Quebec Grown
Premium Grade Cannabis

MANAGEMENT DISCUSSION & ANALYSIS

For the three-month period ended
November 30, 2022

January 20, 2023

CANNARA BIOTECH INC.

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

This Management Discussion and Analysis ("MD&A") of Cannara Biotech Inc. ("Cannara" or the "Company") has been prepared by management as of January 20, 2023, and should be read in conjunction with the condensed interim consolidated financial statements and related notes thereto of the Company for the three-month period ended November 30, 2022, and 2021. The condensed interim consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Certain information and notes usually provided in the annual financial statements have been omitted or condensed. Therefore, this MD&A should also be read in conjunction with the information contained in the annual audited consolidated financial statements of the Company and the notes thereto for the year ended August 31, 2022.

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

All references in this MD&A to "Q1 2023" and "first quarter of 2023" are to Cannara's fiscal quarter ended November 30, 2022. "Q1 2022" and "first quarter of 2022" are to Cannara's fiscal quarter ended November 30, 2021.

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

NON-GAAP MEASURES

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

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

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

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

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

COMPANY PROFILE

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

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

COMPANY PROFILE *(continued)*

The second facility is a former massive purpose-built cannabis hybrid greenhouse that is being redesigned into an indoor facility zone by zone to ensure consistent and premium flower cultivation. The second facility is over a million square feet in size comprised of 24 independent growing zones totaling 600,000 square feet, a 225,000 square feet cannabis 2.0 processing center and a 200,000 square feet rooftop greenhouse located in Valleyfield, Quebec ("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.

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 data, unique air-sealed packaging, attention to detail, and community responsiveness, all of which have had a compounded 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 high gross margins. The Cannara platform consists of 2 mega facilities in Quebec, a lean labour force, and a management team dedicated to product innovation, thought leadership, and maintaining a low cost-structure, all designed to allow for the highest quality products at some of the most disruptive prices in retail. The Cannara model has resulted in a grassroots following in Quebec, significant brand awareness and affinity amongst Ontario, British Colombia and Saskatchewan retailers and consumers, and additional inquiries for product distribution across the rest of Canada.

In the prior year, the Company launched operations at the Valleyfield Facility and activated 6 of its 24 growing zones (150,000 square feet of cultivation canopy) in order to grow production capacity to meet the Company's expanding demand. In Q1 2023, the Company activated its 7th growing zone, bringing its total active plants under cultivation to approximately 70,000 at the Valleyfield Facility with an additional 12,000 plants under cultivation at the Farnham Facility, together, capable of currently generating approximately 23,500 kg of cannabis per year. Cannara has only completed 29% of its current Valleyfield Facility expansion plans and is focused on continuing to activate more growing zones. The Company has set an objective for fiscal 2023 of activating 9 growing zones, a 50% increase from the capacity the Valleyfield Facility was producing at its prior fiscal year end. In Q1 2023, the Company generated $10.3 million of revenue, a gross profit before fair value adjustments of $4 million or 39%, and an Adjusted EBITDA of $1.7 million.

As of November 30, 2022, Cannara's distribution network services 4 provinces being Quebec, Ontario, Saskatchewan, and British Columbia, with Quebec and Ontario being its major markets. The Company estimates its market share as of the first quarter of 2023 is approximately 7% in Quebec[1] and 2% in Ontario[2]. The Company will continue to expand its sales and distribution network and enter new provincial markets in lockstep with increased production coming from the Valleyfield Facility.

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

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

[1] Based on estimated sales data provided by Weed Crawler, for the period of September to November 2022
[2] Based on actual wholesale sales OCS data program for the period of September to November 2022

