



CANNARA BIOTECH INC.

Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended

February 29, 2024 and February 28, 2023

(Unaudited)

CANNARA BIOTECH INC.

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(Unaudited)

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CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Financial Position
As at February 29, 2024 and August 31, 2023
(Unaudited - in Canadian dollars)

	February 29, 2024	August 31, 2023
Assets		
Current assets		
Cash	\$ 3,130,629	\$ 4,270,517
Accounts receivable	11,466,454	10,592,705
Biological assets (note 4)	5,444,155	5,774,121
Inventory (note 5)	31,258,939	27,997,589
Assets held for sale (note 3)	4,958,557	–
Prepaid expenses and other assets	1,966,141	3,060,904
	58,224,875	51,695,836
Deposits	256,323	256,434
Deferred financing costs (note 8)	–	57,774
Deposits on property, plant and equipment	161,296	75,496
Property, plant and equipment (note 6)	86,456,742	89,259,697
Right-of-use asset (note 7)	725,426	177,017
	\$ 145,824,662	\$ 141,522,254
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 15,090,857	\$ 13,926,096
Sales tax payable	790,810	1,051,026
Deferred lease revenue	356,387	99,108
Deferred revenue	–	23,020
Revolving credit facilities (note 8)	6,500,000	3,000,000
Current portion of convertible debenture (note 8)	1,000,000	1,000,000
Current portion of deferred grant income	38,818	38,739
Current portion of lease liabilities (note 7)	262,727	78,877
Current portion of term loan (note 8)	36,050,642	1,965,961
	60,090,241	21,182,827
Lease liabilities (note 7)	507,567	97,143
Convertible debenture (note 8)	5,128,914	4,753,133
Deferred grant income	757,670	777,158
Deferred lease revenue	–	79,675
Term loan (note 8)	–	34,888,274
	66,484,392	61,778,210
Shareholders' equity		
Share capital	88,523,025	88,803,613
Contributed surplus	11,562,274	10,349,568
Deficit	(20,675,738)	(19,339,846)
Accumulated other comprehensive loss	(69,291)	(69,291)
Total equity	79,340,270	79,744,044
Contingencies (note 14)		
Subsequent events (note 18)		
	\$ 145,824,662	\$ 141,522,254

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statement of Net Loss and Comprehensive Loss
For the three and six-month periods ended February 29, 2024 and February 28, 2023
(Unaudited)

	Three-month periods ended		Six-month periods ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Revenue				
Revenue from sale of goods (note 15)	\$ 26,274,164	\$ 15,850,089	\$ 52,603,249	\$ 27,065,788
Excise taxes	(7,527,099)	(4,161,259)	(15,339,052)	(6,934,567)
Net revenue from sale of goods	18,747,065	11,688,830	37,264,197	20,131,221
Lease revenues (note 15)	914,310	896,053	1,823,706	1,763,965
Services revenues (note 15)	—	263,021	—	1,194,132
Other income	21,828	187,852	78,594	258,043
	19,683,203	13,035,756	39,166,497	23,347,361
Cost of revenues				
Cost of goods sold (note 5)	12,442,245	8,673,215	23,917,387	14,180,105
Cost of services	—	214,518	—	911,254
Lease operating costs	99,682	117,394	172,117	201,975
Gross profit before fair value adjustments	7,141,276	4,030,629	15,076,993	8,054,027
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 (note 4)	2,798,264	4,179,518	9,322,569	6,988,042
Gross profit	4,140,498	4,261,722	12,375,854	9,094,317
Operating expenses				
General and administrative (note 11)	2,609,129	1,838,820	4,972,491	3,688,022
Research and development	319,942	245,734	530,132	462,105
Selling, marketing and promotion	1,658,103	546,366	2,951,137	1,054,419
Professional and legal fees	354,136	247,808	589,117	481,351
Share-based compensation (note 10)	932,135	435,407	1,212,706	997,966
Amortization (notes 6 and 7)	226,600	278,985	635,792	572,997
Loss on disposal of property, plant and equipment (note 6)	—	37,267	5,380	63,247
	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 (note 12)	1,487,073	1,249,390	2,818,440	2,389,314
Net loss	(3,446,620)	(618,055)	(1,339,341)	(615,104)
Other comprehensive loss:				
Foreign currency translation adjustments	—	(16,710)	—	(85,098)
Total comprehensive loss	\$ (3,446,620)	\$ (634,765)	\$ (1,339,341)	\$ (700,202)
Basic loss and diluted loss per share	\$ (0.04)	\$ (0.01)	\$ (0.02)	\$ (0.01)
Weighted average number of common shares	90,019,007	88,345,679	90,119,934	88,045,109

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Changes in Equity
For the six-month period ended February 29, 2024 and February 28, 2023
(Unaudited - in Canadian dollars)

	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total equity
As at August 31, 2023	90,305,852	\$ 88,803,613	\$ 10,349,568	\$ (19,339,846)	\$ (69,291)	\$ 79,744,044
Net loss	–	–	–	(1,339,341)	–	(1,339,341)
Share-based compensation (note 10)						
Employee compensation	–	–	1,212,706	–	–	1,212,706
Repurchase and cancellation of common shares under NCIB (note 9)	(286,900)	(280,588)	–	3,449	–	(277,139)
As at February 29, 2024	90,018,952	\$ 88,523,025	\$ 11,562,274	\$ (20,675,738)	\$ (69,291)	\$ 79,340,270

	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive gain	Total equity
As at August 31, 2022	87,698,132	\$ 83,296,250	\$ 9,724,114	\$ (26,299,730)	\$ 15,127	\$ 66,735,761
Net loss	–	–	–	(615,104)	–	(615,104)
Other comprehensive loss						
Foreign currency translation adjustments	–	–	–	–	(85,098)	(85,098)
Comprehensive loss	–	–	–	(615,104)	(85,098)	(700,202)
Share-based compensation (note 10)						
Employee compensation	–	–	991,461	–	–	991,461
Other services	–	–	6,505	–	–	6,505
	–	–	997,966	–	–	997,966
Exercise of stock options (note 9 and 10)	50,000	88,100	(38,100)	–	–	50,000
Conversion of convertible debenture (note 9)	2,955,414	5,808,214	(1,090,431)	–	–	4,717,783
Repurchase and cancellation of common shares under NCIB (note 9)	(30,000)	(29,340)	–	897	–	(28,443)
As at February 28, 2023	90,673,546	\$ 89,163,224	\$ 9,593,549	\$ (26,913,937)	\$ (69,971)	\$ 71,772,865

