



Quebec Grown
Premium Grade Cannabis

MANAGEMENT DISCUSSION & ANALYSIS

For the three and six-month periods
ended February 29, 2024

April 29, 2024

CANNARA BIOTECH INC.

TSXV: **LOVE** OTCQB: **LOVFF** FRA: **8CB0**

This Management Discussion and Analysis (“MD&A”) of Cannara Biotech Inc. (“Cannara” or the “Company”) has been prepared by management as of April 29, 2024, 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 29, 2024 and February 28, 2023. 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, 2023.

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 2024” and “second quarter of 2024” are to Cannara’s fiscal quarter ended February 29, 2024, and “Q2 2024 YTD” to the six-month period ended February 29, 2024. “Q2 2023” and “second quarter of 2023” are to Cannara’s fiscal quarter ended February 28, 2023, and “Q2 2023 YTD” to the six-month period ended February 28, 2023.

Additional information filed by Cannara with the Canadian Securities Administrators, including quarterly reports, annual reports and other material contracts can be found online at www.sedarplus.ca.

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, the ability to adhere to financial and other covenants under lending agreements, 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, NON-GAAP RATIOS AND SEGMENT 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, ratios and segment 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 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.

National Instrument 52-112 respecting Non-GAAP and Other Financial Measures Disclosure (“NI 52-112”) prescribes disclosure requirements that apply to the following types of measures used by the Company:

- i. non-GAAP financial measures;
- ii. non-GAAP ratios;
- iii. total of segments measures.

In this MD&A, the following non-GAAP measures and non-GAAP ratio are used by the Company: adjusted EBITDA, free cash flow, working capital, and adjusted EBITDA as a percentage of net revenue. There are no total of segments measures included in this MD&A.

Management of the Company (“Management”) employs these measures internally to measure operating and financial performance. Management believes that these non-GAAP and other financial measures provide useful information to investors and analysts regarding the Company’s financial condition and results of operations as they provide additional key metrics of its performance. These non-GAAP and other financial measures are not recognized under IFRS, do not have any standardized meaning prescribed under IFRS and may differ from similarly named measures as reported by other issuers, and accordingly may not be comparable. These measures should not be viewed as a substitute for the related financial information prepared in accordance with IFRS.

These measures are defined in, “Glossary of non-GAAP financial measures and ratios” below and reconciliations to IFRS measures can be found in sections “Selected Financial Information” and “Quarterly Financial Position and Results.”

GLOSSARY OF NON-GAAP FINANCIAL MEASURES AND RATIOS

MEASURE	DEFINITION	COMPARABILITY	UTILITY TO MANAGEMENT AND INVESTORS
Adjusted EBITDA	Adjusted EBITDA is defined as net income (loss) before net finance expense, tax, depreciation, amortization, 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. The exclusion of net finance expense eliminates the impact on earnings derived from non-operational activities. The exclusion of depreciation, amortization, 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.	Adjusted EBITDA is a non-GAAP financial measure that has no standardized definitions under IFRS, and, accordingly, these measures may not be comparable to similar measures used by other issuers.	Management 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. 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.

CANNARA BIOTECH INC.

Management Discussion & Analysis

For the three and six-month periods ended February 29, 2024



MEASURE	DEFINITION	COMPARABILITY	UTILITY TO MANAGEMENT AND INVESTORS
Free cash flow	Free cash flow is defined as cash flow from operations less capital expenditures.	Free cash flow is a non-GAAP financial measure that has no standardized definitions under IFRS, and, accordingly, may not be comparable to similar measures used by other issuers.	Management 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 to service debt and to pursue business investments.
Working Capital	Working capital is defined as total current assets minus total current liabilities for the corresponding quarter ended as at that date.	Working capital is a non-GAAP financial measure that has no standardized definitions under IFRS, and, accordingly, may not be comparable to similar measures used by other issuers.	Management believes that working capital is an important liquidity measure and allows investors and analysts to assess the Company's financial position.
Adjusted EBITDA as a percentage of net revenues	<p>Adjusted EBITDA as a percentage of net revenues is defined as adjusted EBITDA divided by net revenues.</p> <p>Adjusted EBITDA is defined as net income (loss) before net finance expense, tax, depreciation, amortization, 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.</p>	Adjusted EBITDA as a percentage of net revenues is a non-GAAP financial ratio that has no standardized definitions under IFRS, and, accordingly, these measures may not be comparable to similar measures used by other issuers.	Management believes that the use of this percentage allows investors and analysts to understand the results of operations of the Company by excluding the effects of elements that are not reflective of underlying business performance and other one-time or non-recurring expenses.

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,” the OTCQB under the symbol “LOVFF” and the Frankfurt Stock Exchange under the symbol “8CB0.” 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 Canadian market. The Company’s main focus is to deliver premium quality “AAAA” products at disruptive retail pricing. Leveraging Quebec’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”).

The second facility (“Valleyfield Facility”) is a 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 totalling 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. 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, thoughtful 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, Alberta, British Columbia, and Saskatchewan retailers and consumers, and additional inquiries for product distribution across the rest of Canada. At the date of this MD&A, Cannara products can be found in 100% of Quebec retail stores, in 92% of Ontario stores, in over 84% of Alberta stores and 83% of British Columbia stores¹.

From 2021 to 2022, the Company launched operations at the Valleyfield Facility and activated 6 of its 24 growing zones to grow production capacity to meet the Company’s expanding demand. During the year of 2023, the Company expanded its production capacity at the Valleyfield Facility by 50%, activating another 3 new growing zones. The Company has set an objective for fiscal 2024 of activating 1 additional 25,000 square foot growing zone all the while focusing on quality, product innovation and achieving cost savings from economies of scale. The 10th growing zone at Valleyfield was activated in January 2024, bringing its total active cultivation canopy to 250,000 square feet and plants under cultivation to approximately, 100,000 with an additional 11,000 plants under cultivation at the Farnham Facility. Together, both facilities are currently capable of generating approximately 33,500 kg of cannabis per year, a 50% increase in production capacity over the prior year. Cannara has only completed 42% of its current Valleyfield Facility expansion plans and is focused on continuing to activate more growing zones in line with growing demand for its products. In Q2 2024, the Company generated \$19.7 million of net revenue, a gross profit before fair value adjustments of \$7.1 million or 36% of net revenues, an adjusted EBITDA of \$3.5 million or 18% of net revenues², a net loss of \$3.4 million, free cash flow of \$1.2 million³ and a loss per share of \$0.04 for the quarter.

¹ Trellis Distribution Insights, March 2024

² Adjusted EBITDA and adjusted EBITDA as a percentage of net revenues are a non-GAAP measure and ratio, respectively. A reconciliation of adjusted EBITDA from net income (loss) is included in the section “Selected Financial Information” of this MD&A.

³ Free cash flow is a non-GAAP measure. A reconciliation from operating cash flow is included in the section “Selected Financial Information” of this MD&A.

CANNARA BIOTECH INC.

Management Discussion & Analysis

For the three and six-month periods ended February 29, 2024



COMPANY PROFILE (continued)

The Company has designed several lines of branded apparel and accessories available for sale on its online website <https://cannaraswag.shop> (Quebec excluded due to provincial restrictions).

As of February 29, 2024, Cannara's distribution network services 5 provinces, Quebec, Ontario, Saskatchewan, Alberta, and British Columbia, with Quebec and Ontario being its current major markets. The Company estimated its Quebec market share to be approximately 9.0% for the second quarter of 2024, from 8.7% in the prior quarter (3rd largest Licensed Producer ("LP") in Quebec by market share)⁴. For Ontario, the Company's estimated overall market share to be approximately 2.88% for the second quarter of 2024, from 3.15% in the first quarter of 2024. In the vape and concentrate category, the Company realized a 7.9% and 9.6% market share in those respective categories for the period. The Company once again exemplified its ability to achieve significant market penetration in a short timeframe in Alberta, where the Company grew market share by 40.6% (2.30% to 3.23%) from Q1 2024 to Q2 2024, having only entered the market in May 2023. In British Columbia, the Company increased its market share by 18.58% to 1.00% for the second quarter of 2024, from 0.84% in Q1 2024.⁵

Subsequent to quarter-end, the Company's estimated market share for the month of March rose to 9.77% in Quebec (3rd in rank amongst LPs), 3.28% in Alberta (9th in LP rank), fell to 0.89% in British Columbia (26th in LP rank). In Ontario, the Company estimated its market share for the month of March at 2.98% in Ontario (9th in LP rank)⁶.