CANNARA FACILITIES

FACILITY	SIZE	CAPACITY	TYPE	ELECTRICITY	FACILITY HIGHLIGHTS
FARNHAM, QUEBEC	Licensed area (phase 1): 170 000 sf Site: 625,000 sf Land: 1,430,000 sf	Active Grow Area: 22,000 sf 3,500 kg Revised phase 1 current capacity Active Cloning and Mother Area: 22,000 sf	Indoor	Power rate of approx. $0.065/kw	• Phase 1 completed in 2019 • State-of-the-art • 11 independent grow rooms + cloning and mother rooms for both facilities • Automated cultivation systems • Solventless hash laboratory • Pre-roll manufacturing center • Packaging center • R&D facility
VALLEYFIELD, QUEBEC	Licensed area: 600,000 sf Roof top greenhouse: 200,000 sf Processing and cannabis 2.0 processing center: 225,000 sf Site: 1,030,000 sf Land: 3,130,000 sf	Active Grow Area: 175,000 sf (7 zones) 20,000 kg Current capacity 117,000 kg Full capacity	Indoor	Preferential contracted power rate of approx. $0.035/kw	• Built in 2020 • Onsite Hydro Quebec substation • Fully outfitted and automated • 24 independent grow rooms • Blackout & shading systems • Former purpose-built cannabis greenhouse converted to replicate indoor conditions • Processing center (under construction) • BHO extraction laboratory

CANNARA BRAND PORTFOLIO

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

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

CANNARA GENETIC PORTFOLIO

In partnership with Exotic Genetix, Cannara has established an extensive bank of genetics which includes exclusive strains only available from the Company in the Canadian market. By undergoing pheno-hunting selection methods, Cannara has the ability to further broaden the product mix for each one of its brands by providing users with unique, dedicated cannabis experiences from carefully selected cultivars for years to come. Our lineup of unique genetics available in the retail market as at November 30, 2022, include:

GENETIC	BRAND	LAUNCH DATE	THC – CBD	TYPE	AROMAS & FLAVOURS
GELATO MINT Pheno #5	Tribal	Feb 2021	THC ≈ 24% CBD ≈ 1%	Indica	Gelato Mint is best known for its overwhelming fresh flavours and aromas. As its name suggests, Gelato Mint smells like a fresh mint dessert with pepper and earthy pine undertones.
CUBAN LINX Pheno #1	Tribal	June 2021	THC ≈ 25% CBD ≈ 1%	Sativa	Cuban Linx packs a rich lemony aroma accentuated by hints of gassy diesel and a touch of spice.
TERPLE Pheno #8	Tribal	Mar 2022	THC ≈ 24% CBD ≈ 1%	Hybrid – Sativa	Terple's aroma and flavour is complex with elements of sweet oranges, sour citrus, and spicy diesel.
POWER SHERB Pheno #3	Tribal	May 2022	THC ≈ 24% CBD ≈ 1%	Indica	Power Sherb is silky smooth on the exhale and evokes a truly unique smell and taste of sweet gas and ice cream.
TRIPLE BURGER Pheno # 72	Tribal	Nov 2022	THC ≈ 26% CBD ≈ 1%	Indica	Triple Burger complements Cannara's genetic library with heavy gas aroma and hints of skunk, rubber, and cheese and a touch of sweetness.
GALACTIC RNTZ Pheno #30	Tribal	Nov 2022	THC ≈ 25% CBD ≈ 1%	Indica	Galactic Rntz's complex aroma and flavour provides a strong gas flavour with fruity, sour undertones.
EARLY LEMON BERRY Pheno #92	Nugz	Mar 2021	THC ≈ 23% CBD ≈ 1%	Sativa	Early Lemon Berry features overwhelming citrus flavours thanks to its higher percentage of myrcene and ocimene terpenes. It smells like a mix of sweet grapefruit, lemons, and berries.
SLAPZ Pheno #25	Nugz	May 2022	THC ≈ 22% CBD ≈ 1%	Indica	Slapz delivers incredibly sweet sour-gassy aromas with a mix of light earthy flavours.
CBD RUNTZ Pheno #7	Orchid CBD	June 2021	THC ≈ 8% CBD ≈ 15%	Hybrid - Sativa	CBD Runtz is an award-winning CBD strain that offers an abundance of terpenes, a fruity and sweet aroma that delivers a candy-like flavour. A rare combination for a 1:2 CBD flower.

MARKET INSIGHT

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

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

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

Innovation in products
Cannara continues to innovate with new product launches in FY2023 including its Nugz Smalls in 14 gram and Strain Hunter in 15 gram format, offering consumer's different strains from the Company's genetic library on rotation, and its Tribal Live Resin Vape Cartridge and its Live Resin Full Spectrum Extract.