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Cash Flows

For the three and six-month periods ended February 29, 2024 and February 28, 2023

(Unaudited - in Canadian dollars)

	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:				
Net loss	\$ (3,446,620)	\$ (618,055)	\$ (1,339,341)	\$ (615,104)
Items not involving cash:				
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 (note 4)	(2,798,264)	(4,179,518)	(9,322,569)	(6,988,042)
Amortization of property, plant and equipment (note 6)	1,393,717	1,147,946	2,951,344	2,284,706
Amortization of right-of-use assets (note 7)	60,622	30,131	119,185	60,263
Loss on disposal of property, plant and equipment	–	37,267	5,380	63,247
Gain on convertible debenture extension (note 8)	(11,218)	–	(11,218)	–
Interest on lease liabilities (note 12)	12,656	6,177	25,246	15,669
Interest expense (note 12)	1,011,386	910,957	2,005,103	1,765,377
Interest income (note 12)	(34,343)	(74,151)	(89,803)	(147,523)
Share-based compensation (note 10)	932,135	435,407	1,212,706	997,966
Accretion and amortization of financing costs (note 12)	298,552	244,919	499,804	502,675
Other	–	56	–	113
Net change in non-cash operating working capital items (note 17)	(882,676)	(1,512,599)	(5,390,339)	(3,825,225)
	2,334,989	376,962	2,689,206	61,874
Financing:				
Repayment of term loan (note 8)	(491,491)	(491,491)	(982,981)	(982,981)
Proceeds from credit facilities (note 8)	1,000,000	–	3,500,000	–
Net purchase of shares under NCIB (note 9)	(4,312)	(28,443)	(277,139)	(28,443)
Stock options exercised (notes 9 and 10)	–	–	–	50,000
Interest paid on debt instruments (note 8)	(1,204,086)	(811,998)	(2,162,475)	(1,522,329)
Lease payments	(68,596)	(76,586)	(98,566)	(153,173)
Other long-term debt payments	–	(1,182)	–	(1,182)
	(768,485)	(1,409,700)	(21,161)	(2,638,108)
Investing:				
Deposits on property, plant and equipment	(89,498)	(188,633)	(249,467)	(479,660)
Acquisitions of property, plant and equipment (note 6)	(1,029,900)	(1,506,775)	(3,643,549)	(5,041,716)
Disposal of property, plant and equipment (note 6)	–	55,421	4,975	74,421
Interest received	44,138	70,963	80,108	134,088
	(1,075,260)	(1,569,024)	(3,807,933)	(5,312,867)
Net change in cash	491,244	(2,601,762)	(1,139,888)	(7,889,101)
Effect of foreign exchange on cash	–	(16,710)	–	(85,098)
Cash, beginning of period	2,639,385	6,758,964	4,270,517	12,114,691
Cash, end of period	\$ 3,130,629	\$ 4,140,492	\$ 3,130,629	\$ 4,140,492

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2024 and February 28, 2023

(Unaudited - in Canadian dollars)

1. Nature of operations

Cannara Biotech Inc. ("Cannara" or the "Company") is a vertically integrated producer of premium-grade cannabis and cannabis-derivative products primarily for the Canadian market. The Company is domiciled in Canada and was incorporated under the laws of British Columbia on October 19, 2017. Its head office is located at 333 Décarie, Suite 200, Ville St-Laurent, Québec, H4N 3M9. The Company's common shares are listed under the symbol "LOVE" on the TSX Venture Exchange (the "TSXV") in Canada, "LOVFF" on the OTCQB Venture Market in the United States and "8CB0" on the Frankfurt Stock Exchange in Germany.

Cannara owns and operates two Quebec-based mega cultivation facilities spanning over 1,650,000 square feet. Cannara's first purpose-built, modern indoor cultivation facility is located in Farnham, Quebec and measures 625,000 square feet, comprising 170,000 square feet of licensed cultivation area and 414,000 square feet of leased warehouse space ("Farnham Facility"). The second facility, acquired in June 2021, is a hybrid greenhouse facility that is being redesigned to replicate the indoor cultivation environment. The facility is comprised of 24 independent growing zones totaling 600,000 square feet, a 225,000 square feet cannabis 2.0 processing center and a 200,000 square foot rooftop greenhouse located in Valleyfield, Quebec ("Valleyfield Facility"). Cannara operates through its wholly owned subsidiaries, Cannara Biotech (Quebec) Inc. and Cannara Biotech (Valleyfield) Inc., both holding active licenses issued by Health Canada under the Cannabis Act.

The Company continues to invest in capital expenditures at its Valleyfield Facility, redesigning and activating 10 growing zones to-date, measuring a total of 250,000 square feet of active growing capacity. The Company sells its products under three flagship brands: Tribal, Nugz and Orchid CBD.

The Company generated a net loss of approximately \$1.3 million during the six-month period ended February 29, 2024 (2023 – a net loss of \$0.6 million) and has a deficit of approximately \$20.7 million as at February 29, 2024 (August 31, 2023 - \$19.3 million). The Company expects that its existing cash resources of \$3.1 million as at February 29, 2024, along with the forecasted cash flows and available undrawn credit facilities (note 8), will enable it to fund its planned operating expenses for at least the next twelve months from February 29, 2024. The Company currently has negative working capital of \$1.9 million which has resulted from the classification of the entire term loan as current. As at quarter end, the Company breached the minimum adjusted EBITDA financial covenant (note 8) which required the term loan to be classified as current. 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 ability of the Company to ultimately achieve recurrent profits from operations is dependent upon the continued success of its product and brand pipeline in addition to maintaining the consistency of its grow operations and lean cost structure. The Company expects to finance its operations through its sales, existing cash, available undrawn credit facilities and/or a combination of public or private equity and debt financing or other sources like funds from the disposal of assets held for sale.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2024 and February 28, 2023

(Unaudited - in Canadian dollars)

2. Basis of preparation and significant accounting policies

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") Accounting Standards and International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB").

These condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issuance on April 29, 2024.

(b) Basis of preparation

The condensed interim consolidated financial statements were prepared using the same accounting policies as set forth in Notes 2 and 3 in the audited financial statements of the Company for the year ended August 31, 2023. These condensed interim consolidated financial statements do not include all the notes required in annual consolidated financial statements. Therefore, these condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto of the Company for the year ended August 31, 2023.

