivalent of cannabis flower for derivative products sold, or 1,480,000 units sold across 3 flagship brands during the six-month period of 2023. This compares to 2,668 kg of cannabis flower sold and 199 kg of estimated equivalent of cannabis flower for derivative products sold, or 708,500 units sold in the same period of 2022, a 108% increase in cannabis sold.

For the three and six-month periods ended February 28, 2023, the Company generated $0.3 million and $1.2 million as service revenues for cannabis manufacturing services rendered to another licensed producer, compared to $1.2 million and $1.2 million in the prior period. Compared to Q1 2023, services revenues of Q2 2023 decreased by $0.6 million. The Company terminated the contract from which the majority of service revenues derived at the beginning of the second quarter of 2023, which explains the reduction in services revenues generated in the current year and versus the prior quarter.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Cannabis operations *(continued)*

For the three and six-month periods ended February 28, 2023, the Company generated $0.2 million and $0.3 million as other income related to government incentives, various tax credits granted, and other ancillary revenue compared to $0.2 million and $0.4 million for same period of the prior year.

For the three and six-month periods ended February 28, 2023, the Company incurred $8.7 million and $14.2 million in costs of goods sold, compared to $3.7 million and $7.2 million for the same period of the prior year as a result of increased labor and operating costs given the increase in revenues. Q2 2023 Cost of good sold increased by $3.2 million or 58% compared to Q1 2023, which is aligned with the increase in net cannabis revenues of 54%. As previously mentioned, there is an impairment charge of $1.4 million for Q2 2023 compared to $0.2 million in the prior period.

For the three and six-month periods ended February 28, 2023, the Company incurred $0.2 million and $0.9 million in management services cost related to a manufacturing services agreement, compared to $1 million and $1 million for the same periods of the prior year. Compared to Q1 2023, management services costs in Q2 2023 decreased by $0.5 million. The Company terminated the contract which resulted in the majority of the management service costs at the beginning of the second quarter of 2023, which explains the decrease in management services cost in the current year and versus the prior quarter.

The segment generated a gross profit before fair value adjustments of $3.3 million or 27% and $6.5 million or 30% for the three and six-month periods ended February 28, 2023, compared to $1.9 million or 29% and $4.1 million or 33% for the same periods of the prior year. Compared to Q1 2023, the gross profit before fair value adjustments were similar despite the increase in revenues due to the impairment of inventory recorded.

Fair value adjustment on sale of inventory includes the fair value of biological assets included in the value of inventory transferred to cost of goods sold. The change in fair value of inventory sold recognized during the three and six-month periods ended February 28, 2023, amounted to $4 million and $6 million compared to $1.3 million and $3.1 million for the same periods of the prior year. Compared to Q1 2023, the fair value adjustment on sale of inventory in Q2 2023 increased by $2 million. Fair value adjustment on sale of inventory increased due to increased of sales.

For the three and six-month periods ended February 28, 2023, the Company has recognized an unrealized gain on changes in fair value of biological assets of $4.2 million and $7 million on the lots in the cultivation cycle that have not yet been harvested compared to $1.7 million and $3.1 million for the same periods of the prior year. Compared to Q1 2023, the unrealized gain on changes in fair value of biological assets in Q2 2023 increased by $1.4 million. The increase in fair value of biological assets is the direct result of increased plant count currently in cultivation at the Valleyfield Facility.

The segment generated $3.5 million or 29% and $7.5 million or 35% in gross profit for the three and six-month periods ended February 28, 2023, compared to $2.3 million or 34% and $4.1 million or 33% in the same periods of the prior year, representing a favorable increase of $1.2 million or 52% and $3.4 million or 83%. The increase results primarily from gross profit generated from its retail cannabis sales and unrealized gains in the fair value of biological assets as previously explained above. Compared to Q1 2023, gross profit of Q2 2023 decreased by $0.6 million, as a result of an impairment charge on inventory of $1.4 million.

For the three and six-month periods ended February 28, 2023, the segment incurred $2.9 million and $5.7 million in operating expenses compared to $2.9 million and $5.3 million in the same periods of the prior year resulting in an increase of $0.4 million or 8% for the six-month period. Compared to Q1 2023, the operating expenses of Q2 2023 were similar. For the six-month period of 2023, the increase in operating expenses is mainly attributable to selling, marketing, and promotion expenses, which is aligned with the increase in revenues generated.