Innovation in genetics
Cannara's diligence in its phenotyping process allowed the Company to identify unique THC and CBD cultivars in order to fill whitespaces in the current market resulting in the release of its CBD Runtz product line in a segment previously neglected. Cannara has an extensive genetic bank allowing the Company to release exclusive products into the market. In 2022, Cannara signed an exclusive brand partnership with 50-time award-winning US-based cannabis breeder, cultivator and hash maker, Exotic Genetix Ltd. granting Cannara an exclusive license to use, market, sell and distribute Exotic Genetix branded products throughout Canada. In addition, Exotic Genetix will provide Cannara with ongoing consultation services with respect to providing knowledge and insights into cannabis genetics, plant growing methodologies and marketing services.

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

MARKET INSIGHT *(continued)*

Cannara's approach to the cannabis market has been driven by its pursuit for customer satisfaction and a commitment to delivering value to the market as a whole, from new entrants to experienced consumer segments. Over the course of the last year, the Company has exemplified thought leadership by bringing disruption and innovation to the Canadian cannabis market. In December 2022, Cannara was awarded three awards at the third annual KIND Awards, Canada's largest consumer-facing awards chosen by budtenders, for:

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

As a result, market response has solidified the Company's plans to continue its production capability expansion at its Valleyfield Facility, one of Quebec's largest cannabis cultivation and manufacturing facilities. The Valleyfield Facility can produce 117,000 kg of cannabis per year once at full capacity, allowing the Company to increase its supply of quality cannabis products to grow market share in existing markets while simultaneously expanding into new markets. The Company estimates its market share as of the first quarter of 2023 is approximately 7% in Quebec[3] and 2% in Ontario[4]. The Company believes that market share can be expanded in current markets and gain ability to enter in new markets as it increases its ability to produce and process more cannabis from its Valleyfield Facility.

For the second fiscal quarter ended September 10, 2022, the SQDC's sales amounted to $139 million compared to $142 million in the same period of the prior period. For the fiscal year ended March 26, 2022, the provincial distributor of Quebec reported over $600 million in revenue, up from $537 million in fiscal 2021 and $311.6 million in fiscal 2020. Their retail footprint has expanded from 28 stores in fiscal year 2020 to 92 current locations as of the date of this release and has significant room for growth as Quebec has approximately one store per 100,000 people, as compared to Ontario and British Colombia that have approximately one store per 10,000 people. To date, the provincial distributor of Quebec expects to have captured 58.5% of the illicit market, a trend which is expected to continue to rise as consumers migrate from the illicit trade to experience quality traceable products, competitive pricing, and an improved in-store buying experience. As a result, the Company expects to increase its revenue figures as the market continues to expand in Quebec with 24 active SKUs now in market as of the date of this release.

The Ontario market is leading recreational cannabis sales nationally. For the fiscal year ended March 31, 2022, the Ontario Cannabis Store reported $1.2 billion in total sales, an increase compared to sales of $652 million in the prior year. This achievement is primarily driven by the rapid growth of brick-and-mortar stores which reached over 1,600 retail stores across the province as of the date of this release. Increase product supply will enable the Company to penetrate further the Ontario market and gain market share. The Company currently has 26 listed SKUs in the Ontario market as of the date of this release, and 6 new products already accepted to be launched in the spring of 2023.

In addition to further establishing its position in the Quebec and Ontario cannabis markets, Cannara is well positioned for national growth given its production capabilities, brand strategy, superior cannabis products and lower operating costs. Cannara entered the British Columbia market in September 2022 with a significant cost advantage when compared to producers in other parts of the country as Quebec offers some of the lowest electricity and labour rates across Canada; the two largest cost inputs in cannabis cultivation. 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. The Company is actively working on growing market share in its current markets and will open new distributions networks systematically with increased production supply.