Additional information about Cannara may be found at www.cannara.ca.

Investor information may be found at www.investors.cannara.ca.

CANNARA'S FACILITIES

FACILITY	SIZE	CAPACITY	TYPE	ELECTRICITY	FACILITY HIGHLIGHTS
FARNHAM, QUÉBEC	Licensed area: 170,000 sf Site: 625,000 sf Land: 1,430,000 sf	Active Grow Area: 28,000 sf 3,500 kg current capacity Active Cloning and Mother Area: 23,000 sf	Indoor	Power rate of approx. \$0.065/kw	<ul style="list-style-type: none">• 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, QUÉBEC	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: 250,000 sf (10 zones) 30,000 kg Current capacity 96,500 kg Full capacity	Indoor	Preferential contracted power rate of approx. \$0.035/kw	<ul style="list-style-type: none">• Purpose-built in 2020• Onsite Hydro Quebec substation• Fully outfitted and automated• 24 independent grow rooms• Blackout & shading systems• 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 and ST Analytics, for the period of September to November 2023 and December 2023 to February 2024.

⁵ Based on estimated sales data provided by Headset, for the period of September to November 2023 and December 2023 to February 2024.

⁶ Based on estimated sales data provided by Headset, for the month of March 2024.

CANNARA BIOTECH INC.




Management Discussion & Analysis

For the three and six-month periods ended February 29, 2024



CANNARA'S 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 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 Alberta British Columbia
	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 Milled Flower (Grind) Pre-Rolls Infused Pre-Rolls Old School Hash Ice Water Hash Fresh Frozen Hash Rosin Edibles Vape Cartridges Accessories	Quebec Ontario Saskatchewan Alberta British Columbia
	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 Live Resin Vape Cartridges	Quebec Ontario Saskatchewan Alberta British Columbia

CANNARA'S GENETIC PORTFOLIO

In partnership with Exotic Genetix, Cannara has access to an extensive bank of genetics which includes exclusive strains only available from the Company in the Canadian market. See "Cannara's Competitive Advantage – Innovation in Genetics." By undergoing a rigorous pheno-hunting selection process, Cannara can further broaden the product mix for each one of its brands by providing consumers with unique, dedicated cannabis experiences from carefully selected cultivars for years to come. Our lineup of unique genetics currently available in the retail market include:

CANNARA'S GENETIC PORTFOLIO (continued)

GENETIC	BRAND	LAUNCH DATE	THC – CBD	TYPE	AROMAS & FLAVOURS
GELATO MINT Pheno #5	Tribal	Feb 2021	THC ≈ 22% 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 ≈ 28% 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 ≈ 22% 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 ≈ 28% 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.
GALACTIC RNTZ Pheno #30	Tribal	Nov 2022	THC ≈ 26% CBD ≈ 1%	Indica	Galactic Rntz's complex aroma and flavour provides a strong gas flavour with fruity, sour undertones.
JIGGLERS Pheno #22	Tribal	Oct 2023	THC ≈ 22% CBD ≈ 1%	Indica	Jigglers offers flavours and aromas of strawberries & cream.
DRIP STATION Pheno #15	Tribal	Oct 2023	THC ≈ 25% CBD ≈ 1%	Indica	Drip Station presents gasoline scents blended with dewy earth and black licorice flavours.
NEON SUNSHINE Pheno # 78	Tribal	Apr 2024	THC ≈ 29%	Hybrid	Neon Sunshine leans heavy into citrus flavours and aromas, with a touch of octane to round out the experience.
BUBBLE UP Pheno # 169	Tribal	Apr 2024	THC ≈ 28%	Indica	Bubble Up provides a rare and sought-after champagne-like effervescent sensation with a spicy fresh aroma.
GUAVA JAM Pheno # 18	Nugz	May 2024	THC ≈ 29%	Indica	Guava Jam offers a sweet and creamy flavour with a diesel exhale.
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 #50	Nugz	May 2022	THC ≈ 24% 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	Canada's #1 CBD Flower in sales for 2023 ⁷ , 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.

⁷ Based on estimated sales data provided by Headset, for the year 2023.

CANNARA'S COMPETITIVE ADVANTAGE

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, Alberta, 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 competitive advantage include:

Quality, attention to detail and transparency

Cannara delivers award winning cannabis flower, sticking true to craft like procedures including hang drying and hand trimming cannabis even as it scales its production capacity significantly. Attention to detail in all product line packaging, 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 without compromising quality. With significant cost advantages due to Quebec's low cost of electricity, utilities and labor, favorable acquisition cost of its Facilities in addition to being fully vertically integrated achieving economies of scale, Cannara expects to continue its value-based pricing approach while building a sustainable and profitable business.

Innovation in products

Cannara continues to innovate building its product portfolio across several categories including pre-rolls, infused pre-rolls, milled flower and vapes, launching a total of 74 SKUs in markets across Canada in fiscal 2023, increasing its in-market SKU count from 23 to 97, representing an increase of over 322%. During the second quarter of 2024, Cannara launched several new products across Canada which include its CBD Rntz Live Resin Vape, Nugz 1g Infused Kingpin Wraps (Indica & Sativa), and additional Tribal 28 g SKUs.

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 providing knowledge and insights into cannabis genetics, plant growing methodologies and marketing services.

CANNARA'S COMPETITIVE ADVANTAGE (continued)

Community responsiveness

Cannara has taken an active strategy to be very responsive with the community of consumers and retailers to receive timely feedback to continuously improve its products. The Company launched its Discord community channel, <https://discord.gg/cannara>, which will be utilized to further interactions with consumers and retailers.

Thought leadership

Cannara's approach to the cannabis market has been driven by its pursuit for customer satisfaction and a commitment to delivering value to a broad consumer base market, 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 2023, Cannara was awarded four awards at the fourth annual KIND Awards, Canada's largest consumer-facing awards chosen by budtenders for:

- Brand of the Year: Tribal;
- Vape of the Year: Tribal's Cuban Linx Live Resin Vape Cart;
- Concentrate of the Year: Tribal's Cuban Linx Full Spectrum Extract;
- Kindest Person of the Year: Nicholas Sosiak, CPA, CA - Chief Financial Officer;

In addition, a member of its executive leadership team was nominated as one of the Top 50 Cannabis Leaders in Canada by Grow Up Conference Canada (Nicholas Sosiak, CPA, CA - Chief Financial Officer).

MAIN MARKET INSIGHTS

As a result of Cannara's facilities, brand and genetic portfolio, and its competitive advantages, market response has solidified the Company's presence in Canada's four largest markets. The Farnham and Valleyfield Facility can produce 100,000 kg of cannabis per year once at full capacity, allowing the Company to increase its supply of quality cannabis products in lockstep with growing in-market demand and entrance into new markets.

MAIN MARKET INSIGHTS (continued)

**Estimated Cannara Market Share
Q2 2024 and Q1 2024**

Province	Q2 2024	Q1 2024	% Change
QC	9.00%	8.70%	0.30%
ON	2.88%	3.15%	-8.62%
AB	3.23%	2.30%	40.65%
BC	1.00%	0.84%	18.58%

**Estimated Cannara Market Share
March 2024**

Province	March 2024	% Change from Q2 2024
QC	9.77%	0.77%
ON	2.98%	3.49%
AB	3.28%	1.26%
BC	0.89%	-12.01%

QUEBEC

The provincial distributor of Quebec, SQDC, generated estimated revenues of approximately \$195 million for the three-month period ending February 29, 2024⁸. The Company estimated its market share during this period to be approximately 9.00% in Quebec (3rd largest licensed producer in Quebec by market share), representing a 0.3% increase from prior quarter. Subsequent to quarter-end, in March, Cannara's market share increased to 9.77%⁹.

The SQDC retail footprint has expanded from 28 stores in fiscal year 2020 to 98 current locations as of the date of this MD&A and has significant room for growth as Quebec has approximately one store per 100,000 people, as compared to Ontario and British Columbia that have approximately one store per 10,000. 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 experience¹⁰.

ONTARIO

The Ontario market is leading recreational cannabis sales nationally. According to Headset Data, from December 2023 to February 2024, Ontario retail stores sold approximately \$453.0 million in cannabis products¹¹. The Company estimated that it had a 2.88% market share in Ontario in Q2 2024, marking the Company as the 9th largest licensed producer selling into the OCS. Although a slight decrease in market share from prior quarter, subsequent to quarter-end, the Company regained positive momentum, increasing market share slightly to 2.98% in March 2024 as a result of refocusing marketing initiatives in Ontario and new SKU load-ins¹². The Company listed 15 SKUs in the Ontario market in Q2 2024, and an additional 18 new SKUs were accepted by the OCS to be launched in Q3 of 2024. Cannara products can be found in over 1,500 retail stores across Ontario, representing over 92% of stores in Ontario¹³.

