



CANNARA BIOTECH INC.

Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended

May 31, 2023 and 2022

(Unaudited)

CANNARA BIOTECH INC.

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(Unaudited)

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CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Financial Position
As at May 31, 2023 and August 31, 2022
(Unaudited - in Canadian dollars)

	May 31, 2023	August 31, 2022
Assets		
Current assets		
Cash	\$ 4,027,972	\$ 12,114,691
Accounts receivable	10,021,230	8,526,918
Lease receivable	–	90,251
Biological assets (note 3)	5,208,230	5,712,456
Inventory (note 4)	24,962,580	13,266,987
Prepaid expenses and other assets	1,437,974	1,277,381
	45,657,986	40,988,684
Deposits	276,992	296,114
Deferred financing costs (note 6)	47,655	–
Deposits on property, plant and equipment	47,561	928,385
Property, plant and equipment (note 5)	89,212,423	83,289,745
Right-of-use asset	132,007	114,119
	\$ 135,374,624	\$ 125,617,047
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 13,636,415	\$ 9,307,959
Sales tax payable	904,271	319,664
Deferred lease revenue	386,034	–
Deferred revenue	22,656	7,087
Revolving credit facility (note 6)	1,500,000	–
Current portion of long-term debt	–	2,611
Current portion of deferred grant income	38,739	38,101
Current portion of lease liabilities	68,014	219,702
Current portion of term loan (note 6)	1,965,961	1,965,961
	18,522,090	11,861,085
Lease liabilities	64,206	16,962
Convertible debentures (note 6)	5,625,938	9,590,143
Deferred grant income	786,843	816,536
Deferred lease revenue	79,675	–
Term loan (note 6)	35,319,876	36,596,560
	60,398,628	58,881,286
Shareholders' equity		
Share capital	88,998,920	83,296,250
Contributed surplus	10,009,989	9,724,114
Deficit	(23,963,622)	(26,299,730)
Accumulated other comprehensive gain (loss)	(69,291)	15,127
Total equity	74,975,996	66,735,761
Contingencies (note 12)		
Subsequent events (note 16)		
	\$ 135,374,624	\$ 125,617,047

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statement of Net Income (Loss) and Comprehensive Income (Loss)
For the three and nine-month periods ended May 31, 2023 and 2022
(Unaudited)

	Three-month periods ended		Nine-month periods ended	
	May 31, 2023	May 31, 2022	May 31, 2023	May 31, 2022
Revenue				
Revenue from sale of goods (note 13)	\$ 20,565,849	\$ 10,537,599	\$ 47,631,637	\$ 24,191,728
Excise taxes	(5,621,763)	(2,386,783)	(12,556,330)	(5,376,582)
Net revenue from sale of goods	14,944,086	8,150,816	35,075,307	18,815,146
Lease revenues (note 13)	896,054	827,187	2,660,019	2,553,378
Services revenues (note 13)	–	1,010,902	1,194,132	2,219,775
Other income	96,688	74,811	354,731	462,347
	15,936,828	10,063,716	39,284,189	24,050,646
Cost of revenues				
Cost of goods sold (note 4)	(9,720,703)	(5,471,653)	(23,900,808)	(12,693,370)
Cost of services	–	(776,528)	(911,254)	(226,407)
Lease operating costs	(95,247)	(80,115)	(297,222)	(1,745,817)
Gross profit before fair value adjustments	6,120,878	3,735,420	14,174,905	9,385,052
Changes in fair value of inventory sold	(4,023,826)	(2,267,056)	(9,971,578)	(5,403,215)
Unrealized gain on changes in fair value of biological assets (note 3)	6,497,183	3,280,279	13,485,225	6,402,425
Gross profit	8,594,235	4,748,643	17,688,552	10,384,262
Operating expenses (income)				
General and administrative (note 9)	2,268,408	1,771,692	5,956,430	5,508,953
Research and development	262,443	369,870	724,548	932,189
Selling, marketing and promotion	849,901	374,267	1,904,320	976,545
Professional and legal fees	254,312	192,359	735,663	609,954
Share-based compensation (note 8)	416,440	147,221	1,414,406	264,421
Amortization (notes 5)	260,454	350,668	833,451	887,476
Gain on sublease agreement	–	–	–	(12,876)
Loss on disposal of property, plant and equipment (note 5)	–	8,480	63,247	39,586
	4,311,958	3,214,557	11,632,065	9,206,248
Operating income	4,282,277	1,534,086	6,056,487	1,178,014
Net finance expense (note 10)	1,353,634	105,789	3,742,948	1,426,039
Net income (loss)	2,928,643	1,428,297	2,313,539	(248,025)
Other comprehensive income (loss):				
Foreign currency translation adjustments	680	8,676	(84,418)	(5,205)
Total comprehensive income (loss)	\$ 2,929,323	\$ 1,436,973	\$ 2,229,121	\$ (253,230)
Basic earnings (loss) per share	\$ 0.03	\$ 0.01	\$ 0.03	\$ (0.01)
Diluted earning (loss) per share	\$ 0.03	\$ 0.01	\$ 0.03	\$ (0.01)
Weighted average number of common shares	87,665,656	87,680,741	88,911,771	87,659,121

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Changes in Equity
For the nine-month periods ended May 31, 2023 and 2022
(Unaudited - in Canadian dollars)

	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive gain (loss)	Total equity
As at August 31, 2022	87,698,132	\$ 83,296,250	\$ 9,724,114	\$ (26,299,730)	\$ 15,127	\$ 66,735,761
Net income	–	–	–	2,313,539	–	2,313,539
Other comprehensive loss						
Foreign currency translation adjustments	–	–	–	–	(84,418)	(84,418)
Comprehensive income (loss)	–	–	–	2,313,539	(84,418)	2,229,121
Share-based compensation (note 8)						
Employee compensation	–	–	1,407,080	–	–	1,407,080
Other services	–	–	7,326	–	–	7,326
	–	–	1,414,406	–	–	1,414,406
Exercise of stock options (notes 7 and 8)	50,000	88,100	(38,100)	–	–	50,000
Conversion of convertible debenture (note 6)	2,955,414	5,808,214	(1,090,431)	–	–	4,717,783
Repurchase and cancellation of common shares under NCIB (note 7)	(198,000)	(193,644)	–	22,569	–	(171,075)
As at May 31, 2023	90,505,546	\$ 88,998,920	\$ 10,009,989	\$ (23,963,622)	\$ (69,291)	\$ 74,975,996