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

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

The critical accounting judgments and key sources of estimation uncertainty are consistent with those in the audited consolidated financial statements and notes thereto to the Company for the year ended August 31, 2023.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2024 and February 28, 2023

(Unaudited - in Canadian dollars)

2. Basis of preparation and significant accounting policies

(c) New accounting policy

Assets held for sale

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

The sale is considered highly probable when the following conditions are met:

- (a) management is committed to a plan to sell;
- (b) an active program to locate a buyer and complete the plan to sell has been initiated;
- (c) the asset is being marketed for sale at a price that is reasonable in relation to its current fair value; and
- (d) actions required to complete the plan indicate that it's unlikely that significant changes will be made or the plan will be withdrawn.

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 and impairment losses on initial recognition as held for sale and subsequent gains and losses on remeasurement are recognized in profit or loss.

3. Assets held for sale

In January 2024, management committed to a plan to sell a parcel of land at its Valleyfield site which is currently unused in addition to the building under construction adjacent to the land parcel that was previously intended to be leased out. The assets are actively being marketed. On April 24, 2024, the Company received an offer to purchase the parcel of the land at the Valleyfield site for \$2.1 million. The transaction is expected to close in the next 10 days.

The carrying amount of these assets in the amount of \$4,958,557 have been reclassified as assets held for sale at February 29, 2024 (note 6).

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2024 and February 28, 2023

(Unaudited - in Canadian dollars)

4. Biological assets

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

Carrying amount, August 31, 2022	\$	5,712,456
Production costs capitalized		17,369,513
Change in fair value due to biological transformation, less cost to sell		21,101,614
Transferred to inventory upon harvest		(38,409,462)
Carrying amount, August 31, 2023	\$	5,774,121
Production costs capitalized		9,801,069
Change in fair value due to biological transformation, less cost to sell		9,322,569
Transferred to inventory upon harvest		(19,453,604)
Carrying amount, February 29, 2024	\$	5,444,155

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

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

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

Because there is no actively traded commodity market for cannabis plants and dried product, the valuation of the biological assets is obtained using valuations techniques where the inputs are based upon unobservable market data and are classified as level 3 in the fair market value hierarchy. There has been no transfer between levels as at February 29, 2024.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2024 and February 28, 2023

(Unaudited - in Canadian dollars)

4. Biological assets (continued)

Management's identified significant unobservable inputs, their values and sensitivity analysis are presented in the table below. The Company's estimates are, by their nature, subject to change, and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods. The income approach calculates the present value of expected future cash flows from the Company's biological assets using the following inputs for the period ended February 29, 2024:

Unobservable inputs	Input values	Sensitivity analysis
<i>Wholesale and retail selling price</i> Represents the average expected wholesale and retail selling price per gram of dried cannabis, excluding excise taxes, where applicable, which is expected to approximate future wholesale and retail selling prices. The average selling price varies depending on the estimated products.	Weighted average of \$3.15 per gram (August 31, 2023 – \$3.16 per gram) of dried cannabis packaged \$1.50 per gram of dried cannabis unpackaged (August 31, 2023 - \$1.50 per gram)	An increase or decrease of 5% applied to the selling price would result in a change of approximately \$432,000 to the valuation.
<i>Yield per plant</i> Represents the average number of grams of dried cannabis expected to be harvested from each cannabis plant from the two facilities.	66 grams per plant (August 31, 2023 – 77 grams per plant)	An increase or decrease of 15% applied to the average yield per plant would result in a change of approximately \$801,000 to the valuation.
<i>Stage of completion</i> Calculated by taking the average number of days in the cultivation cycle over the total estimated duration of a cultivation cycle which is currently approximately 13 to 14 weeks from clone to harvest.	Weighted average stage of completion is 46% (August 31, 2023 - 50%)	An increase or decrease of 5% applied to the average stage of growth per plant would result in a change of approximately \$267,000 to the valuation.

As at February 29, 2024, it is expected that the Company's biological assets will yield approximately 7,228 kilograms of dried cannabis when harvested (August 31, 2023 - 7,716 kilograms of dried cannabis).

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For the three and six-month periods ended February 29, 2024 and February 28, 2023

(Unaudited - in Canadian dollars)

5. Inventory

Inventory consists of the following:

	February 29, 2024		
	Capitalized cost	Fair value adjustment ¹	Total
Raw materials - cultivation and supplies	\$ 4,714,866	\$ –	\$ 4,714,866
Harvested cannabis			
Dried cannabis and work-in-progress	9,354,424	5,712,460	15,066,884
Finished goods	3,102,194	1,060,470	4,162,664
Derivative products			
Derivatives products and work-in-progress	4,276,622	732,010	5,008,632
Finished goods	1,366,841	140,262	1,507,103
Finished goods – cannabis accessories	798,790	–	798,790
	\$ 23,613,737	\$ 7,645,202	\$ 31,258,939

	August 31, 2023		
	Capitalized cost	Fair value adjustment ¹	Total
Raw materials - cultivation and supplies	\$ 2,826,027	\$ –	\$ 2,826,027
Harvested cannabis			
Dried cannabis and work-in-progress	8,782,949	8,407,168	17,190,117
Finished goods	2,440,728	1,059,940	3,500,668
Derivative products			
Derivative products and work-in-progress	3,278,677	144,319	3,422,996
Finished goods	896,098	7,969	904,067
Finished goods – cannabis accessories	153,714	–	153,714
	\$ 18,378,193	\$ 9,619,396	\$ 27,997,589

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

The amount of inventory expensed as cost of goods sold during the three and six-month periods ended February 29, 2024 was \$12,442,245 and \$23,917,387 (2023 – \$8,673,215 and \$14,180,105), including an impairment loss on inventory of \$199,792 and \$923,369 (2023 – \$1,375,360 and \$1,411,709) for cannabis who's cost exceeds its net realizable value.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2024 and February 28, 2023

(Unaudited - in Canadian dollars)