⁸ Based on estimated sales data provided by Weed Crawler and ST Analytics, for the period of December 2023 to February 2024.

⁹ Based on estimated sales data provided by Weed Crawler and ST Analytics, for the period of March 2024.

¹⁰ SQDC, Annual Report 2022.

¹¹ Based on Headset Data for the period of December 2023 to February 2024.

¹² Based on Headset Data for the periods of December 2023 to February 2024 and March 2024.

¹³ Trellis Distribution Insights, March 2024.

MAIN MARKET INSIGHTS (continued)**ALBERTA**

Alberta is Canada's second-largest cannabis market and has been a market that Cannara has been focused on growing in since May of 2023. According to Headset Data, from December 2023 to February 2024, Alberta retail stores sold approximately \$214.7 million in cannabis. From December 2023 to February 2024, the Company increased its market share from 2.30% to 3.23% an increase of 40.65%. The Company's performance in Alberta can largely be attributed to Cannara's strong product portfolio and positive initial customer feedback, resulting in the province listing a total of 45 in-market SKUs as at February 29, 2024. Cannara's market share increased to 3.28% in March 2024, a 1.3% increase from Q2 2024, and holds over 5.0% market share in both vape and concentrate categories¹⁴. 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.

BRITISH COLUMBIA

British Columbia represents Canada's fourth-largest cannabis marketplace, generating \$169.3 million in revenue from December 2023 to February 2024. Cannara entered the British Columbia market in September 2022 with a significant cost advantage compared to producers in other parts of the country as Quebec offers some of the lowest electricity rates and competitive labour rates across Canada; the two largest cost inputs in cannabis cultivation. The Company estimates that it had a 1.00% market share in British Columbia for Q2 2024. Subsequent to quarter-end, as of March 2024, the Company fell in market share by 12.0% to 0.89%¹⁵, but is expected to increase with its 8 SKU listings launching in April 2024 and added marketing initiatives.

LOOKING AHEAD

Cannara is constantly monitoring growth opportunities that support its commitment to continue to report increased positive financial results. The Company allocated resources to existing and new activities over the course of the 2024 fiscal year which include:

FY 2024 Activities

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

Respond to Market Demand

Since the beginning of the Company's retail launch, reaction from consumers have been very positive, requiring the Company to expand its production capacity in order to satisfy demand. During fiscal year 2023, the Company activated 3 additional growing zones of 25,000 square feet at its Valleyfield Facility. The Company had set an objective for fiscal 2024 to have a total of 10 growing zones activated, while focusing on quality, product innovation and achieving cost savings from economies of scale. The 10th growing zone was activated in January 2024, reaching a total of 250,000 square feet of active canopy, or approximately 100,000 plants under cultivation. The Valleyfield Facility has a total of 24 growing zones built out, providing Cannara the ability to organically increase production capacity in lockstep with increasing demand.

New Genetic Releases

The Company is constantly researching new genetics to add to its portfolio. Unique and exclusive genetic cultivars of cannabis continue to resonate with Canadian consumers and serve to set licensed producers apart from one another. New genetic

¹⁴ Based on Headset Data for the periods of December 2023 to February 2024 and March 2024.

¹⁵ Based on Headset Data for the periods of December 2023 to February 2024 and March 2024.

CANNARA BIOTECH INC.

Management Discussion & Analysis

For the three and six-month periods ended February 29, 2024



LOOKING AHEAD (continued)

releases are a result of the Company's 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.

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. As a testament to the quality of its cannabis genetic library, Exotic Genetix strains makes up seven of the eleven genetics grown by Cannara, including Gelato Mint, Power Sherb, Galactic Runtz, Jigglers, Drip Station, CBD Runtz and Slapz, each of which have received overwhelmingly positive consumer feedback. Most recent additions to the Exotic Genetix lineup include Neon Sunshine and Bubble Up.

Increasing Market Penetration in Current Markets and Expanding into New Provinces

During the quarter, the Company focused on increasing its market share in Quebec, Ontario and has been aggressively building its new market in Alberta. The Company began selling into Alberta in May 2023 with 3 live resin vape cartridges and has since increased its portfolio to 45 SKUs in market as of February 2024, carving out a market share of 3.28% for the month of March 2024¹⁶.

Continued Positive Adjusted EBITDA

Cannara's objective is to report positive quarterly Adjusted EBITDA throughout FY2024 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 facilities benefiting from Quebec's low electricity cost and competitive labour rates. Additionally, with the Company's focus of being fully vertically integrated with its in-house pre-roll manufacturing centre, a solventless hash lab and a butane hash oil ("BHO") extraction lab, Cannara has access to a significant competitive advantage by allowing the Company to fully integrate the use of all cannabis raw inputs. During Q2 2024, the Company generated Adjusted EBITDA¹⁷ of \$3.5 million compared to \$3.2 million in the same period of prior year, an 8.7% increase.

2024 QUARTER-TO-DATE AND SUBSEQUENT EVENT HIGHLIGHTS

OPERATIONAL

December 2023 – February 2024 – Continued Expansion in Quebec, Ontario, British Columbia and Alberta with Additional SKU Listings

In line with the Company's core objective on product innovation, Cannara increased its total in market SKU count from 97 as at August 31, 2023, to 132 at the date of this MD&A. The resulting SKU increase signifies the confidence in Cannara's product portfolio from the Company's provincial clients.

January 2024 – Activated 10th Growing Zone at Valleyfield Facility

In January 2024, Cannara activated a tenth growing zone at its Valleyfield Facility. As of the date of this MD&A, a total of 250,000 square feet of cultivation area are actively operating at the Valleyfield Facility, capable of producing in conjunction with its Farnham Facility, approximately 33,500 kg of cannabis per year.

January 2024 – Sale of Parcel of Land and Building in Construction at Valleyfield Site

In January 2024, the Company's Board of Directors decided to pursue the sale of a currently unused parcel of land, in addition to an adjacent building under construction at its Valleyfield site, which had previously been intended to be leased out. The assets are being actively marketed, and an offer to purchase was signed for the land parcel on April 24, 2024.

¹⁶ Based on estimated sales data provided by Headset, for the month of March 2024.

¹⁷ Adjusted EBITDA is a non-GAAP measure. A reconciliation from net income (loss) is included in the section "Selected Financial Information" of this MD&A.

2024 QUARTER-TO-DATE AND SUBSEQUENT EVENT HIGHLIGHTS (continued)

February 2024 – Successful Completion of 2023 Pheno-hunt Unlocking 3 New Genetics for Cannara’s House of Brands

In February, Cannara completed its pheno-hunt program, unlocking 3 new high-powered genetics for its house of brands. The Company is planning to launch 2 under Tribal (Neon Sunshine and Bubble Up) and 1 under Nugz (Guava Jam) in Q3 2024. Cannara is now focused on its FY 2025 pheno-hunt program that will aim to unlock more exotic genetics.

March 2024 – Approval to List Cannara Branded Products In Manitoba

In March 2024, the Company secured authorization from the Manitoba Liquor & Lotteries Corporation (MBLL) to introduce its branded cannabis products within the province of Manitoba. This approval marks a significant milestone in Cannara’s expansion efforts, allowing the Company to extend its market reach in Canada. The Company is currently in the process of finalizing its product selection and supply chain logistics to ensure a successful launch in Manitoba, scheduled for Q3 of 2024. This development not only diversifies Cannara’s geographical footprint but also underscores our commitment to enhancing product accessibility for its customers.

April 2024 – Cannara enters East-Coast Recreational Market With 4/20- Themed Offer with Nova Scotia Liquor Corporation

Cannara successfully launched its consumer favourite Tribal Cuban Linx pre-rolls with the Nova Scotia Liquor Corporation (NSLC) for a 4/20-themed holiday limited time offer with the potential to expand market offerings Q3 and Q4 of fiscal year 2024.

April 2024 – Cannara Sees Bright Future Cannabis Industry Worldwide with Legislative Changes in Germany and Israel

Cannara applauds Germany’s recent legislation change, legalizing cannabis for adult use as of April 1, 2024, marking a noteworthy shift within the European market. Simultaneously, the Israeli Ministry of Health’s announcement on August 7, 2023, about the phased implementation of its medical cannabis reform as of April 1, 2024, despite a three-month delay due to the Israel-Hamas conflict, represents another pivotal moment for the industry.