	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive gain (loss)	Total equity
As at August 31, 2021	87,648,132	\$ 83,208,150	\$ 9,412,746	\$ (28,605,149)	\$ 100,065	\$ 64,115,812
Net loss	–	–	–	(248,025)	–	(248,025)
Other comprehensive loss:						
Foreign currency translation adjustments	–	–	–	–	(5,205)	(5,025)
Comprehensive loss	–	–	–	(248,025)	(5,205)	(253,230)
Share-based compensation (note 8)						
Employee compensation	–	–	245,525	–	–	245,525
Other services	–	–	18,896	–	–	18,896
	–	–	264,421	–	–	264,421
Exercise of stock options (notes 7 and 8)	500,000	88,100	(38,100)	–	–	50,000
As at May 31, 2022	87,698,132	\$ 83,296,250	\$ 9,639,067	\$ (28,853,174)	\$ 94,860	\$ 64,117,003

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Cash Flows
For the three and nine-month periods ended May 31, 2023 and 2022
(Unaudited - in Canadian dollars)

	Three-month periods ended		Nine-month periods ended	
	May 31, 2023	May 31, 2022	May 31, 2023	May 31, 2022
Cash provided by (used in):				
Operating:				
Net income (loss)	\$ 2,928,643	\$ 1,428,297	\$ 2,313,539	\$ (248,025)
Items not involving cash:				
Changes in fair value of inventory sold	4,023,826	2,267,056	9,971,578	5,403,215
Unrealized gain on changes in fair value of biological assets (note 3)	(6,497,183)	(3,280,279)	(13,485,225)	(6,402,425)
Amortization of property, plant and equipment (note 5)	1,237,816	1,022,746	3,522,522	2,696,810
Amortization of right-of-use assets	41,794	30,131	102,057	86,910
Loss on disposal of property, plant and equipment	–	8,480	63,247	39,586
Gain on sublease agreement	–	–	–	(12,876)
Change in fair value of derivative financial instrument	–	(690,447)	–	(560,000)
Interest on lease liabilities	4,654	15,749	20,323	52,339
Interest expense (note 6)	926,479	378,409	2,691,856	1,111,900
Interest income (note 10)	(39,081)	(23,994)	(186,604)	(69,141)
Share-based compensation (note 8)	416,440	147,221	1,414,406	264,421
Accretion and amortization of financing costs and other (note 6)	180,035	182,264	682,823	531,058
Net change in non-cash operating working capital items (note 15)	(689,600)	(3,195,379)	(4,507,796)	(5,815,093)
	2,533,823	(1,709,746)	2,602,726	(2,921,321)
Financing:				
Proceeds from debt financing	–	–	–	22,000,000
Proceeds from revolving credit facility (note 6)	1,500,000	–	1,500,000	–
Debt financing issuance costs	(22,500)	–	(22,500)	(98,372)
Repayment of term loan (note 6)	(491,490)	(165,630)	(1,474,471)	–
Repayment of mortgage payable	–	–	–	(12,220,401)
Net purchase of shares under NCIB (note 7)	(142,632)	–	(171,075)	–
Proceed from sale of derivative financial instrument	–	560,000	–	560,000
Private placement issuance costs	–	–	–	(25,250)
Convertible debenture issuance costs	–	–	–	(24,888)
Stock options exercised (notes 7 and 8)	–	50,000	50,000	50,000
Interest paid on debt instruments (note 6)	(858,007)	(230,044)	(2,380,336)	(788,227)
Lease payments	(91,539)	(75,696)	(244,712)	(219,516)
Other long-term debt payments	(1,477)	(591)	(2,659)	(2,364)
	(107,645)	138,039	(2,745,753)	9,230,982
Investing:				
Deposits on property, plant and equipment	(26,866)	(374,550)	(506,526)	(2,304,163)
Acquisitions of property, plant and equipment (note 5)	(2,550,819)	(2,474,875)	(7,592,535)	(8,377,836)
Disposal of property, plant and equipment	–	15,151	74,421	56,107
Interest received	38,307	17,055	165,366	39,887
	(2,539,378)	(2,817,219)	(7,859,274)	(10,586,005)
Net change in cash	(113,200)	(4,388,926)	(8,002,301)	(4,276,344)
Effect of foreign exchange on cash	680	8,676	(84,418)	(5,205)
Cash, beginning of period	4,140,492	8,258,006	12,114,691	8,159,305
Cash, end of period	\$ 4,027,972	\$ 3,877,756	\$ 4,027,972	\$ 3,877,756

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements
For the three and nine-month periods ended May 31, 2023 and 2022
(Unaudited - in Canadian dollars)

1. Nature of operations

Cannara Biotech Inc. ("Cannara" or the "Company") is a vertically integrated producer of premium-grade cannabis and cannabis-derivative products for the Quebec and Canadian markets. The Company is domiciled in Canada and was incorporated under the laws of British Columbia on October 19, 2017. Its head office is located at 333 Décarie, Suite 200, Ville St-Laurent, Québec, H4N 3M9. The Company's common shares are listed under the symbol "LOVE.V" on the TSX Venture Exchange (the "TSXV") in Canada, "LOVFF" on the OTCQB Venture Market in the United States and "8CB" on the Frankfurt Stock Exchange in Germany.

Cannara owns and operates two Quebec-based cultivation 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 cultivation area and 414,000 square feet of leased warehouse space ("Farnham Facility"). The second facility, acquired in June 2021, is a hybrid greenhouse facility that is being redesigned to replicate the indoor cultivation environment, including growing without relying on the sun. The facility is comprised of 24 independent growing zones totaling 600,000 square feet, a 225,000 square foot cannabis 2.0 processing center and a 200,000 square foot rooftop greenhouse located in Valleyfield, Quebec ("Valleyfield Facility"). 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.

The Company continues to invest in capital expenditures at its Valleyfield Facility, redesigning and activating 9 growing zones to-date, measuring a total of 225,000 square feet of active growing capacity. Multiple harvests have occurred since the start of the Valleyfield cultivation operations in November 2021 and have resulted in increased revenues as the harvested cannabis is processed and sold. The Company generated \$6.1 million in operating income and a net income of \$2.3 million during the nine-month period ended May 31, 2023 (nine-months ended May 31, 2022 – operating income of \$1.2 million and a net loss of \$0.3 million) and has a deficit of approximately \$24 million as at May 31, 2023 (August 31, 2022 - \$26.3 million). The Company expects that its existing cash resources of \$4 million as at May 31, 2023, along with the forecasted cash flows and available undrawn term loan and revolving credit facility, will enable it to fund its planned operating expenses for at least the next twelve months from May 31, 2023 and to reimburse the convertible debenture at term, if not converted into common shares.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements
For the three and nine-month periods ended May 31, 2023 and 2022
(Unaudited - in Canadian dollars)

1. Nature of operations (continued)

The ability of the Company to ultimately achieve recurrent profits from operations is dependent upon the continued success of its products and brand pipeline in addition to maintaining the consistency of its grow operations and lean cost structure. The Company expects to finance its operations through its sales, existing cash, available undrawn term loan and revolving credit facility and/or a combination of public or private equity and debt financing or other sources.