[3] Based on estimated sales data provided by Weed Crawler, for the period of September to November 2022
[4] Based on actual wholesale sales OCS data program for the period of September to November 2022

LOOKING AHEAD

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

FY 2023 Activities

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

Respond to market demand by increasing production capabilities

Since the beginning of the retail launch, reaction from consumers have been very positive, and has resulted in the requirement of the Company to expand its production capacity. During Q1 2023, the Company activated its 7th growing zone of 25,000 square foot at its Valleyfield Facility, reaching a total of 175,000 square feet of active canopy, or approximately 70,000 plants under cultivation. The Company has set an objective for fiscal 2023 to have 9 growing zones activated, a 50% increase from the capacity the Valleyfield Facility was producing at its prior fiscal year end. The Facility has a total of 24 growing zones built out, providing Cannara the ability to organically increase production capacity. This increase in production capacity to meet unmet demand naturally improves market penetration as exemplified by the Company's Tribal Cuban Linx 3.5 gram SKU in Ontario which as of the date of this release is the 2nd best-selling 3.5 gram flower product in market (ranking based on trailing 90 days units sold from Headset Data dated January 5th, 2023).

New Product Offering

The Company is focused on the innovation of new products for FY 2023 across all 3 of its flagship brands. In Q1 2023, Cannara launched its solvent-based hydrocarbon extracts in Ontario under the Tribal brand with a live Resin vape cartridge and 1g full spectrum extract (FSE). Two new formats of dry flower were also introduced: a 14-gram Nugz Smalls, and a 15-gram Strain Hunter, both of which will offer different strains on a rotational basis. The Company is also currently in the process of improving its value proposition to consumers in the pre-roll sector by increasing the size of each pre-roll from 0.5 gram to 0.6 gram, thereby increasing the total amount of cannabis in each pack from 2.5 grams to 3 grams, while maintaining the same retail price.

Cannara has grown to be a disruptor in solventless extracts. Building from its early launch of THC and CBD balanced Old School and Ice Water Hash in Quebec, Cannara expanded its line of hash SKUs in Ontario with higher potency Fresh Frozen Hash Rosin in May 2022 and a THC dominant Old School Hash in September 2022, both of which have become top 10 best-selling concentrates in Ontario as of the date of this release (ranking based on trailing 90 days units sold from Headset Data dated January 5th, 2023). A THC dominant Nugz Ice Water Hash and Fresh Frozen Hash Rosin were subsequently launched in British Columbia a month later in October 2022. The THC-dominant Nugz Ice Water Hash will also launch in Ontario in January 2023.

New Genetic Releases

New genetic cultivars of cannabis continue to resonate with Canadian consumers and set licensed producers apart. The Company is actively researching for new genetics, with at least 3 new genetics expected to be brought to market in fiscal 2023. Two new genetic releases have already been launched in November 2022 under the Tribal brand (Triple Burger in Quebec, Galactic Rntz in Quebec and Ontario). New genetic releases are a product of the Company maintaining a rigorous pheno-hunting program that involves hand selecting only a few winning plants out of hundreds of different varieties of cannabis strains and phenotypes. Strain and phenotype selection is based on cultivar-brand fit, potency of cannabinoids and terpenes, bud structure, yield and anticipated market appeal.

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

LOOKING AHEAD *(continued)*

Increasing market Penetration in current markets and Expanding into New Provinces

During fiscal 2023, the Company will focus on increasing its market share in Quebec, Ontario, British Columbia and Saskatchewan and expand its product offering into Alberta. In September 2022, Cannara launched its products into the British Columbia market. The Company was also deemed eligible to hold a cannabis representative registration by the province of Alberta in November 2022, paving the way for it to sell cannabis into the Alberta retail market.

Continued Positive Adjusted EBITDA

Cannara's objective is to continue to report positive quarterly Adjusted EBITDA throughout FY 2023 resulting from the Company's focus on premium-grade cannabis products at disruptive retail pricing, its lean operational model, and its two mega facilities benefiting from Quebec's low electricity cost and competitive labour rates. Additionally, the development of a pre-roll manufacturing centre and a solventless hash lab and butane hash oil ("BHO") extraction lab delivers a whole plant capability making full use of all cannabis raw inputs. Furthermore, the Company's agility and commitment to profitability will drive the Company to pursuing the development of high demand SKUs that will generate healthy gross margins. During the first quarter of 2023, the Company generated a positive Adjusted EBITDA of $1.7 million compared to 1$ million in the same period of prior year, a 70% increase.

Q1 2023 AND SUBSEQUENT EVENT HIGHLIGHTS

OPERATIONAL

September-November 2022 – Entry into the British Columbia Market, 14 new SKUs launched across Ontario and Quebec

During the quarter, Cannara launched 7 its dry flower, pre-roll, and hash products in the BC market.