Together, these developments in Germany and Israel illustrate the dynamic nature of the global cannabis landscape. Although the main focus of revenues for the Company remains its Canadian client base, Germany and Israel’s announced cannabis legalization strategy further validates the potential for increased demand in legal cannabis markets and aligns with Cannara’s proven capability to navigate and execute international cannabis sales.

2024 QUARTER-TO-DATE AND SUBSEQUENT EVENT HIGHLIGHTS (continued)

**December 2023 – February 2024
Cannara QC, ON, BC & AB Product Launches**

Brand	Product Name	Product Type	Format	Listing Province
NUGZ	DRIP 'N JIGGLE GRIND	Milled Flower	7 g	AB
NUGZ	EARLY LEMON BERRY	Whole Flower	7 g	AB
NUGZ	GALACTIC BURGER GRIND	Milled Flower	7 g	ON
NUGZ	JOINTS HYBRID	Preroll (multi pack)	7.2 g	ON
NUGZ	EARLY LEMON BERRY FRESH FROZEN HASH ROSIN	Fresh Frozen Hash Rosin	1g	AB
NUGZ	KINGPIN SATIVA INFUSED WRAP	Infused Wrap	1g	ON
NUGZ	SLERPLE FULL SPECTRUM VAPE CART	Full Spectrum Vape	1g	ON
NUGZ	WRAP HYBRID	Preroll (single pack)	1g	ON
NUGZ	WRAP SATIVA	Preroll (single pack)	1g	ON
NUGZ	GALACTIC BURGER REEFERS	Preroll (multi pack)	3 g	ON
NUGZ	GALACTIC BURGER INFUSED PREROLL	Infused Prerolls	1.8g	AB
NUGZ	SLERPLE INFUSED PREROLLS	Infused Prerolls	1.8g	AB
NUGZ	SLERPLE INFUSED PREROLLS	Infused Prerolls	1.8g	ON
NUGZ	GUAVA JAM ROSINAUT HASH ROSIN GUMMY	Edible	1ea	AB
NUGZ	SLAPZ FRESH FROZEN HASH ROSIN	Solventless Extract	1g	AB
ORCHID CBD	CBD 2500 SWEET STRAWBERRIES	Oils	50mL	ON
ORCHID CBD	CBD RNTZ	Whole Flower	28 g	ON
ORCHID CBD	THC CBD 30:15 SWEET STRAWBERRIES	Oils	20 mL	ON
ORCHID CBD	CBD RNTZ LIVE RESIN VAPE	Live Resin Vape Cart	1g	ON
TRIBAL	DRIP STATION	Whole Flower	3.5 g	AB
TRIBAL	JIGGLERS	Whole Flower	3.5 g	AB
TRIBAL	GALACTIC RNTZ	Whole Flower	28 g	ON
TRIBAL	POWER SHERB	Whole Flower	28 g	ON
TRIBAL	TERPLE	Whole Flower	28 g	ON
TRIBAL	DRIP STATION 510 THREAD VAPE CART	Live Resin Vape Cart	1g	AB
TRIBAL	G MINT LIVE RESIN FSE	Live Resin Full Spectrum Extract	1g	AB
TRIBAL	JIGGLERS LIVE RESIN FSE	Live Resin Full Spectrum Extract	1g	AB
TRIBAL	JIGGLERS LIVE RESIN VAPE CART	Live Resin Vape Cart	1g	AB
TRIBAL	JIGGLERS LIVE RESIN FSE	Live Resin Full Spectrum Extract	1g	ON
TRIBAL	JIGGLERS LIVE RESIN VAPE CART	Live Resin Vape Cart	1g	ON
TRIBAL	G MINT 510 VAPE BATTERY	Batteries	1ea	ON

2024 QUARTER-TO-DATE AND SUBSEQUENT EVENT HIGHLIGHTS (continued)**FINANCING**

The Company has access to a revolving credit facility for working capital purposes. During the second quarter of 2024, the Company drew \$1 million to support its growing working capital needs. Each tranche drawn on the revolving credit facility has either a 30-day term or a 60-day term depending on management's decision and can be renewed by the Company at the end of the period. Subsequent to quarter-end, the Company extended all tranches of the revolving credit facilities that came to expiry for a 30-day period and drew an additional \$1,200,000 on the revolving credit facilities. As at February 29, 2024, the Company was in breach of one of its financial covenants resulting in the term loan being classified as a current liability. Subsequent to quarter end, the Company obtained a waiver related to the breach of the financial covenant and amended its facility to remove the minimum EBITDA requirement on a going forward basis.

On January 30, 2024, the Company modified the maturity of the convertible debenture from January 31, 2025, to September 30, 2025, with interest increasing to 10.75% effective January 31, 2025. Interest is payable at term or at conversion if it occurs. The holder has the right to demand payment up to \$1,000,000 in principal on January 31, 2025.

Subsequent to quarter-end, a related party advanced \$1,000,000 for payment of a liability related to the assets held for sale. The Company expects to reimburse the advance in the third quarter of 2023.

CAPITAL TRANSACTIONS

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. 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 first quarter of 2024, the Company purchased 281,900 common shares having a book value of \$275,698 for cash consideration of \$272,827. All shares purchased were cancelled.

During the second quarter of 2024, the Company purchased 5,000 common shares having a book value of \$4,890 for cash consideration of \$4,312. All shares purchased were cancelled.

During the second quarter of 2024, the Company granted a total of 625,000 stock options at an exercise price of \$1.20, 99,000 stock options at an exercise price of \$1.80 and 715,000 RSUs to employees and board members, which are subject to certain vesting conditions in accordance with the Company's employee share option and RSU plan. During the second quarter of 2024, the Company also extended the term of 2,435,000 stock options exercisable at \$1.80 per share and 750,000 stock options exercisable at \$1.00 per share by 2 years.

Subsequent to quarter-end, the Company granted 25,000 stock options at an exercise price of \$1.80 to employees subject to certain vesting conditions in accordance with the Company's employee share option plan.

CANNARA BIOTECH INC.

Management Discussion & Analysis

For the three and six-month periods ended February 29, 2024


SELECTED FINANCIAL INFORMATION

Selected Financial Highlights	Three-month periods ended		Six-month periods ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Financial Summary				
Gross revenue ¹	\$ 19,661,375	\$ 12,847,904	\$ 39,087,903	\$ 23,089,318
Other income	21,828	187,852	78,594	258,043
Total revenues	19,683,203	13,035,756	39,166,497	23,347,361
Gross profit, before fair value adjustments	7,141,276	4,030,629	15,076,993	8,054,027
Gross profit	4,140,498	4,261,722	12,375,854	9,094,317
Operating expenses	6,100,045	3,630,387	10,896,755	7,320,107
Operating income (loss)	(1,959,547)	631,335	1,479,099	1,774,210
Net finance expense	1,487,073	1,249,390	2,818,440	2,389,314
Net loss	(3,446,620)	(618,055)	(1,339,341)	(615,104)
Adjusted EBITDA ²	3,500,320	3,220,890	8,671,132	4,937,723
Percentages of Total revenues				
Gross profit, before fair value adjustments as a percentage of Total revenues	36%	31%	38%	34%
Gross profit as a percentage of Total revenues	21%	33%	32%	39%
Operating income (loss) as a percentage of Total revenues	-10%	5%	4%	8%
Net loss as a percentage of Total revenues	-18%	-5%	-3%	-3%
Adjusted EBITDA as a percentage of Total revenues ³	18%	25%	22%	21%
Earnings per share				
Basic loss per share	\$ (0.04)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Diluted loss per share	\$ (0.04)	\$ (0.01)	\$ (0.01)	\$ (0.01)

Selected Financial Highlights (cont'd)	February 29, 2024	August 31, 2023
Cash	\$ 3,130,629	\$ 4,270,517
Accounts receivable	11,466,454	10,592,705
Biological assets	5,444,155	5,774,121
Inventory	31,258,939	27,997,589
Working capital ⁴	(1,865,366)	30,513,009
Total assets	145,824,662	141,522,254
Total current liabilities	60,090,241	21,182,827
Total non-current liabilities	6,394,151	40,595,383
Net assets	79,340,270	79,744,044
Free cash flow ⁵	1,215,590	1,053,769

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

² Adjusted EBITDA is a non-GAAP financial measure.

³ Adjusted EBITDA as a percentage of total revenues is a non-GAAP financial ratio. For more details see the Non-GAAP financial measures and ratios section of this MD&A.