2. Basis of preparation and significant accounting policies

(a) Statement of compliance

These condensed interim consolidated financial statements have been 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").

These condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issuance on July 26, 2023.

(b) Basis of preparation

The condensed interim consolidated financial statements were prepared using the same accounting policies as set forth in Notes 2 and 3 in the audited financial statements of the Company for the year ended August 31, 2022. These condensed interim consolidated financial statements do not include all the notes required in annual consolidated financial statements. Therefore, these condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto of the Company for the year ended August 31, 2022.

The preparation of the Company's condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of expenditures, assets and liabilities. Actual results could differ from those estimates.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements
For the three and nine-month periods ended May 31, 2023 and 2022
(Unaudited - in Canadian dollars)

2. Basis of preparation and significant accounting policies (continued)

(b) Basis of preparation (continued)

On an ongoing basis, estimates and judgements are evaluated. The Company bases its estimates on the most probable set of economic conditions and planned course of action, historical experience, known trends and events, and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Uncertainty about these assumptions and estimates could result in an outcome that requires material adjustments to the carrying amount of the asset or liability affected in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which these estimates are revised and in any future periods affected.

The critical accounting judgments and key sources of estimation uncertainty are consistent with those in the audited consolidated financial statements and notes thereto to the Company for the year ended August 31, 2022.

(c) Share consolidation

During the second fiscal quarter of 2023, 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. 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. All the share capital, stock options and RSU numbers were adjusted retrospectively.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements
For the three and nine-month periods ended May 31, 2023 and 2022
(Unaudited - in Canadian dollars)

3. Biological assets

The Company's biological assets consist of cannabis plants up to the point of harvest. The changes in the carrying values of biological assets are as follows:

Carrying amount, August 31, 2021	\$	1,902,206
Production costs capitalized		10,257,220
Change in fair value due to biological transformation, less cost to sell		11,173,673
Transferred to inventory upon harvest		(17,620,643)
Carrying amount, August 31, 2022	\$	5,712,456
Production costs capitalized		12,587,925
Change in fair value due to biological transformation, less cost to sell		13,485,225
Transferred to inventory upon harvest		(26,577,376)
Carrying amount, May 31, 2023	\$	5,208,230

The estimates used in determining the fair value of cannabis plants are as follows:

- expected average wholesale and retail selling price per gram of harvested cannabis;
- expected cost to complete and cost to sell;
- expected yield per cannabis plant;
- stage of completion in the production process (days remaining until harvest);
- expected plant loss based on their various stages of growth.

The valuation of biological assets is based on an income approach in which the fair value at the point of harvesting is estimated based on selling prices less the costs to sell. For in-process biological assets, the fair value at point of harvest is adjusted based on the stage of growth at period-end. Stage of growth is determined by reference to the time incurred as a percentage of total weeks of growth as applied to estimated total fair value per gram (less costs to complete and costs to sell) to arrive at an in-process fair value for estimated biological assets, which have not yet been harvested.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements
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3. Biological assets (continued)

Because there is no actively traded commodity market for cannabis plants and cannabis products, the valuation of the biological assets is obtained using valuations techniques where the inputs are based upon unobservable market data and are classified as level 3 in the fair market value hierarchy. There has been no transfer between levels as at May 31, 2023.

Management's identified significant unobservable inputs, their values and sensitivity analysis are presented in the table below.

The income approach calculates the present value of expected future cash flows from the Company's biological assets using the following significant unobservable inputs for the period ended May 31, 2023:

Unobservable inputs	Input values	Sensitivity analysis
<i>Wholesale and retail selling price</i> Represents the weighted average expected wholesale and retail selling price per gram of dried cannabis, excluding excise taxes, where applicable, which is expected to approximate future wholesale and retail selling prices.	Weighted average of \$3.15 per gram (August 31, 2022 – \$3.31 per gram)	An increase or decrease of 5% applied to the selling price would result in a change of approximately \$376,000 to the valuation.
<i>Yield per plant</i> Represents the average number of grams of dried cannabis expected to be harvested from each cannabis plant from the two facilities.	78 grams per plant (August 31, 2022 – 78 grams per plant)	An increase or decrease of 5% applied to the average yield per plant would result in a change of approximately \$215,000 to the valuation.
<i>Stage of completion</i> Calculated by taking the average number of days in the cultivation cycle over the total estimated duration of a cultivation cycle which is currently approximately 13 to 14 weeks from clone to harvest.	Weighted average stage of completion is 48% (August 31, 2022 - 49%)	An increase or decrease of 5% applied to the average stage of growth per plant would result in a change of approximately \$172,000 to the valuation.

The Company's estimates are, by their nature, subject to change, and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

As at May 31, 2023, it is expected that the Company's biological assets will yield approximately 8,038 kilograms of dried cannabis when harvested (August 31, 2022 - 5,539 kilograms of dried cannabis).

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(Unaudited - in Canadian dollars)

4. Inventory

Inventory consists of the following:

	May 31 2023		
	Capitalized cost	Fair value adjustment ¹	Total
Raw materials - cultivation and supplies	\$ 3,267,028	\$ –	\$ 3,267,028
Harvested cannabis			
Dried cannabis and work-in-progress	8,222,598	5,979,251	14,201,849
Finished goods	2,775,902	1,193,928	3,969,830
Derivative products			
Derivatives products and work-in-progress	2,350,647	–	2,350,647
Finished goods	876,370	18,181	894,551
Finished goods – cannabis accessories and merchandise	278,675	–	278,675
	\$ 17,771,220	\$ 7,191,360	\$ 24,962,580

	August 31, 2022		
	Capitalized cost	Fair value adjustment ¹	Total
Raw materials – cultivation and supplies	\$ 3,007,615	\$ –	\$ 3,007,615
Harvested cannabis			
Dried cannabis and work-in-progress	5,206,319	2,548,848	7,755,167
Finished goods	880,749	384,699	1,265,448
Derivative products			
Derivative products and work-in-progress	900,252	80,701	980,953
Finished goods	84,680	430	85,110
Finished goods – cannabis accessories	172,694	–	172,694
	\$ 10,252,309	\$ 3,014,678	\$ 13,266,987

¹ Fair value adjustment represent the fair value adjustment transferred from biological assets at harvest.