6. Property, plant and equipment

	Land	Buildings	Facility production equipment	Computer equipment and software	Vehicles	Furniture and fixtures	Construction in progress	Total
Cost								
Balance as at August 31, 2023	\$ 2,452,085	\$ 75,479,394	\$ 14,490,667	\$ 1,626,042	\$ 40,440	\$ 2,407,859	\$ 6,731,664	\$ 103,228,151
Additions	–	576,706	1,010,597	84,517	\$3,700	86,849	3,354,932	5,117,301
Transfer	–	428,888	202,991	–	–	34,632	(666,511)	–
Disposal	–	–	(13,602)	–	(2,000)	–	–	(15,602)
Reclass assets held for sale (note 3)	(121,986)	–	–	–	–	–	(4,836,571)	(4,958,557)
Balance as at February 29, 2024	\$ 2,330,099	\$ 76,484,988	\$ 15,690,653	\$ 1,710,559	\$ 42,140	\$ 2,529,340	\$ 4,583,514	\$ 103,371,293
Accumulated amortization								
Balance as at August 31, 2023	\$ –	\$ (9,503,932)	\$ (2,831,044)	\$ (948,334)	\$ (17,025)	\$ (668,119)	\$ –	\$ (13,968,454)
Amortization	–	(1,934,864)	(735,166)	(154,635)	(4,113)	(122,566)	–	(2,951,344)
Disposal	–	–	4,760	–	487	–	–	5,247
Balance as at February 29, 2024	\$ –	\$ (11,438,796)	\$ (3,561,450)	\$ (1,102,969)	\$ (20,651)	\$ (790,685)	\$ –	\$ (16,914,551)
Net book value								
Balance as at February 29, 2024	\$ 2,330,099	\$ 65,046,192	\$ 12,129,203	\$ 607,590	\$ 21,489	\$ 1,738,655	\$ 4,583,514	\$ 86,456,742

As at February 29, 2024, the assets included in construction in progress represent the Valleyfield Facility and related capital expenditures incurred to render the facility operational, for the redesign of the remaining growing zones and the construction of a processing center. The costs are transferred to other categories as the assets become available or ready for use. As part of its real estate segment, the Company used the non-cannabis licensed area of the Farnham building to generate lease revenues. A carrying value of \$10,156,926 related to the Farnham building is recognized as an investment property.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements
For the three and six-month periods ended February 29, 2024 and February 28, 2023
(Unaudited - in Canadian dollars)

6. Property, plant and equipment (continued)

	Land	Buildings	Facilities production equipment	Computer equipment and software	Vehicles	Furniture and fixtures	Construction in progress	Total
Cost								
Balance as at August 31, 2022	\$ 2,452,085	\$ 64,297,845	\$ 10,858,550	\$ 1,473,919	\$ 40,440	\$ 1,852,072	\$ 11,531,330	\$ 92,506,241
Additions	–	2,106,239	2,845,797	152,123	–	138,992	5,864,909	11,108,060
Transfer	–	9,075,310	1,172,470	–	–	416,795	(10,664,575)	–
Disposal	–	–	(386,150)	–	–	–	–	(386,150)
Balance as at August 31, 2023	\$ 2,452,085	\$ 75,479,394	\$ 14,490,667	\$ 1,626,042	\$ 40,440	\$ 2,407,859	\$ 6,731,664	\$ 103,228,151
Accumulated amortization								
Balance as at August 31, 2022	\$ –	\$ (6,465,617)	\$ (1,632,112)	\$ (661,078)	\$ (8,938)	\$ (448,751)	\$ –	\$ (9,216,496)
Amortization	–	(3,038,315)	(1,262,073)	(287,256)	(8,087)	(219,368)	–	(4,815,099)
Disposal	–	–	63,141	–	–	–	–	63,141
Balance as at August 31, 2023	\$ –	\$ (9,503,932)	\$ (2,831,044)	\$ (948,334)	\$ (17,025)	\$ (668,119)	\$ –	\$ (13,968,454)
Net book value								
Balance as at August 31, 2023	\$ 2,452,085	\$ 65,975,462	\$ 11,659,623	\$ 677,708	\$ 23,415	\$ 1,739,740	\$ 6,731,664	\$ 89,259,697

During the three and six-month periods ended February 29, 2024, the Company recognized \$1,393,717 and \$2,951,344 (2023 - \$1,147,946 and \$2,284,706) as amortization expense, of which \$165,978 and \$516,607 (2023 - \$248,854 and \$512,734) have been recognized in the consolidated statement of loss and comprehensive loss, nil (2023 - \$2,422 and \$16,959) have been included in cost of services and \$1,227,739 and \$2,434,737 (2023 - \$896,670 and \$1,755,013) have been included in the calculation of the biological assets and inventory valuation and for which some lots were ultimately used for research and development.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2024 and February 28, 2023

(Unaudited - in Canadian dollars)

7. Right-of-use assets and lease liabilities

(a) Right-of-use assets

	February 29, 2024	August 31, 2023
Cost		
Balance, beginning of period	\$ 312,974	\$ 575,176
Additions	667,594	189,945
Derecognition of fully amortized assets	–	(452,147)
Balance, end of period	\$ 980,568	\$ 312,974
Accumulated depreciation		
Balance, beginning of period	\$ (135,957)	\$ (461,057)
Amortization	(119,185)	(127,047)
Derecognition of fully amortized assets	–	452,147
Balance, end of period	\$ (255,142)	\$ (135,957)
Net book value		
Balance, end of period	\$ 725,426	\$ 177,017

(b) Lease liabilities

	February 29, 2024	August 31, 2023
Maturity analysis - contractual undiscounted cash flows:		
Less than one year	\$ 327,038	\$ 87,157
One to five years	543,204	101,842
Total undiscounted lease liabilities	\$ 870,242	\$ 188,999
Current	\$ 262,727	\$ 78,877
Non-current	507,567	97,143
Lease liabilities included in the condensed interim consolidated statement of financial position	\$ 770,294	\$ 176,020
Balance as at August 31, 2023	\$	176,020
Additions		667,594
Lease payments		(98,566)
Interest on lease liabilities		25,246
Balance as at February 29, 2024	\$	770,294

CANNARA BIOTECH INC.

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(Unaudited - in Canadian dollars)

8. Financing

(a) Revolving credit facilities

	February 29, 2024	August 31, 2023
Net carrying value, beginning of period	\$ 3,000,000	\$ –
Proceeds from revolving credit facilities	3,500,000	3,000,000
Net carrying value, end of period	\$ 6,500,000	\$ 3,000,000

	2024	Expiry date
Revolving credit facility A	\$ 2,000,000	2024-03-17
Revolving credit facility B	600,000	2024-05-26
Revolving credit facility C	400,000	2024-03-07
Revolving credit facility D	1,500,000	2024-03-25
Revolving credit facility E	1,000,000	2024-04-04
Revolving credit facility F	1,000,000	2024-03-11
Net carrying value, end of period	\$ 6,500,000	

The Company has access to a \$10 million revolving credit facility which is intended to be used for general working capital purposes. 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.

The revolving credit facilities bear a variable interest rate based on prime rate or banker's acceptance rate plus an applicable margin based on the credit agreement. As at February 29, 2024, the weighted average interest rate on the revolving credit facilities was 8.85%. The revolving credit facility matures 3 years from closing date and has the same securities and guarantees as the term loan (note 8 (b)). The Company has to respect certain covenants (note 8(b)). The revolving credit facilities are classified as a current liability as it is being managed and expected to be settled by the Company in its normal operating cycle.