⁴ Working capital is a non-GAAP financial measure. Negative working capital results from classifying the Company's term loan as a current liability due to a covenant breach. Subsequent to quarter end, the Company obtained a waiver related to the breach of the financial covenant and amended its facility to remove the minimum EBITDA requirement on a going forward basis. For more details see the Non-GAAP financial measures and ratios section of this MD&A.

⁵ Free cash flow is a non-GAAP financial measure. For more details see the Non-GAAP financial measures and ratios section of this MD&A.

SELECTED FINANCIAL INFORMATION (continued)

Reconciliation of adjusted EBITDA

Adjusted EBITDA is a non-GAAP Measure and can be reconciled with net income (loss), the most directly comparable IFRS financial measure, as detailed below.

Adjusted EBITDA as a percentage of total revenues is a non-GAAP financial ratio, determined as adjusted EBITDA divided by total revenues.

Reconciliation of adjusted EBITDA	Three-month periods ended		Six-month periods ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Net loss	\$ (3,446,620)	\$ (618,055)	\$ (1,339,341)	\$ (615,104)
Adjustments:				
Changes in fair value of inventory sold	5,799,042	3,948,425	12,023,708	5,947,752
Unrealized gain on changes in fair value of biological assets	(2,798,264)	(4,179,518)	(9,322,569)	(6,988,042)
Amortization, including amortization of cost of good sold	1,327,162	972,614	2,349,439	1,730,881
Write-down of inventory to net realizable value	199,792	1,375,360	923,369	1,411,709
Loss on disposal of property, plant and equipment	-	37,267	5,380	63,247
Share-based compensation	932,135	435,407	1,212,706	997,966
Net finance expense	1,487,073	1,249,390	2,818,440	2,389,314
Adjusted EBITDA*	3,500,320	3,220,890	8,671,132	4,937,723
Adjusted EBITDA as a percentage of Total revenues**	18%	25%	22%	21%

*Non-GAAP financial measure

**Non-GAAP financial ratio

Reconciliation of free cash flow

Free cash flow is a non-GAAP measure and can be reconciled with Cash from operating activities, the most directly comparable IFRS financial measure, as detailed below.

Reconciliation of free cash flow	Three-month periods ended		Six-month periods ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Cash from (used) in operating activities	\$ 2,334,989	\$ 376,962	\$ 2,689,206	\$ 61,874
Adjustment:				
Capital expenditures	1,119,398	1,695,408	3,893,016	5,521,376
Free cash flow*	\$ 1,215,591	\$ (1,318,446)	\$ (1,203,810)	\$ (5,459,502)

*Non-GAAP financial measure

SELECTED FINANCIAL INFORMATION (continued)**Q2 2024 vs Q2 2023 Highlights**

- Gross cannabis revenues before excise taxes increased to \$26.3 million in Q2 2024 from \$15.9 million in Q2 2023, a \$10.4 million or 65.4% increase. The increase is attributable to increase in market share across Canada, as a result of continued growing demand for its products and launch of new SKUs.
- Total revenues, net of excise taxes, increased to \$19.7 million in Q2 2024 from \$13.0 million in Q2 2023, a \$6.7 million or 51.0% increase.
- Gross profit, before fair value adjustments, increased to \$7.1 million in Q2 2024 from \$4.0 million in Q2 2023, a 77.2% increase.
- Gross profit percentage before fair value adjustments in Q2 2024 was 36.3% compared to 30.9% in Q2 2023.
- Operating loss of \$2.0 million in Q2 2024 compared to an operating income of \$631,335 in Q2 2023, mainly due to the net impact of the change in fair value of inventory sold and unrealized gain on change in fair value of biological assets.
- Net loss was of \$3.4 million in Q2 2024 compared to \$618,055 in Q2 2023.
- Adjusted EBITDA increased by 8.7%, from \$3.2 million in Q2 2023 to \$3.5 million in Q2 2024.
- The Company generated positive operating cash flow amounting to \$2.3 million in Q2 2024 compared to \$376,962 in Q2 2023.
- Free cash flow for Q2 2024 increased to \$1.2 million from \$(1.3) million in Q2 2023.
- Generated a loss per share of \$0.04 in Q2 2024 compared to \$0.01 in Q2 2023.

Quarter over Quarter (“QoQ”) Highlights – Q2 2024 vs Q1 2024

- Gross cannabis revenues before excise taxes remained stable at \$26.3 million in Q1 2024 compared to \$26.3 million in Q2 2024.
- Total revenues, net of excise taxes, increased by 1.2% QoQ, from \$19.5 million in Q1 2024 to \$19.7 million in Q2 2024.
- Gross profit, before fair value adjustments, fell by 11.0% QoQ, from \$7.9 million to \$7.1 million in Q2 2024.
- Gross profit percentage before fair value adjustments fell from 38% in Q1 2024 to 36.3% in Q2 2024. The resulting decrease in gross profit percentage before fair value adjustments results from the variation of the products mix sold.
- Operating loss of \$2.0 million in Q2 2024 compared to an operating income of \$3.4 million in Q1 2024, a \$5.4 million decrease resulting primarily from larger gain from fair value adjustments in Q1 2024.
- Net loss of \$3.4 million in Q2 2024 compared to a net income of \$2.1 million in Q1 2024, as a result of the items mentioned above.
- Adjusted EBITDA of \$3.5 million in Q2 2024, compared to \$5.2 million in Q1 2024.
- Cash flow from operating activities increased from \$354,217 in Q1 2024 to \$2.3 million in Q2 2024.
- Free cash flow for Q2 2024 was \$1.2 million compared to \$(2.4) million in Q1 2024.

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 and other cannabis services or accessories (“Cannabis operations”) and (2) Real estate operations related to the Farnham Facility (“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, loss on disposal of property, plant and equipment and income tax.

CANNARA BIOTECH INC.

Management Discussion & Analysis

For the three and six-month periods ended February 29, 2024

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Selected Segment Financial Highlights	Three-month period ended February 29, 2024				Three-month period ended February 28, 2023			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Gross revenue	\$ 26,274,164	\$ 914,310	\$ -	\$ 27,188,474	\$ 16,113,110	\$ 896,053	\$ -	\$ 17,009,163
Excise taxes	(7,527,099)	-	-	(7,527,099)	(4,161,259)	-	-	(4,161,259)
Net revenue from sale of goods and services	18,747,065	914,310	-	19,661,375	11,951,851	896,053	-	12,847,904
Other income	21,828	-	-	21,828	187,852	-	-	187,852
Segment net revenue	18,768,893	914,310	-	19,683,203	12,139,703	896,053	-	13,035,756
Gross profit, before fair value adjustments	6,326,648	814,628	-	7,141,276	3,251,970	778,659	-	4,030,629
% ¹	34%	89%	-	36%	27%	87%	-	31%
Gross profit	3,325,870	814,628	-	4,140,498	3,483,063	778,659	-	4,261,722
% ²	18%	89%	-	21%	29%	87%	-	33%
Operating expenses	4,941,310	-	-	4,941,310	2,878,728	-	-	2,878,728
Segment operating income (loss) ³	(1,615,440)	814,628	-	(800,812)	604,335	778,659	-	1,382,994
% ⁴	-9%	89%	-	-4%	5%	87%	-	11%
Net finance expense	-	-	1,487,073	1,487,073	-	-	1,249,390	1,249,390
Other	-	-	1,158,735	1,158,735	-	-	751,659	751,659
Segment net income (loss)	\$ (1,615,440)	\$ 814,628	\$ (2,645,808)	\$ (3,446,620)	\$ 604,335	\$ 778,659	\$ (2,001,049)	\$ (618,055)

¹ Segment gross profit before fair value adjustments % is determined as segment gross profit before fair value adjustments divided by segment net revenue.

² Segment gross profit % is determined as segment gross profit divided by segment net revenue.

³ Segment operating income (loss) is determined as segment operating income (loss) before non-cash and other items which are included in "Other" segment.

⁴ Segment operating income (loss) % is determined as segment operating income (loss) divided by segment net revenue.

CANNARA BIOTECH INC.