The amount of inventory expensed as cost of goods sold during the three and nine-month periods ended May 31, 2023 was \$9,720,703 and \$23,900,808 (2022 - \$5,471,653 and \$12,693,370), including an impairment loss on inventory of \$474,654 and \$1,886,363 for cannabis that cost exceeds its net realizable value (2022 – \$23,608 and \$228,257 for cannabis that cost exceeds its net realizable value and an impairment loss on U.S. hemp-based CBD products of \$71,117 as a result of the shutdown of the U.S. CBD online operations during the third quarter of 2022).

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For the three and nine-month periods ended May 31, 2023 and 2022
(Unaudited - in Canadian dollars)

5. Property, plant and equipment

	Land	Buildings	Facility production equipment	Computer equipment and software	Vehicles	Furniture and fixtures	Construction in progress	Total
Cost								
Balance as at August 31, 2022	\$ 2,452,085	\$ 64,297,845	\$ 10,858,550	\$ 1,473,919	\$ 40,440	\$ 1,852,072	\$ 11,531,330	\$ 92,506,241
Additions	–	2,323,631	2,582,721	126,413	–	134,136	4,415,967	9,582,868
Transfer	–	7,421,104	924,371	–	–	194,611	(8,540,086)	–
Disposal	–	–	(175,714)	–	–	–	–	(175,714)
Balance as at May 31, 2023	\$ 2,452,085	\$ 74,042,580	\$ 14,189,928	\$ 1,600,332	\$ 40,440	\$ 2,180,819	\$ 7,407,211	\$ 101,913,395
Accumulated amortization								
Balance as at August 31, 2022	\$ –	\$ (6,465,617)	\$ (1,632,112)	\$ (661,078)	\$ (8,938)	\$ (448,751)	\$ –	\$ (9,216,496)
Amortization	–	(2,230,963)	(912,876)	(212,766)	(6,065)	(159,852)	–	(3,522,522)
Disposal	–	–	38,046	–	–	–	–	38,046
Balance as at May 31, 2023	\$ –	\$ (8,696,580)	\$ (2,506,942)	\$ (873,844)	\$ (15,003)	\$ (608,603)	\$ –	\$ (12,700,972)
Net book value								
Balance as at May 31, 2023	\$ 2,452,085	\$ 65,346,000	\$ 11,682,986	\$ 726,488	\$ 25,437	\$ 1,572,216	\$ 7,407,211	\$ 89,212,423

As at May 31, 2023, the assets included in construction in progress represent the Valleyfield Facility and related capital expenditures incurred to render the facility operational, for the redesign of the remaining growing zones, the construction of warehouse and processing space center. The costs are transferred to other categories as the assets become available or ready for use. The Company expect to put in operations the remaining growing zones in lockstep until 2026. The assets under construction also contain a new building of approximately 45,000 square feet that is currently being built out on the Valleyfield site, for which the Company has already secured a long-term lease with a non-cannabis tenant starting January 2024. The Company has incurred approximately \$850,000 for the construction of the new building, which is included in construction in progress as at May 31, 2023.

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(Unaudited - in Canadian dollars)

5. Property, plant and equipment (continued)

	Land	Buildings	Facilities production equipment	Computer equipment and software	Vehicles	Furniture and fixtures	Construction in progress	Total
Cost								
Balance as at August 31, 2021	\$ 2,452,085	\$ 44,792,468	\$ 5,833,454	\$ 1,262,343	\$ 18,440	\$ 1,352,642	\$ 21,234,527	\$ 76,945,959
Additions	–	1,871,176	3,536,542	166,522	22,000	117,321	9,973,395	15,686,956
Transfer	–	17,634,201	1,615,228	45,054	–	382,109	(19,676,592)	–
Disposal	–	–	(126,674)	–	–	–	–	(126,674)
Balance as at August 31, 2022	\$ 2,452,085	\$ 64,297,845	\$ 10,858,550	\$ 1,473,919	\$ 40,440	\$ 1,852,072	\$ 11,531,330	\$ 92,506,241
Accumulated amortization								
Balance as at August 31, 2021	\$ –	\$ (3,881,432)	\$ (828,841)	\$ (421,653)	\$ (3,771)	\$ (293,011)	\$ –	\$ (5,428,708)
Amortization	–	(2,584,185)	(819,025)	(239,425)	(5,167)	(155,740)	–	(3,803,542)
Disposal	–	–	15,754	–	–	–	–	15,754
Balance as at August 31, 2022	\$ –	\$ (6,465,617)	\$ (1,632,112)	\$ (661,078)	\$ (8,938)	\$ (448,751)	\$ –	\$ (9,216,496)
Net book value								
Balance as at August 31, 2022	\$ 2,452,085	\$ 57,832,228	\$ 9,226,438	\$ 812,841	\$ 31,502	\$ 1,403,321	\$ 11,531,330	\$ 83,289,745

During the three and nine-month period ended May 31, 2023, the Company recognized \$1,237,816 and \$3,522,522 as amortization, of which \$218,660 and \$731,394 have been recognized in the consolidated statement of income (loss) and comprehensive income (loss), nil and \$16,959 have been included in cost of services and \$1,019,156 and \$2,774,169 have been included in the calculation of the biological assets and inventory valuation.

During the three and nine-month period ended May 31, 2022, the Company recognized \$1,022,746 and \$2,696,810 as amortization expense, of which \$320,537 and \$800,566 have been recognized in the consolidated statement of income (loss) and comprehensive income (loss), \$15,612 and \$15,612 have been included in cost of services and \$702,209 and \$1,880,632 have been included in the calculation of the biological assets and inventory valuation.

CANNARA BIOTECH INC.

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6. Financing

(a) Revolving credit facility

		May 31, 2023	August 31, 2022
Net carrying value, beginning of period	\$	–	\$ –
Proceeds from revolving credit facility		1,500,000	–
Net carrying value, end of period	\$	1,500,000	\$ –

The Company has access to a revolving credit facility that was increased from \$5 million to \$10 million during the third quarter of 2023. The revolving credit facility term is 60 days and can be renewed at the end of the period. The revolving credit facility bears a variable interest rate based on prime rate or banker's acceptance rate plus an applicable margin based on the credit agreement. As at May 31, 2023, the interest on the revolving credit facility was 8.5%. The Company has to respect certain covenant to be able to draw on the revolving credit facility (note 6 b)), which were respected as at May 31, 2023. Subsequent to quarter-end, the Company withdraw \$1.5 million on the revolving credit facility for operational and capital expenditures investment.

For the three and nine-month periods ended May 31, 2023, the Company recognized \$24,942 and \$24,942 as interest expense for the revolving credit facility. As at May 31, 2023, prepaid interests of \$16,648 were included in prepaid expenses and other assets.