Overall, the segment generated operating income of $0.6 million for the second quarter of 2023 and $1.9 million for the six-month period of 2023, compared to a loss of $0.6 million and $1.2 million in the same periods of the prior year, representing a favorable increase in operating income of $1.2 million and $3.1 million, as a result of the factors described above.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Real estate operations

As part of the Company's capital management strategy, the Company has leased out all currently unoccupied space in the Farnham facility. As at February 28, 2023, the Company leased 414,114 square feet of the total 625,000 available square feet to two tenants.

For the three and six-month periods ended February 28, 2023, the Company generated lease revenues of $0.9 million and $1.8 million compared to $0.8 million and $1.7 million in the same periods of the prior year. The lease revenues for these periods of 2023 were similar to the same periods of the prior year. To realize these lease revenues during these three and six-month periods of 2023, the Company incurred $117,000 and $202,000 in lease operating costs compared to $76,000 and $146,000 in the same periods of the prior year. Compared to Q1 2023, the leases revenues remain consistent, and lease operating costs were higher by $32,000 mainly due to the variability of certain costs during the winter season.

For the three and six-month periods ended February 28, 2023, the segment generated operating income of $0.8 million and $1.6 million compared to $0.8 million and $1.6 million for the same periods of the prior year.

Other

For the three and six-month periods ended February 28, 2023, the segment incurred $1.3 million and $2.4 million in net finance expense, compared to $0.8 million and $1.3 million for the same periods of the prior year. The increase in net finance expense is explained by the interest incurred on the upsized debt from $21.8 million to $50 million that occurred in Q4 2022, and other debt-related fees. Compared to Q1 2023, the net finance expense of Q2 2023 increased by $0.2 million due to the increase of the prime rate on the term loan. For the three and six-month periods ended February 28, 2023, the segment incurred $0.8 million and $1.6 million in other expenses, compared to $0.5 million and $0.7 million. The increase in other expense is mainly explained by an increase of $0.3 million in share-based compensation as the result of a higher value of stock options granted during the first quarter of 2023. Compared to Q1 2023, other expenses of Q2 2023 were lower by $0.2 million due to lower share-based compensation expense.

QUARTERLY FINANCIAL POSITION AND RESULTS

The following table sets forth, for the quarter indicated, selected information relating to the Company's consolidated financial position as well as revenues, gross profit before fair value adjustments, operating income (loss), net income (loss) attributable to Shareholders of the Company, related basic and diluted income (loss) per share attributable to Shareholders of the Company, adjusted EBITDA, cash from (used) in operating activities and free cash flow for the eight completed fiscal quarters to date:

	February 28, 2023	November 30, 2022	August 31, 2022	May 31, 2022	February 28, 2022	November 30, 2021	August 31, 2021	May 31, 2021
Current assets	$ 40,820,665	$ 38,393,438	$ 40,988,684	$ 24,492,459	$ 22,655,663	$ 26,801,623	$ 19,246,733	$ 13,863,004
Non-current assets	88,326,738	87,032,849	84,628,363	82,336,646	79,035,367	75,338,952	72,775,880	44,062,718
Total assets	129,147,403	125,426,287	125,617,047	106,829,105	101,691,030	102,140,575	92,022,613	57,925,722
Current liabilities	15,227,812	11,262,823	11,861,085	11,489,526	7,910,429	8,100,090	6,833,798	4,697,602
Non-current liabilities	42,146,726	46,880,581	47,020,201	31,162,576	31,237,792	30,518,676	21,073,003	16,732,890
Total liabilities	57,374,538	58,143,404	58,881,286	42,652,102	39,148,221	38,618,766	27,906,801	21,430,492
Net assets	$ 71,772,865	$ 67,282,883	$ 66,735,761	$ 64,177,003	$ 62,542,809	$ 63,521,809	$ 64,115,812	$ 36,495,230