For the three and six-month periods ended February 29, 2024, the Company recognized \$133,669 and \$237,536 as interest expense for the revolving credit facilities. As at February 29, 2024, prepaid interest of \$41,697 were included in prepaid expenses and other assets.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2024 and February 28, 2023

(Unaudited - in Canadian dollars)

8. Financing (continued)

(b) Term loan

	February 29, 2024	August 31, 2023
Net carrying value, beginning of period	\$ 36,854,235	\$ 38,562,521
Repayment of term loan	(982,981)	(1,965,961)
Amortization of deferred financing costs	179,388	257,675
Net carrying value, end of period	\$ 36,050,642	\$ 36,854,235
Term loan ⁽ⁱ⁾	\$ 36,370,281	\$ 37,353,262
Less: unamortized financing costs	(319,639)	(499,027)
	36,050,642	36,854,235
Short-term portion of term loan	(36,050,642)	(1,965,961)
	\$ –	\$ 34,888,274

⁽ⁱ⁾ The term loan bears a variable interest rate based on prime and/or banker acceptance rates. As at February 29, 2024, the interest on the term loan was 8.75%. The term loan is reimbursable quarterly based on an amortization schedule of 80 quarters, beginning November 30, 2022 and has a term of 3 year, ending May 31, 2025. The term loan is secured by a first ranking mortgage against the Farnham and Valleyfield Facility, and is guaranteed with limited recourse, in part, by a related party for a fee based on the amount of the outstanding term loan (note 16 (b)). As at February 29, 2024, the Company met the requirement imposed by the lender which ended the necessity to have a guarantor.

For the three and six-month periods ended February 29, 2024, the Company recognized \$815,368 and \$1,643,210 as interest expense for the term loan (2023 – \$814,202 and \$1,557,605). As at February 29, 2024, prepaid interest of \$793,665 was included in prepaid expenses and other assets (August 31, 2023 - \$536,362).

The Company has to respect financial covenants such as (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) an adjusted EBITDA of \$4 million for each fiscal quarter. As at February 29, 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.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2024 and February 28, 2023

(Unaudited - in Canadian dollars)

8. Financing (continued)

(b) Term loan (continued)

In connection with the construction of the building at its Valleyfield site that was intended to be leased out, the Company secured access to an additional \$5 million loan in the prior year for construction that has not yet been drawn. Since the assets are now held for sale (note 3), the Company no longer has access to this additional financing and the related deferred financing costs of \$57,774 were recognized in net finance expense.

(c) Convertible debenture

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

	February 29, 2024	August 31, 2023
Net carrying value, beginning of period	\$ 5,753,133	\$ 9,590,143
Conversion of debenture (note 9 b))	–	(4,717,783)
Gain on modification of convertible debenture	(11,218)	(52,664)
Interest expense	124,357	330,688
Accretion and amortization of deferred issuance costs	262,642	602,749
Net carrying value, end of period	\$ 6,128,914	\$ 5,753,133
Short-term portion of convertible debenture	(1,000,000)	(1,000,000)
	\$ 5,128,914	\$ 4,753,133

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 principle on January 31, 2025. The impact of the convertible debenture modification resulted in a gain of \$11,218 which was recognized in net finance expense.

During the three and six-month periods ended February 29, 2024, the Company recognized \$62,349 and \$124,357 as interest expense (2023 - \$96,755 and \$207,772). As at February 29, 2024, accrued interest of \$ 642,227 was included in the carrying amount of the convertible debenture (August 31, 2023 - \$517,870).

CANNARA BIOTECH INC.

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For the three and six-month periods ended February 29, 2024 and February 28, 2023

(Unaudited - in Canadian dollars)

9. Share Capital

(a) Authorized

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

(b) Transactions on share capital

NCIB

During the first quarter of 2024, under its Normal Course Issuer Bid ("NCIB"), the Company purchased 281,900 common shares having an average book value of \$275,698 for cash consideration of \$272,827. The excess of the book value over the purchase price value of the shares of \$2,871 was charged to deficit. All shares purchased were cancelled.

During the second quarter of 2024, under its Normal Course Issuer Bid ("NCIB"), the Company purchased 5,000 common shares having an average book value of \$4,890 for cash consideration of \$4,312. The excess of the book value over the purchase price value of the shares of \$578 was charged to deficit. All shares purchased were cancelled.

During the second quarter of 2023, the Company purchased 30,000 common shares having an average book value of \$29,340 for cash consideration of \$28,443. The excess of the book value over the purchase price value of the shares of \$897 was charged to deficit. All shares purchased were cancelled.

In connection with the NCIB, the Company has established a securities purchase plan with its designated broker to facilitate the purchase of shares under the NCIB at times when the Company would ordinarily not be permitted to purchase its shares due to regulatory restrictions or self-imposed blackout periods. Under the plan, before entering a self-imposed blackout period, the Company may, but is not required to, ask the designated broker to make purchases under the NCIB within specific parameters.

The 1-year NCIB period ended in December 2023.

Exercise of stock options

During the first quarter of 2023, a total of 50,000 stock options were exercised at a price of \$1.00 per share for a total consideration of \$50,000, resulting in the issuance of 50,000 new common shares of the Company.

Conversion of convertible debenture

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

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2024 and February 28, 2023

(Unaudited - in Canadian dollars)

9. Share Capital (continued)

(c) Loss per share

The calculation of basic earnings per share was calculated based on the net loss attributable to common shareholders of the Company divided by the weighted average number of common shares outstanding during the year, while the diluted loss per share was adjusted for the effects of potential dilutive common shares such as options and convertible debentures.

The calculations for basic and diluted loss per share for the three and six-month periods ended February 29, 2024 and February 28, 2023 was as follows:

	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)
Issued common shares, beginning of the period	90,023,952	87,748,132	90,305,852	87,698,132
Effect of stock options exercised for common shares	–	–	–	36,740
Effect of conversion of convertible debenture for common shares	–	623,921	–	310,237
Repurchase and cancellation of common shares under NCIB	(4,945)	–	(185,918)	–
Weighted average number of common shares, basic and diluted	90,019,007	88,372,053	90,119,934	88,045,109
Loss per share – basis and diluted	\$ (0.04)	\$ (0.01)	\$ (0.02)	\$ (0.01)

For the three and six-month periods ended February 29, 2024, the Company excluded the following instruments from the weighted average number of diluted common shares calculation as their effect would have been anti-dilutive: 4,538,300 share options, 1,504,183 RSUs and 3,166,667 shares potentially to be issued under the convertible debentures that may potentially dilute earnings per share in the future (2023 – 4,434,042 share options, 789,183 RSUs and 3,166,667 shares as-if the convertible debentures were converted).