(b) Term loan

		May 31, 2023	August 31, 2022
Net carrying value, beginning of period	\$	38,562,521	\$ –
Proceeds from term loan		–	39,319,223
Repayment of term loan		(1,474,471)	–
Addition of term loan issuance costs		–	(822,627)
Amortization of deferred financing costs		197,787	65,925
Net carrying value, end of period	\$	37,285,837	\$ 38,562,521
Term loan ⁽ⁱ⁾	\$	37,844,752	\$ 39,319,223
Less: unamortized financing costs		(558,915)	(756,702)
		37,285,837	38,562,521
Short-term portion of term loan		(1,965,961)	(1,965,961)
	\$	35,319,876	\$ 36,596,560

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6. Financing (continued)

(b) Term loan (continued)

- (i) The term loan bears a variable interest rate based on prime and/or banker acceptance rates plus an applicable margin based on credit agreement. As at May 31, 2023, the interest on the term loan was 8.7%. The term loan is reimbursable quarterly based on an amortization schedule of 80 quarters, beginning November 30, 2022 and has a term of 3 year, ending May 31, 2025. The credit facility is secured by a first ranking mortgage against the Farnham and Valleyfield Facility, and is guaranteed with limited recourse, in part, by a related party for a fee based on the amount of the outstanding term loan (note 14(b)). On May 4, 2023, the Company secured approval to draw an additional \$5 million term loan, which has not yet been drawn. In connection with this new term loan, the Company incurred financing costs totalling \$47,655 which were presented in deferred financing costs as at May 31, 2023. The new term loan proceeds will be used to fund the completion of the construction of a 44,950 sq. ft. building adjacent to the Valleyfield mega-facility, in an unlicensed area which has been pre-leased to a new non-cannabis tenant, creating an accretive real estate asset with incremental future cash flows.

The Company has to respect financial covenants such as (a) maintaining a certain liquidity coverage at all the times, (b) an adjusted EBITDA of \$3 million for the fiscal quarter of May 31, 2023 and an adjusted EBITDA of \$4 million for the fiscal quarter ending August 31, 2023 and thereafter and, starting on September 2023, to maintain (c) a fixed charge coverage ratio equal to or more than 1.25 to 1.0; and(d) a funded debt to adjusted EBITDA ratio equal to or less than 3.0 to 1.0 at each quarter-end. As at May 31, 2023, the Company was in compliance with all of its applicable financial covenants.

For the three and nine-month periods ended May 31, 2023, the Company recognized \$840,549 and \$2,398,154 as interest expense for the term loan. As at May 31, 2023, accrued interests of \$283,151 were included in account payables and accrued liabilities.

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6. Financing (continued)

(c) Convertible debentures

The rollforward of the financial liability component of the convertible debentures is as follows:

Net carrying value as at August 31, 2021	\$	8,466,008
Interest expense		435,178
Accretion and amortization of deferred issuance costs		688,957
Net carrying value, August 31, 2022		9,590,143
Interest expense		268,760
Accretion and amortization of deferred issuance costs		484,818
Conversion of debenture		(4,717,783)
Net carrying value as at May 31, 2023	\$	5,625,938

The convertible debenture matures in June 2024 and has a face value of \$5,700,000.

During the three and nine-month periods ended May 31, 2023, the Company recognized \$60,988 and \$268,760 as interest expense (2022 - \$110,049 and \$323,673). The convertible debenture bears interest at 4% per annum and interest is payable at term or at conversion if it occurs. As at May 31, 2023, accrued interest of \$455,942 was included in account payable and accrued liabilities (August 31, 2022 - \$506,926).

On February 7, 2023, the Company received a notice of conversion to convert the principal and accrued interest totalling \$5,319,745 into 2,955,414 common shares (post-consolidation) of the Company. On February 9, 2023, the Company issued shares from treasury in relation to the conversion. The net carrying balance of convertible debenture of \$4,717,783 and the initial equity portion of \$1,090,431 recorded in contributed surplus were reclassified to common shares on the conversion date.

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7. Share capital

(a) Authorized

The Company has authorized an unlimited number of voting and participating common shares.

(b) Transactions on share capital

During the first quarter of 2023, 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.

(c) Normal Course Issuer Bid

On November 11, 2022, the Company received approval from the Toronto Stock Exchange to commence the Normal Course Issuer Bid ("NCIB"). Under the NCIB, the Company may acquire up to a maximum of 1,500,000 of its shares, or approximately 1.5% of its float for cancellation over the following 12 months.

During the second quarter of 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.

During the third quarter of 2023, the Company purchased 168,000 common shares having an average book value of \$164,304 for cash consideration of \$142,632. The excess of the book value over the purchase price value of the shares of \$21,672 was charged to deficit. All shares purchased were cancelled.

In connection with the NCIB, the company has established a securities 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. Under the plan, before entering a self-imposed blackout period, the Company may, but is not required to, ask the designated broker to make purchases under the NCIB within specific parameters.

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8. Share-based compensation

(a) Stock option plan

The Company has established a share option plan whereby certain personnel may be granted options to acquire shares under the terms of the employee share option plan or shares may be granted to third parties in exchange for services. The number and characteristics of share options granted under the employee share option plan are determined by the Board of Directors of the Company but cannot exceed 10% of the Corporation's issued and outstanding common shares, including previously granted stock options; and such number of common shares as, when combined with all other common shares subject to grants made under the Company's other share compensation arrangements (including the RSU Plan) would not exceed 10% of the outstanding common shares. The characteristics of share options granted to third parties for services are determined on a case-by-case basis.

The share options granted under the employee share option plan vest 25% after the first anniversary of the grant date with the remainder vesting in 36 monthly consecutive equal instalments or as approved by the Board of Directors and expire five years from the date of issue. The plan provides for the issuance of common shares at an exercise price determined by the Board of Directors which is not lower than the fair value of the common shares on the grant date. Outstanding options under the plan are granted with service requirements (or service conditions) and become exercisable upon vesting. The share options granted to third parties for services have vesting terms determined on a case-by-case basis.

The activity of outstanding share options for the nine-month period ended May 31, 2023 and 2022 was as follows:

	Number	May 31, 2023 Weighted average exercise price	Number	May 31, 2022 Weighted average exercise price
Outstanding, beginning of period	2,452,414	\$ 1.50	3,653,934	\$ 2.10
Granted	2,230,300	1.53	914,833	1.80
Exercised	(50,000)	1.00	(50,000)	1.00
Forfeited	(183,380)	1.80	(260,814)	1.80
Expired	(85,909)	1.33	(263,250)	1.40
Outstanding, end of period	4,363,425	1.53	3,994,703	2.10
Exercisable, end of period	2,213,475	\$ 1.46	2,737,746	\$ 2.20

During the three and nine-month periods ended May 31, 2023, the Company recorded a share-based compensation expense of \$416,440 and \$1,414,406 in the consolidated statement of income (loss) and comprehensive income (loss) (2022 – \$147,221 and \$264,421).