	February 28, 2023	November 30, 2022	August 31, 2022	May 31, 2022	February 28, 2022	November 30, 2021	August 31, 2021	May 31, 2021
Total revenues	$ 13,035,756	$ 10,311,605	$ 11,947,112	$ 10,063,716	$ 7,422,354	$ 6,564,576	$ 6,481,739	$ 7,159,331
Gross profit before fair value adjustments	4,030,629	4,023,398	4,759,816	3,735,420	2,635,607	3,014,025	3,440,799	3,506,278
%[1]	31%	39%	40%	37%	36%	46%	53%	49%
Gross profit	4,261,722	4,832,595	7,103,374	4,748,643	3,015,577	2,620,042	4,526,126	4,419,124
Operating income (loss)	631,335	1,142,875	3,762,721	1,534,086	(372,827)	16,755	1,566,694	2,259,315
Net income (loss) attributable to Shareholders of the Company	(618,055)	2,951	2,553,444	1,428,297	(1,145,823)	(530,499)	1,131,843	1,697,802
Basic and diluted income (loss) per share	$ (0.01)	$ -	$ 0.01	$ 0.01	$ (0.01)	$ (0.01)	$ 0.01	$ 0.01
Adjusted EBITDA[2]	3,220,890	1,716,833	2,566,590	1,914,175	219,755	993,212	1,449,498	2,562,835
%[3]	25%	17%	21%	19%	3%	15%	22%	36%
Cash provided by (used in) operating activities	383,991	(315,088)	(3,157,570)	(1,709,746)	(1,325,035)	113,460	1,394,724	1,508,662
Free cash flow[4]	1,889,561	1,997,538	2,510,534	1,485,633	233,620	1,174,519	1,437,106	2,076,916

1[2] Gross profit before fair value adjustments % is determined as Gross profit before fair value adjustments divided by Total revenues.
[2] Adjusted EBITDA is a non-GAAP financial performance measure with no standard definition under IFRS. A reconciliation of this amount for the applicable period is presented in the table below.
[3] Adjusted EBITDA % is determined as Adjusted EBITDA divided by Total revevnues.
[4] Free cash flow is a non-GAAP financial performance measure with no standard definition under IFRS and is defined as cash flow from operations excluding changes in non-cash operating working capital..

Factors Affecting the Variability of Quarterly Results

There are quarter-over-quarter variations in net sales revenue, operating income, net results, cash flow from operations and free cash flow principally due to the ramp up in operations since the Company retail debut in February 2021. The Company also acquired a second Facility, the Valleyfield Facility, in June 2021 and invested significantly in the months that follow to redesign the growing zone and prepared for the start of its expanded cultivation activities. Higher expenses are associated with business growth and the development of Cannara's product pipeline. First revenues generated from the sale of harvested cannabis from the Valleyfield Facility occurred in the third quarter of 2022 and continues since then. Other factors affecting the variability of quarterly results are changes in inventory levels and from time to time related to average net selling price changes or inventory write-down to its realizable net value. There has been a decrease in net sales, net results and free cash flow in the first quarter of 2023 compared to fourth quarter of 2022 as a results of temporary pre-roll manufacturing capacity challenges that impacted revenues generated. In the second quarter of 2023, the Company reached its highest total revenues since the start of the operations.

QUARTERLY FINANCIAL POSITION AND RESULTS (*continued)*

	Three-month periods ended							
	February 28, 2023	November 30, 2022	August 31, 2022	May 31, 2022	February 28, 2022	November 30, 2021	August 31, 2021	May 31, 2021
Adjusted EBITDA reconciliation								
Net income (loss)	$ (618,055)	$ 2,951	$ 2,553,444	$ 1,428,297	$ (1,145,823)	$ (530,499)	$ 1,131,843	$ 1,697,802
Adjustments:								
Changes in fair value of inventory sold	3,948,425	1,999,327	2,427,690	2,267,056	1,269,679	1,866,480	2,036,305	1,526,050
Unrealized gain on changes in fair value of biological assets	(4,179,518)	(2,808,524)	(4,771,248)	(3,280,279)	(1,649,649)	(1,472,497)	(3,121,632)	(2,438,896)
Amortization, including amortization in cost of good sold	972,614	758,267	980,816	1,142,886	629,027	592,559	807,266	1,117,260
Write-down of inventory to net realizable value	1,375,360	36,349	73,337	94,725	185,757	18,892	85,083	-
Loss on disposal of property, plant and equipment	37,267	25,980	8,227	8,480	6,444	24,662	12,136	-
Gain on sublease	-	-	-	-	-	(12,876)	(24,442)	-
Share-based compensation, including share-based compensation in cost of good sold	435,407	562,559	85,047	147,221	151,324	(40,763)	88,088	99,106
Net finance expense	1,249,390	1,139,924	1,209,277	105,789	772,996	547,254	434,851	561,513
Adjusted EBITDA[1]	$ 3,220,890	$ 1,716,833	$ 2,566,590	$ 1,914,175	$ 219,755	$ 993,212	$ 1,449,498	$ 2,562,835
Free cash flow reconciliation								
Cash provided by (used in) operating activities	$ 383,991	$ (315,088)	$ (3,157,570)	$ (1,709,746)	$ (1,325,035)	$ 113,460	$ 1,394,724	$ 1,508,662
Adjustment:								
Changes in non-cash operating working capital	(1,505,570)	(2,312,626)	(5,668,104)	(3,195,379)	(1,558,655)	(1,061,059)	(42,382)	(568,254)
Free cash flow[2]	$ 1,889,561	$ 1,997,538	$ 2,510,534	$ 1,485,633	$ 233,620	$ 1,174,519	$ 1,437,106	$ 2,076,916