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2024 and February 28, 2023

(Unaudited - in Canadian dollars)

10. Share-based compensation

(a) Stock option plan

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

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

The activity of outstanding share options for the six-month period ended February 29, 2024 and February 28, 2023 was as follows:

	February 29, 2024		February 28, 2023	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of period	3,831,945	\$ 1.65	2,452,414	\$ 1.50
Granted	724,000	1.28	2,210,300	1.53
Exercised	—	—	(50,000)	1.00
Forfeited	(2,500)	1.80	(174,027)	1.80
Expired	(15,145)	1.80	(4,645)	1.80
Outstanding, end of period	4,538,300	1.59	4,434,042	1.53
Exercisable, end of period	2,515,837	\$ 1.63	1,962,421	\$ 1.43

CANNARA BIOTECH INC.

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(Unaudited - in Canadian dollars)

10. Share-based compensation (continued)

(a) Stock option plan (continued)

During the three and six-month periods ended February 29, 2024, the Company recorded a share-based compensation expense of \$720,065 and \$912,341 in the consolidated statement of loss and comprehensive loss (2023 – \$416,971 and \$979,530). During the second quarter of 2024, the board of directors approved the extension of the expiry date from 5 to 7 years for 2,435,000 stock options exercisable at \$1.80 per share and 750,000 stock options exercisable at \$1.00 per share of the key management and the members of the board of directors. These options now expire between December 17, 2025 and September 29, 2029. The impact of the extension resulted in an additional charge of \$516,237 which was included in the share-based compensation expense of the period.

During the second quarter of 2024, the Company granted 99,000 options at an exercise price of \$1.80 and 625,000 options at an exercise price of \$1.20 to certain employees subject to certain vesting conditions in accordance with the Company's employee share option plan.

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

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

	Six-month periods ended	
	February 29, 2024	February 28, 2023
Share price ⁽ⁱ⁾	\$ 0.85	\$ 1.15
Exercise price	\$ 1.28	\$ 1.53
Risk-free interest rate ⁽ⁱⁱ⁾	3.52%	3.40%
Expected life ⁽ⁱⁱⁱ⁾	7 years	5 years
Expected price volatility ^(iv)	89%	89%
Fair value of the option	\$ 0.63	\$ 0.76
Expected dividend yield ^(v)	Nil	Nil

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

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

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

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

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

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(Unaudited - in Canadian dollars)

10. Share-based compensation (continued)

(a) Stock option plan (continued)

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

Expiry date	Average Exercise price \$	Number outstanding	Number exercisable
May 1, 2024	1.80	9,400	9,400
October 3, 2024	1.80	12,500	12,500
November 25, 2024	1.80	2,000	2,000
January 16, 2025	1.80	27,000	27,000
April 14, 2025	1.80	8,000	7,661
May 4, 2025	1.80	40,000	40,000
July 24, 2025	1.80	22,500	20,169
December 15, 2025	1.80	26,600	21,065
December 17, 2025	1.80	65,000	65,000
February 1, 2026	1.80	20,000	14,993
May 1, 2026	1.80	60,000	60,000
July 27, 2026	1.80	2,500	1,613
December 7, 2026	1.80	13,500	7,309
January 16, 2027	1.80	15,000	15,000
April 26, 2027	1.80	7,500	3,435
July 24, 2027	1.80	325,000	292,706
July 26, 2027	1.80	105,000	41,559
September 29, 2027	1.80	77,500	27,445
November 10, 2027	1.80	25,000	25,000
November 24, 2027	1.80	10,000	3,124
January 20, 2028	1.80	22,800	6,175
February 1, 2028	1.80	30,000	22,499
April 21, 2028	1.80	12,500	–
July 26, 2028	1.80	210,000	–
July 27, 2028	1.80	20,000	12,920
December 7, 2028	1.80	572,500	320,398
September 29, 2029	1.51	2,072,500	1,456,866
December 6, 2030	1.27	714,000	–
January 29, 2031	1.80	10,000	–
		4,538,300	2,515,837

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(Unaudited - in Canadian dollars)

10. Share-based compensation (continued)

(b) Restricted Share Units ("RSU")

The Company has established a RSU plan whereby certain employee or member of the Board of Directors may be granted RSU. The RSU Plan provides for a maximum number of common shares available and reserved for issuance to 10% of the aggregate number of common shares issued and outstanding from time to time; and (ii) such number of common shares as, when combined with all other common shares subject to grants made under the Company's other share compensation arrangements (including the Stock Option Plan) would not exceed 10% of the outstanding common shares. The RSUs are time-based awards and can contain performance conditions. All of the RSUs granted will vest upon the continuous employment of the participants on the second anniversary of the grant or as approved by the Board of Directors, or if the performance conditions are met, starting from the date of the grant or such other period not exceeding five years determined by the Board of Directors. Pursuant to the terms of the RSU Plan, participants will receive for no consideration, upon vesting of the RSUs, common shares of the Company issued from treasury.

The outstanding RSUs for the six-month periods ended February 29, 2024 and February 28, 2023 are as follows:

	February 29, 2024		February 28, 2023	
	Number	Weighted average fair value	Number	Weighted average fair value
Outstanding, beginning of period	789,183	\$ 0.90	–	\$ –
Granted	715,000	0.85	789,183	\$ 0.90
Outstanding, end of period	1,504,183	\$ 0.87	789,183	\$ 0.90

During the second quarter of 2024, the Company granted 715,000 RSUs without performance conditions and exercisable for no consideration.

During the three and six-month periods ended February 29, 2024, the Company recorded a share-based compensation expense of \$212,070 and \$300,365 (2023 – nil and \$18,436) in the consolidated statement of loss and comprehensive loss.