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8. Share-based compensation (continued)

(a) Stock option plan (continued)

During the first quarter of 2023, the Company granted 2,150,000 options that vest over time in accordance with the employee share option plan and 22,500 options that vested immediately.

During the second quarter of 2023, the Company granted 37,800 options that vest over time in accordance with the employee share option plan.

During the third quarter of 2023, the Company granted 20,000 options that vest over time in accordance with the employee share option plan.

The share options forfeited relate to the share options held by directors and/or employees that are no longer part of the Company.

The estimated fair value of the share options at the grant date was measured using the Black-Scholes option pricing model and the following weighted average inputs and assumptions:

	Nine-month periods ended	
	May 31, 2023	May 31, 2022
Share price ⁽ⁱ⁾	\$ 1.14	\$ 1.30
Exercise price	\$ 1.53	\$ 1.80
Risk-free interest rate ⁽ⁱⁱ⁾	3.40%	1.61%
Expected life ⁽ⁱⁱⁱ⁾	5 years	5 years
Expected price volatility ^(iv)	89%	91%
Fair value of the option	\$ 0.76	\$ 0.85
Expected dividend yield ^(v)	Nil	Nil

(i) The share price is based on the market price on the date of the grant.

(ii) The risk-free interest rate was based on the Bank of Canada government bonds rates in effect at grant date for time periods approximately equal to the expected life of the option.

(iii) The expected life of the options reflects the assumption of future exercise patterns that may occur.

(iv) Expected price volatility was estimated based on historical volatility of the Company's shares.

(v) The expected dividend yield has been estimated at nil as the Company has never paid cash dividends and does not expect to do so in the foreseeable future.

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8. Share-based compensation (continued)

(a) Stock option plan (continued)

The number of outstanding stock options that could be exercised for an equal number of common shares is as follows:

Expiry date	Exercise price \$	Number outstanding	Number exercisable
June 1, 2023	\$ 1.00	700,000	700,000
December 17, 2023	1.80	79,500	79,500
May 1, 2024	1.80	69,400	69,400
October 3, 2024	1.80	12,500	11,197
November 25, 2024	1.80	2,000	1,750
January 16, 2025	1.80	42,000	34,998
April 14, 2025	1.80	8,645	6,814
May 4, 2025	1.80	40,000	40,000
July 24, 2025	1.80	347,500	250,560
November 10, 2025	1.80	25,000	25,000
December 15, 2025	1.80	27,144	16,629
February 1, 2026	1.80	54,603	32,718
July 27, 2026	1.80	22,500	10,315
December 7, 2026	1.80	586,000	222,065
April 26, 2027	1.80	7,500	2,031
May 25, 2027	1.80	21,333	21,333
July 26, 2027	1.80	105,000	–
September 29, 2027	1.00	750,000	250,000
September 29, 2027	1.80	1,400,000	439,165
November 24, 2027	1.80	10,000	–
January 20, 2028	1.80	32,800	–
April 21, 2028	1.80	20,000	–
		4,363,425	2,213,475

(b) Restricted Share Units (“RSU”)

During the second quarter of 2023, the Company obtained approval from shareholders during the Annual General Meeting and from TSX-V to implement a RSU Plan. The RSU Plan provides for a maximum number of common shares available and reserved for issuance to 10% of the aggregate number of common shares issued and outstanding from time to time; and (ii) such number of common shares as, when combined with all other common shares subject to grants made under the Company’s other share compensation arrangements (including the Stock Option Plan) would not exceed 10% of the outstanding common shares. The RSUs are time-based awards and can contain performance conditions. All the amount of RSUs granted will vest upon the continuous employment of the Participants on the second anniversary of the RSU grant or if the performance conditions are met, starting from the date of the grant or such other period not exceeding five years determined by the Board of Directors. Pursuant to the terms of the RSU Plan, Participants will receive for no consideration, upon vesting of the RSUs, common shares of the Company issued from treasury.

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8. Share-based compensation (continued)

(b) Restricted Share Units ("RSU") (continued)

The outstanding RSUs for the nine-month period ended May 31, 2023 and 2022 are as follows:

	Number	May 31, 2023 Weighted average fair value	Number	May 31, 2022 Weighted average fair value
Outstanding, beginning of period	–	\$ –	–	\$ –
Granted	789,183	0.90	–	–
Outstanding, end of period	789,183	\$ 0.90	–	\$ –

During the second quarter of 2023, the Company granted 789,183 RSUs without performance conditions and exercisable for no consideration.

During the three and nine-month periods ended May 31, 2023, the Company recorded a share-based compensation expense of \$89,266 and \$107,701 in the consolidated statement of income (loss) and comprehensive income (loss).

9. General and administrative

	Three-month periods ended		Nine-month periods ended	
	May 31, 2023	May 31, 2022	May 31, 2023	May 31, 2022
Salaries and benefits	\$ 950,257	\$ 804,434	\$ 2,665,282	\$ 2,179,325
Administrative and regulatory expense	865,014	404,078	2,239,404	1,265,330
Facility expense	453,137	563,180	1,051,744	2,064,298
General and administrative	\$ 2,268,408	\$ 1,771,692	\$ 5,956,430	\$ 5,508,953

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10. Net finance expense

	Three-month periods ended		Nine-month periods ended	
	May 31, 2023	May 31, 2022	May 31, 2023	May 31, 2022
Interest income	\$ 39,081	\$ 23,994	\$ 186,604	\$ 69,141
Gain of derivative financial Instrument	–	690,447	–	560,000
Foreign exchange gain	–	–	76,907	–
Finance income	39,081	714,441	263,511	629,141
Interest on term loan	840,549	–	2,398,154	–
Interest on mortgage payable	–	268,360	–	728,227
Interest on convertible debentures	60,988	110,049	268,760	323,673
Interest on revolving credit facility	24,942	–	24,942	–
Interest on lease liabilities	4,654	15,749	20,323	52,339
Interest on letter of credit	53,696	133,602	158,751	133,602
Debt guarantee fees	93,750	81,675	281,250	163,969
Accretion and amortization of financing costs	179,978	182,208	682,563	530,889
Other finance expense	124,817	7,026	171,626	23,278
Foreign exchange loss	9,341	21,561	–	39,203
Finance expense	1,392,715	820,230	4,006,459	2,055,180
Net finance expense	\$ 1,353,634	\$ 105,789	\$ 3,742,948	\$ 1,426,039

11. Financial instruments

Fair value measurements

The fair value of cash, accounts receivable, lease receivable, accounts payable and accrued liabilities approximate their carrying amounts due to the short-term maturity of those instruments.