[1] Adjusted EBITDA is a non-GAAP financial performance measure with no standard definition under IFRS. A reconciliation of this amount for the applicable period is presented in the table above.
[2] Free cash flow is a non-GAAP financial performance measure with no standard definition under IFRS and is defined as cash flow from operations excluding changes in non-cash operating working capital..

CASH FLOW ANALYSIS

	Three-month periods ended		Six-month periods ended	
	February 28, 2023	February 28, 2022	February 28, 2023	February 28, 2022
Cash provided by (used in) operating activities	$ 383,991	$ (1,325,035)	$ 68,903	$ (1,211,575)
Cash from financing activities	(1,409,700)	(416,383)	(2,638,108)	9,092,943
Cash used in investing activities	(1,576,053)	(4,159,388)	(5,319,896)	(7,768,786)

Operating activities

For the second quarter and six-month period of 2023, cash provided by operating activities was $377,000 and $62,000, which is explained by the timing of investing in biological assets and inventory and the collection of receivables from cannabis sales generated. The operations continue to grow to respond to the high demand of the Company's products and to support its market share expansion to other provinces.

Financing activities

For the three-month period of 2023, cash flow used in financing activities was $1.4 million which was mainly attributable to the reimbursement of capital on the term loan for $0.5 million and payment of related interests for $0.8 million. The Company also paid $77,000 in lease-related payments and $28,000 to purchase its own shares for cancellation under the NCIB.

For the six-month period of 2023, cash flow used in financing activities was $2.6 million which was mainly attributable to the reimbursement of capital on the term loan for $1 million and payment of related interests for $1.5 million. The Company also paid $153,000 in lease-related payments, $28,000 to purchase its own shares for cancellation under the NCIB and received $50,000 for the exercise of stock options.

Investing activities

For the second quarter and six-month period of 2023, cash used in investing activities was $1.6 million and $5.3 million which was mainly attributable to the activation of 2 additional growing zones, construction of a butane extraction lab, construction of office and warehouse space at the Valleyfield Facility and initial costs related to the processing centre build out at the Valleyfield Facility. In addition to capital expenditures incurred resulting from the expected increased post-harvest requirements. Interest received relating to interest earned on cash balances held at a Canadian financial institution amounted to $71,000 and $134,000 for the three and six-month period of 2023. There is no restriction on the Company's ability to use its cash for its operational needs while it earns interest on the unused balance.

LIQUIDITY AND CAPITAL RESOURCES

As of the date of this MD&A, the operations were financed primarily through cash generated from the sales of cannabis products, services revenues, recurrent leases revenues along with funds raised in equity financings secured in previous quarters, debt raised against immoveable assets and government grants to support the Company's cash flow. The Company's objectives when managing its liquidity, its capital resources and to meet its capital requirements is to generate sufficient cash to fund the Company's operations and working capital requirements.

The Company has a working capital of $25.6 million as at February 28, 2023 (August 31, 2022 - $29.1 million). The Company has been able to maintain its working capital compared to prior year due to the liquidities generated through the sale of its cannabis products.