In addition, Cannara launched14 new SKUs of its premium-grade cannabis in Ontario and Quebec under the Company's flagship brands: Tribal, Nugz and Orchid CBD brands, bringing its total SKU count to 32 SKUs in market as of the date of this release.

Fall 2022 Cannara Product Launches

Brand	Product Name	Category	Launch Market(s)
Tribal	Cuban Linx	5 x 0.6 gram prerolls	Ontario
Tribal	Cuban Linx	1 gram live resin full spectrum extract	Ontario
Tribal	Galactic Rntz	3.5 gram dried flower	Quebec, Ontario
Tribal	Galactic Rntz	5 x 0.5 gram, 5 x 0.6 gram prerolls	Quebec, Ontario
Tribal	Triple Burger	3.5 gram dried flower	Quebec
Tribal	Triple Burger	5 x 0.5 gram prerolls	Quebec
Tribal	Uni Pro ARK	Vape Battery	Ontario
Nugz	Slapz	3.5 gram dried flower	Ontario
Nugz	Smalls	14 gram dried flower	Ontario
Nugz	Strain Hunter	15 gram dried flower	Quebec
Orchid CBD	THC I CBD 30:15	Oils	Quebec
Orchid CBD	THC I CBD 15:30	Oils	Quebec
Orchid CBD	CBD 750	Oils	Quebec
Orchid CBD	CBD 2500	Oils	Quebec

The Company also commenced selling its 1 gram G Mint Live Resin vape cartridge that contains only fresh frozen Gelato Mint flower with zero additives, for a true-to-cultivar, full flavor experience. As a complement, the Company also introduced a premium universal 510 vape battery, the Tribal UNI Pro ARK, that was designed in collaboration with Yocan, a well-known premium vape manufacturer. Cannara is the exclusive partner for custom UNI Pro 2.0 devices in Canada. The vape battery will be sold through retailers across Canada, direct to consumer via www.tribal.ca/ark, and listed by the OCS as of November 2022.

December 2022 – Termination of services management agreement

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

Q1 2023 AND SUBSEQUENT EVENT HIGHLIGHTS *(continued)*

OPERATIONAL *(continued)*

December 2022 – Awarded certification for international export

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

Through the IMC-G.A.P. certification process, CU has declared that the Company's dried cannabis products are compliant in accordance with the World Health Organization's ("WHO") guidelines on Good Agricultural Practices ("GACP") Medicinal Plants, the European Medicines Agency's ("EMEA"), Guideline on GACP for Herbal Medical Products, and the Israeli Medical Cannabis GACP. Obtaining the Certification provides documented evidence that Cannara has met IMC-G.A.P.'s, WHO's and EMEA's strict standards for quality and consistency in the cultivation, harvest and primary processing of cannabis needed for export of cannabis inputs to certain international jurisdictions, including Israel, Europe and Australia, for further processing into finished good via a GMP certified production facility.

December 2022 – Launch of Cannara Swag Shop

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

December 2022 – Winter KIND event in Toronto, Ontario

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

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

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

January 2023 – New Lease agreement signed for the Valleyfield site

The Company signed a lease agreement with a new tenant for a building that is under construction at its Valleyfield site. The start of the lease term is set for January 2024 with a term of 11 years. This transaction will generate income and free cash flow using an area of the Valleyfield Facility that would otherwise have been unused as it is not licensed for cannabis production.

Q1 2023 AND SUBSEQUENT EVENT HIGHLIGHTS *(continued)*

CAPITAL TRANSACTIONS

During the first quarter of 2023, the Company granted a total of 7,500,000 stock options at an exercise price of $0.10 and 14,000,000 stock options at an exercise price of $0.18 to employees and 225,000 to board members at an exercise price of $0.18, subject to certain vesting conditions in accordance with the employee share option plan.

In addition, a total of 500,000 stock options were exercised at a price of $0.10 per share for a total consideration of $50,000, resulting in the issuance of 500,000 new common shares of the Company.

On November 30, 2022, Cannara announced that the Company filed with the TSX Venture Exchange, a Notice in respect of 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 15,000,000 of its common shares. Purchases will be made at prevailing market prices commencing December 3, 2022 and ending December 2, 2023.