The fair value of the term loan approximates its carrying amount as the interest rate approximates the current market rate.

The fair value of the convertible debenture is approximately \$5.3 million as May 31, 2023.

12. Contingencies

In the normal course of business, the Company may be involved in various legal and regulatory proceedings. The Company believes that the resolution of these proceedings will not have a material favourable or unfavourable effect on its condensed interim consolidated statement of financial position or financial performance. As at May 31, 2023, there are no material claims in favor or against the Company.

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13. Segment disclosures

(a) Reportable segments

The Company operates in two segments: (1) Cannabis operations, which encompasses the cultivation, processing and sale of dried cannabis and cannabis derivatives exclusively for the Canadian market and other cannabis services ("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, amortization, net finance expense, gain on sublease on initial recognition, loss on disposal of property, plant and equipment and income tax. Categorized as "Other" are items related to U.S. hemp-based CBD products revenues and related operating costs. The accounting policies of the segments are the same as those described in note 3 of the audited financial statements of the Company for the year ended August 31, 2022.

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13. Segment disclosures (continued)

(a) Reportable segments (continued)

	Three-month period ended May 31, 2023				Three-month period ended May 31, 2022			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Revenue								
Revenue from sale of goods	\$ 20,565,849	\$ –	\$ –	\$ 20,565,849	\$ 10,537,599	\$ –	\$ –	\$ 10,537,599
Excise taxes	(5,621,763)	–	–	(5,621,763)	(2,386,783)	–	–	(2,386,783)
Net revenue from sale of goods	14,944,086	–	–	14,944,086	8,150,816	–	–	8,150,816
Services revenues	–	–	–	–	1,010,902	–	–	1,010,902
Lease revenue	–	896,054	–	896,054	–	827,187	–	827,187
Other income	96,688	–	–	96,688	74,811	–	–	74,811
	15,040,774	896,054	–	15,936,828	9,236,529	827,187	–	10,063,716
Cost of revenues								
Cost of goods sold	9,720,703	–	–	9,720,703	5,400,536	–	71,117	5,471,653
Cost of services	–	–	–	–	776,528	–	–	776,528
Lease operating costs	–	95,247	–	95,247	–	80,115	–	80,115
Segment gross profit before fair value adjustments	5,320,071	800,807	–	6,120,878	3,059,465	747,072	(71,117)	3,735,420
Changes in fair value of inventory sold	(4,023,826)	–	–	(4,023,826)	(2,267,056)	–	–	(2,267,056)
Unrealized gain on changes in fair value of biological assets	6,497,183	–	–	6,497,183	3,280,279	–	–	3,280,279
Segment gross profit	7,793,428	800,807	–	8,594,235	4,072,688	747,072	(71,117)	4,748,643
Operating expenses	3,635,064	–	–	3,635,064	2,692,873	–	15,315	2,708,188
Segment operating income (loss)	4,158,364	800,807	–	4,959,171	1,379,815	747,072	(86,432)	2,040,455
Share-based compensation	–	–	416,440	416,440	–	–	147,221	147,221
Amortization	–	–	260,454	260,454	–	–	350,668	350,668
Loss on disposal of property, plant and equipment	–	–	–	–	–	–	8,480	8,480
Net finance expense	–	–	1,353,634	1,353,634	–	–	105,789	105,789
Net income (loss)	\$ 4,158,364	\$ 800,807	\$ (2,030,528)	\$ 2,928,643	\$ 1,379,815	\$ 747,072	\$ (698,590)	\$ 1,428,297

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13. Segment disclosures (continued)

(a) Reportable segments (continued)

	Nine-month period ended May 31, 2023				Nine-month period ended May 31, 2022			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Revenue								
Revenue from sale of goods	\$ 47,631,637	\$ –	\$ –	\$ 47,631,637	\$ 24,174,130	\$ –	\$ 17,598	\$ 24,191,728
Excise taxes	(12,556,330)	–	–	(12,556,330)	(5,376,582)	–	–	(5,376,582)
Net revenue from sale of goods	35,075,307	–	–	35,075,307	18,797,548	–	17,598	18,815,146
Services revenues	1,194,132	–	–	1,194,132	2,219,775	–	–	2,219,775
Lease revenue	–	2,660,019	–	2,660,019	–	2,553,378	–	2,553,378
Other income	354,731	–	–	354,731	462,347	–	–	462,347
	36,624,170	2,660,019	–	39,284,189	21,479,670	2,553,378	17,598	24,050,646
Cost of revenues								
Cost of goods sold	23,900,808	–	–	23,900,808	12,607,072	–	86,298	12,693,370
Cost of services	911,254	–	–	911,254	1,745,817	–	–	1,745,817
Lease operating costs	–	297,222	–	297,222	–	226,407	–	226,407
Segment gross profit before fair value adjustments	11,812,108	2,632,797	–	14,174,905	7,126,781	2,326,971	(68,700)	9,385,052
Changes in fair value of inventory sold	(9,971,578)	–	–	(9,971,578)	(5,403,215)	–	–	(5,403,215)
Unrealized gain on changes in fair value of biological assets	13,485,225	–	–	13,485,225	6,402,425	–	–	6,402,425
Segment gross profit	15,325,755	2,362,797	–	17,688,552	8,125,991	2,326,971	(68,700)	10,384,262
Operating expenses	9,320,961	–	–	9,320,961	7,959,985	–	67,656	8,027,641
Segment operating income (loss)	6,004,794	2,362,797	–	8,367,591	166,006	2,326,971	(136,356)	2,356,621
Share-based compensation	–	–	1,414,406	1,414,406	–	–	264,421	264,421
Amortization	–	–	833,451	833,451	–	–	887,476	887,476
Loss on disposal of property, plant and equipment	–	–	63,247	63,247	–	–	39,586	39,586
Gain on sublease	–	–	–	–	–	–	(12,876)	(12,876)
Net finance expense	–	–	3,742,948	3,742,948	–	–	1,426,039	1,426,039
Net income (loss)	\$ 6,004,794	\$ 2,362,797	\$ (6,054,052)	\$ 2,313,539	\$ 166,006	\$ 2,326,971	\$ (2,741,002)	\$ (248,025)

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For the three and nine-month periods ended May 31, 2023 and 2022
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13. Segment disclosures (continued)

(b) Entity-wide disclosures

All property, plant and equipment are located in Canada.