As at February 28, 2023, the Company's working capital was composed of:

- cash on hand of $4.1 million (August 31, 2022 - $12.1 million); and
- accounts receivable, lease receivable, biological assets, inventory and prepaid expenses and other assets of $36.7 million (August 31, 2022 - $28.9 million); less
- accounts payable and accrued liabilities, sales tax payable, deferred revenue, deferred lease revenue and deferred grant income of $13.1 million (August 31, 2022 - $9.7 million); and
- current portion of long-term debt, lease liabilities and term loan of $2.1 million (August 31, 2022 - $2.2 million).

The Company may continue to have capital requirements in excess of its currently available resources. In the event the Company's plans change, its assumptions change or prove inaccurate, or its capital resources in addition to projected cash flow, if any, prove to be insufficient to fund operations, the Company may be required to seek additional financing. The Company expects that its existing cash resources of $4.1 million as at February 28, 2023, along with its forecasted cashflows and undrawn credit facilities, will be able to fund its planned operating expenses for at least the next twelve months from February 28, 2023.

Financing

Type of loan	Interest Rate	Maturity		Balance as at February 28, 2023		Balance as at August 31, 2022
Term loan (1)	8.70%	May 31, 2025 (2)	$	37,710,532	$	38,562,521
Convertible debenture A	4%	June 21, 2024		5,451,773		5,124,548
Convertible debenture B	4%	July 12, 2024		-		4,465,595

(1) The base term of the term loan is 3 years ending May 31, 2025. The term loan bears a variable interest rate based on prime and/or banker acceptance rates. As at February 28, 2023, the interest rate was 8.7%. The Company has to respect financial covenants including (a) maintaining a certain liquidity coverage at all the times, and, starting on September 2023, to maintain (b) a fixed charge coverage ratio equal to or more than 1.25 to 1.0, (c) a funded debt to EBITDA ratio equal to or less than 3.0 to 1.0 at each quarter-end; and (d) a minimum EBITDA of $3 million for the fiscal quarter of May 31, 2023 and a minimum EBITDA of $4 million for the fiscal quarter ending August 31, 2023 and thereafter. The Company was in compliance with the covenants as at February 28, 2023.

Other contractual obligations

		Carrying amount		Less than one year		One to five years		Thereafter		Total contractual amount
Accounts payable and accrued liabilities	$	12,103,416	$	12,103,416	$	-	$	-	$	12,103,416
Long-term debt (2)		1,471		1,477		-		-		1,477
Lease liabilities (2)		199,104		134,602		78,945		-		213,547
Convertible debentures (2)		5,451,773		-		5,700,000		-		5,700,000
Term loan (1)		37,710,532		1,965,961		36,370,281		-		38,336,242

(1) The contractual obligations relating to the term loan has been presented based on the contractual repayment term of 3 years.

(2) The Company is committed to future minimum annual lease, convertible debentures payments and debt payments with respect to its office premises located in Ville St-Laurent, expiring May 31, 2023, a car lease and several production equipment. These figures are undiscounted future payments.

OFF-BALANCE SHEET ARRANGEMENTS

As at the date of this MD&A, the Company had no material off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of the Company, other than a letter of credit of $5.7 million that was issued to cover certain deposit requirements with a provincial supplier. The letter of credit is expected to gradually reduce as the Company consumes electricity at its Valleyfield Facility.

TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related parties include entities related by virtue of key management personnel and directors exercising significant influence or control over the entities' financial and operating policies.

Financing with a related party

For the three-month and six-month period of 2023, the Company recognized $0.2 million and $0.4 million as interest expense on the convertible debentures and fees on a debt guarantee while in the same period of the prior year, the Company incurred $0.2 million and $0.5 million as interest expense on the mortgage and on the convertible debentures. The Company also incurred $17,000 in capital expenditure for the three and six-month period of 2023, compared to $40,000 in the same periods of the prior year. During the second quarter of 2023, the holder exercised its conversion option on one of the debentures plus accrued interest totalling $5,319,745 which was converted into 2,955,414 new shares of the Company. As at February 28, 2023, accrued interest on the remaining $5.7 million convertible debentures (as at August 31, 2022 – convertible debentures amounted to $10.7 million) amounted to $0.4 million, accrued fees on debt financing guarantee fee amounted to $156,000 and $17,000 was included in accounts payable and accrued liabilities (as at August 31, 2022 - $0.5 million and $0.4 million, respectively).