Management Discussion & Analysis

For the three and six-month periods ended February 29, 2024

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Selected Segment Financial Highlights	Six-month period February 29, 2024				Six-month period February 28, 2023			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Gross revenue	\$ 52,603,249	\$ 1,823,706	\$ -	\$ 54,426,955	\$ 28,259,920	\$ 1,763,965	\$ -	\$ 30,023,885
Excise taxes	(15,339,052)	-	-	(15,339,052)	(6,934,567)	-	-	(6,934,567)
Net revenue from sale of goods and services	37,264,197	1,823,706	-	39,087,903	21,325,353	1,763,965	-	23,089,318
Other income	78,594	-	-	78,594	258,043	-	-	258,043
Segment net revenue	37,342,791	1,823,706	-	39,166,497	21,583,396	1,763,965	-	23,347,361
Gross profit, before fair value adjustments	13,425,404	1,651,589	-	15,076,993	6,492,037	1,561,990	-	8,054,027
% ¹	36%	91%	-	38%	30%	89%	-	34%
Gross profit	10,724,265	1,651,589	-	12,375,854	7,532,327	1,561,990	-	9,094,317
% ²	29%	91%	-	32%	35%	89%	-	39%
Operating expenses	9,042,877	-	-	9,042,877	5,685,897	-	-	5,685,897
Segment operating income ³	1,681,388	1,651,589	-	3,332,977	1,846,430	1,561,990	-	3,408,420
% ⁴	5%	91%	-	9%	9%	89%	-	15%
Net finance expense	-	-	2,818,440	2,818,440	-	-	2,389,314	2,389,314
Other	-	-	1,853,878	1,853,878	-	-	1,634,210	1,634,210
Segment net income (loss)	1,681,388	1,651,589	(4,672,318)	\$ (1,339,341)	1,846,430	1,561,990	(4,023,524)	(615,104)

¹ Segment gross profit before fair value adjustments % is determined as segment gross profit before fair value adjustments divided by segment net revenue.

² Segment gross profit % is determined as segment gross profit divided by segment net revenue.

³ Segment operating income (loss) is determined as segment operating income (loss) before non-cash and other items which are included in "Other" segment.

⁴ Segment operating income % is determined as segment operating income divided by segment net revenue.

SELECTED SEGMENT RESULTS OF OPERATIONS (continued)**Cannabis operations**

For the three and six-month periods ended February 29, 2024, the segment generated \$18.7 million and \$37.3 million in cannabis-related and cannabis accessories revenues, net of excise taxes, compared to \$11.9 million and \$21.3 million for the same period of the prior year, an increase of \$6.8 million or 57% and \$16.0 million and 75%, for the respective three and six-month periods. Compared to Q1 2024, cannabis-related and cannabis accessories revenues, net of excise taxes, increased by \$0.2 million, a 1.2% QoQ growth. The main source of revenues is from the Canadian retail market, more particularly, Quebec, Ontario, Alberta and British Columbia. The increase in sales is attributable to the increased production at the Company's Valleyfield Facility and increasing demand for its products across the country. Periodically, the Company also utilizes its wholesale distribution network to generate additional revenues.

Highlights of the second quarter of 2024 are as follows:

- Actively producing from a total of 10 growing zones out of the Valleyfield Facility, representing 250,000 square feet of active production canopy, bringing the Company's total production capacity for the full fiscal year of 2024 to approximately 33,500 kg of cannabis per year in conjunction with the Farnham Facility.
- Increased its total product portfolio of cannabis products from 97 SKUS at the end of fiscal 2023, to 132 SKUS as at February 29, 2024; representing an increase of 36%;
- 1,254,000 units were sold during Q2 2024 across 3 flagship brands, which compares to 675,000 sold in Q2 2023;
- Units sold during Q2 2024 represent approximately 3,211 kg in cannabis flower and 3,528 kg of estimated equivalent of cannabis flower used for derivative products. This compares to 2,800 kg of cannabis flower and 780 kg of estimated equivalent of cannabis flower used for derivative products sold in Q2 2023.

For the three and six-month periods ended February 29, 2024, the Company incurred \$12.4 million and \$23.9 million in costs of goods sold, compared to \$8.7 million and \$14.2 million for the same periods of the prior year due to increased labor and operating costs to support increase in revenues. Q2 2024 cost of goods sold increased by \$1.0 million or 8.4% compared to Q1 2024.

The segment generated a gross profit before fair value adjustments of \$6.3 million and \$13.4 million or 34% and 36.0% of segment net revenue, for the three and six-month periods ended February 29, 2024, compared to \$3.3 million and \$6.5 million or 27% and 30.1% of segment net revenue, for the same periods of the prior year. Compared to Q1 2024, gross profit before fair value adjustments decreased by \$0.8 million or 10.0%. Gross profit percentage also decreased from 41% to 36%, due to the variation in the mix of products sold.

Fair value adjustment on sale of inventory includes the fair value of biological assets 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 29, 2024, amounted to \$(5.8) million and \$(12.0) million compared to \$(3.9) million and \$(5.9) million for the same period of the prior year. The increase in the fair value adjustment on sale of inventory is aligned with the increase in sales. The fair value adjustment on sale of inventory in Q2 2024 increased by \$0.4 million or increased by 6.8%.

For the three and six-month periods ended February 29, 2024, the Company recognized an unrealized gain on changes in fair value of biological assets of \$2.8 million and \$9.3 million on the lots in the cultivation cycle that have not yet been harvested compared to \$4.2 million and \$7.0 million for the same periods of the prior year. Compared to Q1 2024, the unrealized gain on changes in fair value of biological assets in Q2 2024 decreased by \$3.7 million. The decrease in fair value of biological assets is the result of the fluctuations in the assumptions used in the fair value model.

The segment generated \$3.3 million or 18% and \$10.7 million or 29% in gross profit for the three and six-month periods ended February 29, 2024, compared to \$3.5 million or 29% and \$7.5 million or 35% for the same periods of the prior year. This change is attributable to the net impact of the changes in fair value of inventory sold and the unrealized gain on biological assets. Compared to Q1 2024, gross profit in Q2 2024 decreased by \$4.1 million as a result of a larger unrealized gain on changes in fair value of biological assets incurred in Q1 2024.

SELECTED SEGMENT RESULTS OF OPERATIONS (continued)**Cannabis operations (continued)**

For the three and six-month periods ended February 29, 2024, the segment incurred \$4.9 million and \$9.0 million in operating expenses compared to \$2.9 million and \$5.7 million for the same period of the prior year resulting in an increase of \$2.1 million or 72%. Compared to Q1 2024, operating expenses in Q2 2024 increased by \$0.8 million. Increase in operating expenses is mainly due to increased marketing and selling expenses and other general operating expenses to support the growth in operations.

Overall, the segment generated operating loss of \$1.6 million and operating income of \$1.7 million for the three and six-month periods ended February 29, 2024, compared to \$0.6 million and \$1.8 million for the same periods of the prior year.

Real estate operations

As part of the Company's capital management strategy, the Company has leased out all unoccupied space in the Farnham Facility. As of February 29, 2024, 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 29, 2024, the Company generated lease revenues of \$0.9 million and \$1.8 million compared to \$0.9 million and \$1.8 million for the same periods of the prior year. To realize these lease revenues during the three and six-month periods ended February 29, 2024, the Company incurred \$0.1 million and \$0.2 million in lease operating costs compared to \$0.2 million and \$0.2 million in the same periods of the prior year. Compared to Q1 2024, the leases revenues remain consistent, and lease operating costs were higher by \$27,000 mainly due to seasonality of certain costs.

For the three and six-month periods ended February 29, 2024, the segment generated operating income of \$1.7 million and \$1.7 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 29, 2024, the segment incurred \$1.5 million and \$2.8 million in net finance expense, compared to \$1.2 million and \$2.4 million for the same periods of the prior year. The increase in net finance expense is mainly explained by the interest incurred on the credit facilities. Compared to Q1 2024, the net finance expense of Q2 2024 increased by \$0.2 million due to the increased interest on the credit facilities with the new tranche drew during the period and the expense of the deferred financing cost incurred in prior year for the additional term loan that is no longer available to be drawn since the building under construction at the Valleyfield Facility is expected to be sold.

SELECTED SEGMENT RESULTS OF OPERATIONS (continued)
Other (continued)

For the three and six-month periods ended February 29, 2024, the segment incurred \$1.9 million and \$2.8 million in other expenses, compared to \$0.8 million and \$1.6 million for the same periods of the prior year. This increase is due to the increased share-based compensation expense due to new stock options and RSUs grant, as well of the extension of certain stock options by 2 years. Compared to Q1 2024, other expenses of Q2 2024 increased by \$0.5 million, attributable to the impact of the extension of certain stock options.