(c) Sources of lease revenues

The Company leased 414,114 square feet of the total 625,000 available square feet in its Farnham facility to third parties. For the period ended May 31, 2023, the Company realized 100% of its lease revenue with two lessees:

- The lease term for Tenant A is up to September 30, 2027. Lease revenues from this tenant for the three and nine-month periods ended May 31, 2023 amounted to \$142,895 and \$403,549.
- The lease term for Tenant B is up to October 31, 2024, with options to extend. Lease revenues from this tenant for the three and nine-month periods ended May 31, 2023 amounted to \$753,159 and \$2,256,470.

Income is generated from customers domiciled in Canada.

In addition, 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 the beginning of calendar year 2024 following the end of the construction of the building with a term of 11 years.

(d) Source of cannabis and cannabis accessories revenues

	Three-month periods ended		Nine-month periods ended	
	May 31, 2023	May 31, 2022	May 31, 2023	May 31, 2022
Revenue from Canadian retailers	\$ 19,774,361	\$ 10,109,240	\$ 46,578,987	\$ 23,348,210
Excise taxes	(5,621,763)	(2,386,783)	(12,556,330)	(5,376,582)
	14,152,598	7,722,457	34,022,657	17,971,628
Revenue from wholesale	752,523	428,359	956,447	843,518
Revenue from online merchandise	38,965	—	96,203	—
	\$ 14,944,086	\$ 8,150,816	\$ 35,075,307	\$ 18,815,146

For the three and nine-month periods ended May 31, 2023, the Company has generated 92% and 94% of its cannabis revenues from two provincial distributors (Quebec and Ontario) (2022 – 95% and 96% from one provincial distributor (Quebec)).

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13. Segment disclosures (continued)

(e) Source of services revenues

The Company generated services revenues from cannabis production services. All of its management services-related revenues were generated with one customer. During the first fiscal quarter of 2023, the Company terminated this agreement and plans to use the additional production capacity for its own purposes.

14. Related parties

(a) Key management personnel compensation

Key management personnel are the people who have the authority and responsibility for planning, directing and controlling the business activities of the Company and include all of its directors and chief executives.

The compensations of key management personnel, including directors' fees, salaries and benefits were as follows:

	Three-month periods ended		Nine-month periods ended	
	May 31, 2023	May 31, 2022	May 31, 2023	May 31, 2022
Salaries and benefits	\$ 210,000	\$ 107,500	\$ 630,000	\$ 322,500
Share-based compensation	368,585	48,813	1,274,735	144,692
Board of Directors' fees	17,500	17,500	52,500	52,500
	\$ 596,085	\$ 173,813	\$ 1,957,235	\$ 519,692

(b) Other transactions 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.

The following provides the transaction amounts by nature with related parties:

	Three-month periods ended		Nine-month periods ended	
	May 31, 2023	May 31, 2022	May 31, 2023	May 31, 2022
Nature of transactions:				
Other expense ⁽ⁱ⁾	\$ -	\$ 937	\$ -	\$ -
Acquisition of property, plant and equipment ⁽ⁱ⁾	-	-	17,246	39,566
Interest on convertible debentures ⁽ⁱ⁾	66,813	110,049	274,584	540,631
Debt guarantee fees ^{(i) (iii)}	93,750	215,277	281,250	297,571
	\$ 160,563	\$ 326,263	\$ 573,080	\$ 877,768

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14. Related parties (continued)

(b) Other transactions with related parties (continued)

	May 31, 2023	August 31, 2022
Balances due to related parties are as follows:		
Accounts payable and accrued liabilities ^{(i) (ii)}	\$ (711,766)	\$ (894,781)
Accounts payable to key management personnel ⁽ⁱⁱⁱ⁾	(99,754)	(52,614)
Accounts payable to Board of Directors members	(15,269)	(15,230)
Convertible debentures ⁽ⁱ⁾	(5,700,000)	(10,700,000)

- (i) The Company has a Board of Directors member who is a shareholder in an entity with which the Company entered into various transactions with for the financing of the Farnham and Valleyfield Facilities.
- (ii) Accounts payable relate to accrued salary and vacation for key management personnel. Related party transactions have been recorded at the exchange amount, which is the amount agreed to and established by the related parties.
- (iii) As part of the financing closed in the prior year, a related party is providing certain guarantees to the lenders on the debt financing and is charging the Company a fee in exchange.

15. Cash flow information

Net change in non-cash working capital items:

	Three-month periods ended		Nine-month periods ended	
	May 31, 2023	May 31, 2022	May 31, 2023	May 31, 2022
Accounts receivable	\$ (1,812,576)	\$ (2,272,431)	\$ (1,480,181)	\$ (2,518,124)
Sales tax receivable	331,033	(556,531)	584,607	(635,403)
Lease receivable	32,396	32,396	97,188	92,228
Biological assets	(4,447,883)	(3,140,075)	(12,587,925)	(6,848,034)
Inventory	3,492,407	788,500	4,910,205	1,867,451
Prepaid expenses and other assets	276,537	(41,300)	(143,945)	(344,481)
Deposits	19,122	(164,073)	19,122	(164,073)
Accounts payable and accrued liabilities	1,440,421	2,107,331	3,640,910	2,272,351
Deferred lease revenue	5,916	-	465,709	281,592
Deferred grant income	(9,685)	(9,525)	(29,055)	111,071
Deferred revenue	(17,288)	70,329	15,569	70,329
	\$ (689,600)	\$ (3,195,379)	\$ (4,507,796)	\$ (5,815,093)

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Notes to Condensed Interim Consolidated Financial Statements
For the three and nine-month periods ended May 31, 2023 and 2022
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15. Cash flow information (continued)

Supplemental information in the condensed interim consolidated statement of cash flows:

	<u>Three-month periods ended</u>		<u>Nine-month periods ended</u>	
	<u>May 31,</u>	<u>May 31,</u>	<u>May 31,</u>	<u>May 31,</u>
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Variation of property, plant and equipment Included in accounts payable and accrued liabilities	(43,291)	(1,400,105)	(602,983)	(1,668,658)
Addition to right-of-use assets and lease liabilities	20,000	–	119,945	25,190
Issuance of shares upon conversion of convertible debenture	–	–	4,717,783	–

16. Subsequent events

Stock options grant

Subsequent to quarter-end, the Company granted a total of 210,000 stock options to certain employees at an exercise price of \$1.80 per common share, subject to certain vesting conditions in accordance with the employee share option plan.

NCIB

Subsequent to quarter-end, the Company purchased 98,800 common shares having an average book value of \$96,626 for cash consideration of \$93,771. All shares purchased were cancelled.