Vesting date	Number outstanding
January 6, 2025	625,000
February 10, 2025	789,183
December 6, 2025	90,000
	1,504,183

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(Unaudited - in Canadian dollars)

11. General and administrative

	Three-month periods ended		Six-month periods ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Salaries and benefits	\$ 1,108,572	\$ 850,729	\$ 2,208,804	\$ 1,715,025
Administrative and regulatory expense	893,192	784,293	1,887,833	1,374,390
Facility expense	607,365	203,798	875,854	598,607
General and administrative	\$ 2,609,129	\$ 1,838,820	\$ 4,972,491	\$ 3,688,022

12. Net finance expense

	Three-month periods ended		Six-month periods ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Interest income	\$ 34,343	\$ 74,151	\$ 89,803	\$ 147,523
Foreign exchange gain	–	13,725	–	86,248
Gain on convertible debenture extension	11,218	–	11,218	–
Finance income	45,561	87,876	101,021	233,771
Interest on term loan	815,368	814,202	1,643,210	1,557,605
Interest on credit facilities	133,669	–	237,536	–
Interest on convertible debentures	62,349	96,755	124,357	207,772
Interest on lease liabilities	12,656	6,177	25,246	15,669
Interest on letter of credit	53,018	51,944	106,129	105,055
Debt guarantee fees	93,750	93,750	187,500	187,500
Accretion and amortization of financing costs	298,552	244,919	499,804	502,675
Other finance expense	57,199	29,519	89,678	46,809
Foreign exchange loss	6,073	–	6,001	–
Finance expense	1,532,634	1,337,266	2,919,461	2,623,085
Net finance expense	\$ 1,487,073	\$ 1,249,390	\$ 2,818,440	\$ 2,389,314

CANNARA BIOTECH INC.

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(Unaudited - in Canadian dollars)

13. Financial instruments

Fair value measurements

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

The fair value of the convertible debenture approximates the carrying amount, as the interest rate approximates the current market rate.

14. Contingencies

In the normal course of business, the Company may be involved in various legal and regulatory proceedings. The Company believes that the resolution of these proceedings will not have a material favourable or unfavourable effect on its condensed interim consolidated statement of financial position or financial performance. As at February 29, 2024, there are no material claims in favor or against the Company.

15. Segment disclosures

(a) Reportable segments

The Company operates in two segments: (1) Indoor cannabis operations which encompasses the cultivation, processing and sale of dried cannabis and cannabis derivatives ("Cannabis operations") and (2) Real estate operations related to the Farnham and Valleyfield building ("Real estate operations").

The chief operating decision-maker assesses performance based on segment operating results which were defined as segment operating income (loss) before share-based compensation, amortization, net finance expense, loss on disposal of property, plant and equipment and income tax. The accounting policies of the segments are the same as those described in Note 3 of the audited financial statements of the Company for the year ended August 31, 2023.

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15. Segment disclosures (continued)

(a) Reportable segments (continued)

	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
Revenue								
Revenue from sale of goods	\$ 26,274,164	\$ –	\$ –	\$ 26,274,164	\$ 15,850,089	\$ –	\$ –	\$ 15,850,089
Excise taxes	(7,527,099)	–	–	(7,527,099)	(4,161,259)	–	–	(4,161,259)
Net revenue from sale of goods	18,747,065	–	–	18,747,065	11,688,830	–	–	11,688,830
Services revenues	–	–	–	–	263,021	–	–	263,021
Lease revenue	–	914,310	–	914,310	–	896,053	–	896,053
Other income	21,828	–	–	21,828	187,852	–	–	187,852
	18,768,893	914,310	–	19,683,203	12,139,703	896,053	–	13,035,756
Cost of revenues								
Cost of goods sold	12,442,245	–	–	12,442,245	8,673,215	–	–	8,673,215
Cost of services	–	–	–	–	214,518	–	–	214,518
Lease operating costs	–	99,682	–	99,682	–	117,394	–	117,394
Segment gross profit before fair value adjustments	6,326,648	814,628	–	7,141,276	3,251,970	778,659	–	4,030,629
Changes in fair value of inventory sold	(5,799,042)	–	–	(5,799,042)	(3,948,425)	–	–	(3,948,425)
Unrealized gain on changes in fair value of biological assets	2,798,264	–	–	2,798,264	4,179,518	–	–	4,179,518
Segment gross profit	3,325,870	814,628	–	4,140,498	3,483,063	778,659	–	4,261,722
Operating expenses	4,941,310	–	–	4,941,310	2,878,728	–	–	2,878,728
Segment operating income (loss)	(1,615,440)	814,628	–	(800,812)	604,335	778,659	–	1,382,994
Share-based compensation	–	–	932,135	932,135	–	–	435,407	435,407
Amortization	–	–	226,600	226,600	–	–	278,985	278,985
Loss on disposal of property, plant and equipment	–	–	–	–	–	–	37,267	37,267
Net finance expense	–	–	1,487,073	1,487,073	–	–	1,249,390	1,249,390
Net income (loss)	\$ (1,615,440)	\$ 814,628	\$ (2,645,808)	\$ (3,446,620)	\$ 604,335	\$ 778,659	\$ (2,001,049)	\$ (618,055)

CANNARA BIOTECH INC.

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For the three and six-month periods ended February 29, 2024 and February 28, 2023

(Unaudited - in Canadian dollars)

15. Segment disclosures (continued)

(a) Reportable segments (continued)

	Six-month period ended February 29, 2024				Six-month period ended February 28, 2023			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Revenue								
Revenue from sale of goods	\$ 52,603,249	\$ –	\$ –	\$ 52,603,249	\$ 27,065,788	\$ –	\$ –	\$ 27,065,788
Excise taxes	(15,339,052)	–	–	(15,339,052)	(6,934,567)	–	–	(6,934,567)
Net revenue from sale of goods	37,264,197	–	–	37,264,197	20,131,221	–	–	20,131,221
Services revenues	–	–	–	–	1,194,132	–	–	1,194,132
Lease revenue	–	1,823,706	–	1,823,706	–	1,763,965	–	1,763,965
Other income	78,594	–	–	78,594	258,043	–	–	258,043
	37,342,791	1,823,706	–	39,166,497	21,583,396	1,763,965	–	23,347,361
Cost of revenues								
Cost of goods sold	23,917,387	–	–	23,917,387	14,180,105	–	–	14,180,105
Cost of services	–	–	–	–	911,254	–	–	911,254
Lease operating costs	–	172,117	–	172,117	–	201,975	–	201,975
Segment gross profit before fair value adjustments	13,425,404	1,651,589	–	15,076,993	6,492,037	1,561,990	–	8,054,027
Changes in fair value of inventory sold	(12,023,708)	–	–	(12,023,708)	(5,947,752)	–	–	(5,947,752)
Unrealized gain on changes in fair value of biological assets	9,322,569	–	–	9,322,569	6,988,042	–	–	6,988,042
Segment gross profit	10,724,265	1,651,589	–	12,375,854	7,532,327	1,561,990	–	9,094,317
Operating expenses	9,042,877	–	–	9,042,877	5,685,897	–	–	5,685,897
Segment operating income	1,681,388	1,651,589	–	3,332,977	1,846,430	1,561,990	–	3,408,420
Share-based compensation	–	–	1,212,706	1,212,706	–	–	997,966	997,966
Amortization	–	–	635,792	635,792	–	–	572,997	572,997
Loss on disposal of property, plant and equipment	–	–	5,380	5,380	–	–	63,247	63,247
Net finance expense	–	–	2,818,440	2,818,440	–	–	2,389,314	2,389,314
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)

CANNARA BIOTECH INC.