These transactions are considered related to the Company as the shareholder of the related party is also a director on the Company's Board of Directors.

Key management personnel compensation

For the three-month and six-month period of 2023, salaries and benefits incurred for key management personnel amounted to $210,000 and $420,000 (2022 - $107,500 and $215,000); share-based compensation attributable to key management and directors was $418,000 and $906,000 (2022 - $50,000 and $77,00) and director fees were $17,500 and $35,000 (2022 - $17,500 and $35,000). As at February 28, 2023, the Company owed $82,000 (August 31, 2022 - $53,000) to key management personnel and $15,000 (August 31, 2022 – $15,000) to directors for accrued salaries and vacation expenses.

Related party transactions have been recorded at the exchange amount, which is the amount agreed to and established by the related parties.

FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Company is exposed in varying degrees to a variety of financial instruments related to risks. The Board approves and monitors the risk management processes:

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash balances, lease receivables from customers and deposits.

Cash balances in an asset position exposes the Company to credit risk arising from the potential default by counterparties that carry the Company's cash balances or agree to deliver currencies. The Company attempts to mitigate this risk by dealing only with large financial institutions with good credit ratings. The financial institution providing the Company's credit facility meet these qualifications.

The carrying amount of the accounts receivable in these interim consolidated statement of financial position is presented net of an allowance for expected credit losses, estimated by the Company's management based, in part, on the age of the specific receivable balance and the current and expected collection trends.

FINANCIAL INSTRUMENTS RISK MANAGEMENT (*continued*)

Credit risk (continued)

As at February 28, 2023, a marginal number of the receivables were past due. The allowance for expected credit loss was $12,500 as at February 28, 2023. The Company's maximum credit exposure corresponds to the carrying amount of these financial assets.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due or can only do so at an excessive cost. The Company manages this risk by reviewing its capital requirements on an ongoing basis by maintaining cash flow forecasts and long-term operating and strategic plans.

As at February 28, 2023, the Company had current assets of $40.8 million and current liabilities of $15.2 million, for a working capital balance of $25.6 million. The Company expects that its existing cash resources of $4.1 million as at February 28, 2023, along with its forecasted cashflows, undrawn credit facilities and additional $10 million of financing received subsequent to quarter-end from BMO, will be able to fund its planned operating expenses for at least the next twelve months from February 28, 2023.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company does not use derivative financial instruments to reduce its interest rate exposure as management does not believe the Company's exposure is significant.

Concentration risk

The Company has a significant concentration of its revenues generated from customers that, if eliminated, would have a significant impact on the Company's operations. For the six-month period ended February 28, 2023, the Company has generated 95% of its cannabis revenues from two provincial distributors.

CRITICAL ACCOUNTING ESTIMATES

Estimates and judgments are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The preparation of these condensed interim consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates, judgments and assumptions. The carrying amounts of assets, liabilities, and other financial obligations, as well as the determination of fair values and reported income and expense in these consolidated financial statements, depend on the use of estimates and judgments. IFRS also requires management to exercise judgment in the process of choosing and applying the Company's accounting policies.

These estimates and judgments are based on the circumstances and estimates at the date of the condensed interim consolidated financial statements and affect the reported amounts of income and expenses during the reporting period.

Given the uncertainty regarding the determination of these factors, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant items impacted by such estimates and judgments are outlined below.

Disclosure of the Company's critical accounting estimates and assumptions is presented in note 3 of the audited consolidated financial statements for the year ended August 31, 2022.

SIGNIFICANT ACCOUNTING POLICIES

The financial information presented in this MD&A has been prepared in accordance with International Financial Reporting Standards. Our significant accounting policies are set out note 3 of the audited consolidated financial statements for the year ended August 31, 2022.

SUMMARY OF OUTSTANDING SHARE DATA

Summary of Outstanding Share Data as of April 21, 2023:

Authorized:	Unlimited number of voting and participating common shares without par value.
Issued and outstanding:	90,585,552 common shares
	4,423,274 stock options
	789,183 RSUs
	3,166,667 contingently issuable common shares upon conversion of convertible debentures

cannara

TSXV: LOVE.V OTCQB: LOVFF FRA: 8CB

MADE WITH LOVE