QUARTERLY FINANCIAL POSITION AND RESULTS

The following table sets forth, for the quarter indicated, information relating to the Company's consolidated financial position as well as total 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 and cash from (used) in operating activities and free cash flow for the eight completed fiscal quarters to date:

	February 29, 2024	November 30, 2023	August 31, 2023	May 31, 2023	February 28, 2023	November 30, 2022	August 31, 2022	May 31, 2022
Current assets	\$ 58,224,875	\$ 52,762,707	\$ 51,695,836	\$ 45,657,986	\$ 40,820,665	\$ 38,393,438	\$ 40,988,684	\$ 24,492,459
Non-current assets	87,599,787	92,059,206	89,826,418	89,716,638	88,326,738	87,032,849	84,628,363	82,336,646
Total assets	145,824,662	144,821,913	141,522,254	135,374,624	129,147,403	125,426,287	125,617,047	106,829,105
Current liabilities	60,090,241	22,261,932	21,182,827	18,522,090	15,227,812	11,262,823	11,861,085	11,489,526
Non-current liabilities	6,394,151	40,700,914	40,595,383	41,876,538	42,146,726	46,880,581	47,020,201	31,162,576
Total liabilities	66,484,392	62,962,846	61,778,210	60,398,628	57,374,538	58,143,404	58,881,286	42,652,102
Net assets	\$ 79,340,270	\$ 81,859,067	\$ 79,744,044	\$ 74,975,996	\$ 71,772,865	\$ 67,282,883	\$ 66,735,761	\$ 64,177,003

	February 29, 2024	November 30, 2023	August 31, 2023	May 31, 2023	February 28, 2023	November 30, 2022	August 31, 2022	May 31, 2022
Total revenues	\$ 19,683,203	\$ 19,483,294	\$ 18,278,613	\$ 15,936,828	\$ 13,035,756	\$ 10,311,605	\$ 11,947,112	\$ 10,063,716
Gross profit before fair value adjustments	7,141,276	7,935,717	6,894,634	6,120,878	4,030,629	4,023,398	4,759,816	3,735,420
% ¹	36%	41%	38%	38%	31%	39%	40%	37%
Gross profit	4,140,498	8,235,356	9,844,782	8,594,235	4,261,722	4,832,595	7,103,374	4,748,643
Operating income (loss)	(1,959,547)	3,438,646	5,831,306	4,282,277	631,335	1,142,875	3,762,721	1,534,086
Net income (loss) attributable to Shareholders of the Company	(3,446,620)	2,107,279	4,631,879	2,928,643	(618,055)	2,951	2,553,444	1,428,297
Basic and diluted income (loss) per share	\$ (0.04)	\$ 0.02	\$ 0.05	\$ 0.03	\$ (0.01)	\$ -	\$ 0.01	\$ 0.01
Adjusted EBITDA ²	3,500,320	5,170,812	4,906,640	3,887,634	3,220,890	1,716,833	2,566,590	1,914,175
% ³	18%	27%	27%	24%	25%	17%	21%	19%
Cash provided by (used in) operating activities	2,334,989	354,217	2,834,177	2,533,823	376,962	(315,088)	(3,157,570)	(1,709,746)
Free cash flow ⁴	1,215,591	(2,419,401)	1,053,769	(43,862)	(1,318,446)	(4,141,056)	(8,312,000)	(4,559,171)

¹ 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 a non-GAAP financial ratio and is determined as Adjusted EBITDA divided by Total revenues.

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 less capital expenditures.

CANNARA BIOTECH INC.

Management Discussion & Analysis

For the three and six-month periods ended February 29, 2024

**QUARTERLY FINANCIAL POSITION AND RESULTS (continued)**

	Three-month periods ended							
	February 29, 2024	November 30, 2023	August 31, 2023	May 31, 2023	February 28, 2023	November 30, 2022	August 31, 2022	May 31, 2022
Adjusted EBITDA reconciliation								
Net income (loss)	\$ (3,446,620)	\$ 2,107,279	\$ 4,631,879	\$ 2,928,643	\$ (618,055)	\$ 2,951	\$ 2,553,444	\$ 1,428,297
Adjustments:								
Changes in fair value of inventory sold	5,799,042	6,224,666	4,666,241	4,023,826	3,948,425	1,999,327	2,427,690	2,267,056
Unrealized gain on changes in fair value of biological assets	(2,798,264)	(6,524,305)	(7,616,389)	(6,497,183)	(4,179,518)	(2,808,524)	(4,771,248)	(3,280,279)
Amortization, including amortization in cost of good sold	1,327,162	1,022,277	890,248	1,187,620	972,614	758,267	980,816	1,142,886
Write-down of inventory to net realizable value	199,792	723,577	725,814	474,654	1,375,360	36,349	73,337	94,725
Loss on disposal of property, plant and equipment	-	5,380	69,841	-	37,267	25,980	8,227	8,480
Share-based compensation, including share-based compensation in cost of good sold	932,135	280,571	339,579	416,440	435,407	562,559	85,047	147,221
Net finance expense	1,487,073	1,331,367	1,199,427	1,353,634	1,249,390	1,139,924	1,209,277	105,789
Adjusted EBITDA ¹	\$ 3,500,320	\$ 5,170,812	\$ 4,906,640	\$ 3,887,634	\$ 3,220,890	\$ 1,716,833	\$ 2,566,590	\$ 1,914,175
Free cash flow reconciliation								
Cash provided by (used in) operating activities	\$ 2,334,989	\$ 354,217	\$ 2,834,177	\$ 2,533,823	\$ 376,962	\$ (315,088)	\$ (3,157,570)	\$ (1,709,746)
Adjustment:								
Capital expenditure	1,119,398	2,773,618	1,780,408	2,577,685	1,695,408	3,825,968	5,154,430	2,849,425
Free cash flow ²	\$ 1,215,591	\$ (2,419,401)	\$ 1,053,769	\$ (43,862)	\$ (1,318,446)	\$ (4,141,056)	\$ (8,312,000)	\$ (4,559,171)

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 less capital expenditures.

Factors Affecting the Variability of Quarterly Results

There is growth in total revenues, gross profit before fair value adjustments, Adjusted EBITDA and free cash flow because of the ramp up of the Company's cannabis operations since sales began in February 2021. The Company acquired a second facility, the Valleyfield Facility, in June 2021 and invested significantly in the months that followed to redesign the growing zone and prepare 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 to this day. Other factors affecting the variability of quarterly results are changes in inventory levels and, from time to time, the average net selling price changes or inventory write-down to its realizable net value. The Company is also subject to the changes in the inflation rate that could impact cost of cultivation and packaging materials in addition to the cost of labor.

QUARTERLY FINANCIAL POSITION AND RESULTS (continued)

CASH FLOW ANALYSIS

	Three-month periods ended		Six-month periods ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Cash provided by (used in) operating activities	\$ 2,334,989	\$ 376,962	\$ 2,689,206	\$ 61,874
Cash from (used in) financing activities	(768,485)	(1,409,700)	(21,161)	(2,638,108)
Cash used in investing activities	(1,075,260)	(1,569,024)	(3,807,933)	(5,312,867)

Operating activities

For the second quarter of 2024, the Company generated positive operating cash flow of \$2.3 million, which is explained by the increase in cannabis gross profits resulting from the growth of the operations, and the timing of investing in biological assets and inventory and the collection of receivables from cannabis sales generated. The operations continue to grow to meet the high demand of the Company’s products and to support its market share expansion to other provinces. To avoid any disruption in its supply chain in New Year and to achieve larger bulk price discounts, the Company invested heavily in the prior quarter which resulted in an increase of raw materials inventory.

Financing activities

For the second quarter of 2024, cash used in financing activities was \$0.7 million which was mainly attributable to the payment of the capital and interest on its debt instruments for \$1.7 million, net of proceeds from an additional tranche of \$1.0 million drew on the credit facility.

Investing activities

For the second quarter of 2024, cash used in investing activities was \$1.1 million which was mainly attributable to the investment made on the building in construction at the Valleyfield site. Interest received relating to interest earned on cash balances held at a Canadian financial institution amounted to \$44,000 for the second quarter of 2024. 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, 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 had a negative working capital of \$1.9 million as at February 29, 2024 (August 31, 2023 - \$30.5 million). The negative working capital is due to the reclass of the term loan as a current liability following the breach of a covenant. Subsequent to quarter end, the Company obtained a waiver related to the breach of the financial covenant and amended its facility to remove the minimum EBITDA requirement on a going forward basis. As the covenant waiver was received subsequent to the quarter-end, the loan was classified as a current liability. Excluding this impact, the Company would have increased its working capital compared to the prior year because of increased sales of its cannabis products offset by continued investment into its operations.