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(Unaudited - in Canadian dollars)

15. Segment disclosures (continued)

(b) Entity-wide disclosures

All property, plant and equipment are located in Canada.

(c) Sources of lease revenues

The Company leased 414,114 square feet of the total 625,000 available square feet in its Farnham facility to third parties. For the period ended February 29, 2024, the Company realized 100% of its lease revenue with two lessees:

- The lease term for Tenant A is up to September 30, 2027. Lease revenues from this tenant for the three and six-month periods ended February 29, 2024 amounted to \$150,040 and \$297,698.
- The lease term for Tenant B is up to October 31, 2024, with options to extend. Lease revenues from this tenant for the three and six-month periods ended February 29, 2024 amounted to \$764,270 and \$1,526,008.

Income is generated from customers domiciled in Canada.

(d) Source of cannabis and cannabis accessories revenues

	Three-month periods ended		Six-month periods ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Revenue from Canadian retailers	\$ 24,091,692	\$ 15,690,637	\$ 49,469,058	\$ 26,804,626
Excise taxes	(7,527,099)	(4,161,259)	(15,339,052)	(6,934,567)
	16,564,593	11,529,378	34,130,006	19,870,059
Revenue from wholesale	2,057,932	102,214	2,703,465	203,924
Revenue from online merchandise	124,540	57,238	187,379	57,238
Revenue from Israel wholesale	–	–	243,347	–
	\$ 18,747,065	\$ 11,688,830	\$ 37,264,197	\$ 20,131,221

For the three and six-month periods ended February 29, 2024, the Company has generated 86% and 88% of its cannabis revenues from three provincial distributors (Quebec, Ontario and Alberta) (2023 – 95% and 95% from two provincial distributors (Quebec and Ontario)).

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Notes to Condensed Interim Consolidated Financial Statements

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(Unaudited - in Canadian dollars)

16. Related parties

(a) Key management personnel compensation

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

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

	Three-month periods ended		Six-month periods ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Salaries and benefits	\$ 240,000	\$ 210,000	\$ 450,000	\$ 420,000
Share-based compensation	804,990	417,965	1,036,916	906,151
Board of Directors' fees	25,000	17,500	50,000	35,000
	\$ 1,069,990	\$ 645,465	\$ 1,536,916	\$ 1,361,151

(b) Other transactions with related parties

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

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

Nature of transactions:	Three-month periods ended		Six-month periods ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Other expenses	7,200	–	7,200	–
Acquisition of property, plant and equipment ⁽ⁱ⁾	\$ –	\$ 17,246	\$ –	\$ 17,246
Interest on debt financing ⁽ⁱ⁾	62,349	96,755	124,357	207,772
Debt financing guarantee fees ^{(i) (iii)}	93,750	93,750	187,500	187,500
	\$ 163,299	\$ 207,751	\$ 319,057	\$ 412,518

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2024 and February 28, 2023

(Unaudited - in Canadian dollars)

16. Related parties (continued)

(b) Other transactions with related parties (continued)

	February 29, 2024	August 31, 2023
Balances due to related parties are as follows:		
Accounts payable and accrued liabilities ⁽ⁱ⁾	\$ (156,250)	\$ (343,750)
Accounts payable to key management personnel ⁽ⁱⁱ⁾	(96,203)	(65,799)
Accounts payable to Board of Directors members	(20,448)	(15,269)
Convertible debenture, including accrued interest ⁽ⁱ⁾	(6,342,227)	(6,217,870)
Lease liabilities ⁽ⁱ⁾	(616,094)	-

(i) The Company has a Board of Director member who is a shareholder in an entity with which the Company entered into various transactions with for the financing of the Farnham and Valleyfield Facilities in addition to a head office lease arrangement. During the three and six-month periods ended February 29, 2024, the Company paid \$50,660 and \$112,105 in rent for the head office lease (2023 - \$45,068 and \$90,136).

(ii) Accounts payable relate to accrued salary and vacation for key management personnel. Related party transactions have been recorded at the exchange amount, which is the amount agreed to and established by the related parties.

(iii) As part of the financing closed in prior year, a related party is providing certain guarantees to the lenders on the debt financing and is charging the Company a fee in exchange. The requirement to have a guarantor ceased on February 29, 2024 as the Company met the condition imposed by the lender to remove it (note 8 b)).

17. Cash flow information

Net change in non-cash working capital items:

	Three-month periods ended		Six-month periods ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Accounts receivable	\$ (1,595,396)	\$ (2,514,251)	\$ (864,054)	\$ 325,366
Sales tax receivable	42,282	557,817	(260,216)	253,574
Lease receivable	-	32,396	-	64,792
Biological assets	(4,949,784)	(4,414,700)	(9,801,069)	(8,140,042)
Inventory	1,999,655	2,572,301	4,168,546	1,417,798
Prepaid expenses and other assets	1,769,862	(487,220)	1,376,492	(420,482)
Deposits	111	-	111	-
Accounts payable and accrued liabilities	1,987,128	2,551,911	(145,324)	2,200,489
Deferred lease revenue	4,484	158,888	177,604	459,793
Deferred grant income	(9,724)	(9,685)	(19,409)	(19,370)
Deferred revenue	(131,294)	39,944	(23,020)	32,857
	\$ (882,676)	\$ (1,512,599)	\$ (5,390,339)	\$ (3,825,225)

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended February 29, 2024 and February 28, 2023

(Unaudited - in Canadian dollars)

17. Cash flow information (continued)

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

	Three-month periods ended		Six-month periods ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Variation of property, plant and equipment Included in accounts payable and accrued liabilities	(841,288)	(769,302)	(1,310,085)	(559,692)
Addition to right-of-use assets and lease liabilities	50,676	99,944	667,594	99,944
Issuance of shares upon conversion of convertible debenture	–	4,717,783	–	4,717,783

18. Subsequent events

Stock options

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.

Revolving credit facilities

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. Funds were used for general working capital purposes.

Related party transaction

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.

Sale of assets held for sale

On April 24, 2024, the Company received an offer to purchase the parcel of the land at the Valleyfield site for \$2.1 million. The transaction is expected to close in the next 10 days.