As at February 29, 2024, the Company’s working capital was composed of:

- cash on hand of \$3.1 million (August 31, 2023- \$4.3 million); and
- accounts receivable, biological assets, inventory and prepaid expenses and other assets of \$50.1 million (August 31, 2023 - \$47.4 million)
- Assets held for sale of \$5.0 million; less
- accounts payable and accrued liabilities, sales tax payable, deferred revenue, deferred lease revenue and deferred grant income of \$16.3 million (August 31, 2023- \$15.1 million);
- credit facilities, current portion of the convertible debenture, lease liabilities of \$12.6 million (August 31, 2023 - \$8.7 million); and
- term loan of \$36 million (August 31, 2023- \$36.8 million).

LIQUIDITY AND CAPITAL RESOURCES (continued)

The Company may continue to have capital requirements more than its currently available resources. In the event the Company's plans or 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 as at February 29, 2024 along with its forecasted cash flow, undrawn credit facilities and other sources such as proceeds from the disposal of assets held for sale, will be able to fund its planned operating expenses for at least the next twelve months from February 29, 2024.

Reconciliation of working capital

Working capital is a non-IFRS Measure and can be reconciled with total current assets and total current liabilities, the most directly comparable IFRS financial measure, as detailed below.

Reconciliation of working capital	Three-month period ended		Year ended	
	February 29, 2024		August 31, 2023	
Total current assets	\$	58,224,875	\$	51,695,836
Total current liabilities		60,090,241		21,182,827
Working capital*		(1,865,366)		30,513,009

*Non-IFRS financial measure

Financing

Type of loan	Interest Rate	Maturity	Balance as at February 29, 2024	Balance as at August 31, 2023
Revolving credit facility A ⁽¹⁾	8.9%	March 17, 2024	\$ 2,000,000	\$ 2,000,000
Revolving credit facility B ⁽¹⁾	8.8%	May 26, 2024	600,000	600,000
Revolving credit facility C ⁽¹⁾	8.9%	March 7, 2024	400,000	400,000
Revolving credit facility D ⁽¹⁾	8.9%	March 25, 2024	1,500,000	-
Revolving credit facility E ⁽¹⁾	8.8%	April 4, 2024	1,000,000	-
Revolving credit facility F ⁽¹⁾	8.9%	March 11, 2024	1,000,000	-
Term loan ⁽¹⁾	8.8%	May 31, 2025 ⁽²⁾	36,050,642	36,854,235
Convertible debenture A ⁽²⁾	4%	September 30, 2025	6,128,914	5,753,133

¹ The credit facilities term are 30 or 60 days depending on management's decision and can be renewed at the end of the period. The base term of the term loan is 3 years ending May 31, 2025. The credit facilities and the term loan bear a variable interest rate based on prime and/or banker acceptance rates plus an acceptable margin. As at February 29, 2024, the average interest rate was 8.85% on the credit facilities and 8.75% on the term loan. 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 \$4 million for each fiscal quarter. As at February 2024, the Company met all of the imposed covenants except the minimum adjusted EBITDA of \$4 million. Subsequent to quarter end, the Company obtained a waiver related to the breach of the financial covenant and amended its facility to remove the minimum EBITDA requirement on a going forward basis. As the covenant waiver was obtained subsequent to quarter-end, the term loan was reclassified as a short-term liability as at February 29, 2024.

² The \$5,700,000 convertible debenture bears interest at 4% per annum until June 21, 2024, and will increase to 9.25% until January 31, 2025. On January 30, 2024, the Company modified the maturity of the convertible debenture from January 31, 2025, to September 30, 2025, with interest increasing to 10.75% effective January 31, 2025. Interest is payable at term or at conversion if it occurs. The holder has the right to demand payment up to \$1,000,000 in principal on January 31, 2025.

LIQUIDITY AND CAPITAL RESOURCES (continued)

Other contractual obligations

	Carrying amount	Less than one year	One to five years	Thereafter	contractual amount	Total
Accounts payable and accrued liabilities	\$ 15,090,857	\$ 15,090,857	\$ -	\$ -	\$ -	15,090,857
Revolving credit facilities	6,500,000	6,500,000	-	-	-	6,500,000
Lease liabilities ⁽²⁾	770,294	327,038	543,204	-	-	870,242
Convertible debenture	6,128,914	1,000,000	5,342,227	-	-	6,342,227
Term loan ⁽¹⁾	36,050,642	36,370,281	-	-	-	36,370,281

- ¹ The contractual obligations relating to the term loan has been presented based on the contractual repayment term of 3 years. Contractual obligations relating to the term loan has been classified as less than one year as a result of reclassifying the term loan to current liabilities as a result of the covenant breach. Subsequent to quarter end, the Company obtained a waiver related to the breach of the financial covenant and amended its facility to remove the minimum EBITDA requirement on a going forward basis.
- ² The Company is committed to future minimum annual lease, convertible debentures payments and debt payments with respect to a lease for the head office, a car lease and several pieces of production equipment. These figures are undiscounted future payments.

OFF-BALANCE SHEET ARRANGEMENTS

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.

Transaction with a related party

For the three and six-month periods ended February 29, 2024, the Company recognized \$156,000 and \$312,000 as interest expense on the convertible debentures and debt financing guarantee fees compared to \$191,000 and \$395,000 for the same periods of the prior year. The Company also incurred \$58,000 and \$119,000 in rent and other expenses for the three and six-month periods ended three and six-month periods ended February 29, 2024, compared to \$45,000 and \$90,000 for the same periods of the prior year.

TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

As at February 29, 2024, accrued interest of \$642,000 on the \$5.7 million convertible debenture was included in the carrying amount of the convertible debenture (as at August 31, 2023 – accrued interest of \$518,000 on the \$5.7 million was included in the carrying amount of the convertible debentures), and accrued fees on the debt financing guarantee fees amounted to \$156,000 that were included in accounts payable and accrued liabilities (as at August 31, 2023 - \$344,000). The Company also recognized \$616,000 as lease liabilities as at February 29, 2024, regarding a lease arrangement for the head office (August 31, 2023 – nil).

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 and six-month periods of 2024, salaries and benefits incurred for key management personnel amounted to \$210,000 and \$420,000 (2023 - \$210,000 and \$420,000); share-based compensation attributable to key management and directors was \$805,000 and \$1.0 million (2023 - \$418,000 and \$906,000) and director fees were \$25,000 and \$50,000 (2023 - \$17,500 and \$35,000). As at February 29, 2024, the Company owed \$96,000 (August 31, 2023 - \$66,000) to key management personnel and \$20,000 (August 31, 2023 – \$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 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.

As at February 29, 2024, a marginal number of the receivables were past due. The allowance for expected credit loss was minimal as at February 29, 2024. 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 29, 2024, the Company had current assets of \$58.2 million and current liabilities of \$60.1 million, for a negative working capital balance of \$1.9 million as a result of classifying the term loan as a current asset due to a covenant breach. Subsequent to quarter end, the Company obtained a waiver related to the breach of the financial covenant and amended its facility to remove the minimum EBITDA requirement on a going forward basis. The Company expects that its existing cash resources of \$3.1 million as at February 29, 2024, along with its forecasted cashflows, undrawn credit facilities and other sources like proceeds from the disposal of assets held for sale, will be able to fund its planned operating expenses for at least the next twelve months from February 29, 2024.

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. During the second quarter of 2024, the Company focused on diversification of its revenues having generated 86% of its cannabis revenues from three provincial distributors, compared to 90% for revenues earned during fiscal year 2023.

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,

CRITICAL ACCOUNTING ESTIMATES (continued)

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 condensed interim 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, 2023.

SIGNIFICANT ACCOUNTING POLICIES

Our significant accounting policies are set out in note 3 of the audited consolidated financial statements for the year ended August 31, 2023.

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates and judgments made by the Company that in note 3 to the audited consolidated financial statements for the year ended August 31, 2023. Changes since year end are presented below:

Assets held for sale

The Company classifies non-current assets as assets held for sale when they are available for immediate sale in their present condition and the sale is highly probable.

The non-current asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell and is reclassified as current asset.

SUMMARY OF OUTSTANDING SHARE DATA

Summary of Outstanding Share Data as of April 29, 2024:

Authorized:	Unlimited number of voting and participating common shares without par value.
Issued and outstanding:	90,018,952 common shares
	4,563,300 stock options
	1,504,183 RSUs
	3,166,667 contingently issuable common shares upon conversion of convertible debentures

cannara 
TSXV: **LOVE** OTCQB: **LOVFF** FRA: **8CB0**

MADE WITH LOVE