On January 12, 2023, The Company announced details of its proposal to consolidate all of the issued and outstanding common shares of the Company on the basis of ten (10) pre-consolidation common shares for every one (1) post-consolidation common shares, subject to the approval of shareholders at the upcoming meeting of shareholders to take place on January 25, 2023, as well as TSXV approval. Currently, the Company's authorized share capital is an unlimited number of common shares without par value, of which 877,481,321 shares are issued and outstanding, with a further 45,107,450 shares reserved for issuance upon the exercise of existing stock options.

On January 20, 2023, the Company granted a total of 378,000 stock options at an exercise price of $0.18, subject to certain vesting conditions in accordance with the employee share option plan.

SELECTED FINANCIAL INFORMATION

Selected Financial Highlights	Three-month periods ended November 30, 2022	Three-month periods ended November 30, 2021
Gross revenue[1]	$ 10,241,414	$ 6,327,335
Other income	70,191	237,241
	10,311,605	6,564,576
Gross profit, before fair value adjustments	4,023,398	3,014,025
%[2]	39%	46%
Gross profit	4,832,595	2,620,042
%[3]	47%	40%
Operating expenses	3,689,720	2,603,287
Net finance expense	1,139,924	547,254
Net income (loss)	2,951	(530,499)
%[4]	0%	-8%
Adjusted EBITDA[5]	1,680,484	974,320
%[5]	16%	15%
Basic earnings (loss) per share	$ -	$ (0.01)
Diluted earnings (loss) per share	$ -	$ (0.01)

	November 30, 2022	August 31, 2022
Cash	$ 6,758,964	$ 12,114,691
Accounts receivable	5,693,460	8,526,918
Biological assets	4,079,148	5,712,456
Inventory	20,589,337	13,266,987
Working capital[6]	27,130,615	29,127,599
Total assets	125,426,287	125,617,047
Total current liabilities	11,262,823	11,861,085
Total non-current liabilities	46,880,581	47,020,201
Net assets	67,282,883	66,735,761
Free cash flow[5]	1,997,538	2,510,534

[1] Gross revenue included revenue from sale of goods, net of excise taxes, services revenues and lease revenues.
[2] Gross profit before fair value adjustments % is determined as Gross profit before fair value adjustments divided by Total revenues.
[3] Gross profit % is determined as Gross profit divided by Total revenues.
[4] Net income (loss) % is determined as Net income (loss) divided by Total revenues.
[5] Adjusted EBITDA, working capital and free cash flow are non-GAAP financial performance measures with no standard definition under IFRS.
A reconciliation of these measures is presented elsewhere in this MD&A.
Adjusted EBITDA % is a non-GAAP financial ratio and is determined as Adjusted EBITDA divided by total revenues.
[6] Working capital is determined as total current assets minus total current liabilities.

SELECTED FINANCIAL INFORMATION *(continued)*

		Three-month periods ended	
Adjusted EBITDA		November 30, 2022	November 30, 2021
Net income (loss)	$	2,951 $	(530,499)
Adjustments:			
Changes in fair value of inventory sold		1,999,327	1,866,480
Unrealized gain on changes in fair value of biological assets		(2,808,524)	(1,472,497)
Amortization, including amortization in cost of good sold		758,267	592,559
Loss on disposal of property, plant and equipment		25,980	24,662
Gain on sublease		-	(12,876)
Share-based compensation, including share-based compensation in cost of good sold		562,559	(40,763)
Net finance expense		1,139,924	547,254
Adjusted EBITDA[1]		1,680,484	974,320
Free cash flow			
Cash from (used) in operating activities	$	(315,088) $	113,460
Adjustment:			
Changes in non-cash operating working capital		(2,312,626)	(1,061,059)
Free cash flow[1]		1,997,538	1,174,519

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

For the first quarter of 2023, total revenues and gross profit before fair value adjustments amounted to $10.3 million and $4 million, generating a gross margin before fair value adjustments of 39%, compared to $6.5 million and $3.0 million, a gross margin before fair value adjustments of 46%, in the same period of prior year. Increase in revenues of $3.8 million (59% increase) are attributable to increased cannabis retail sales due to higher cannabis production and service revenue generated. The decrease in gross margin is resulting from additional costs being incurred in Q1 2023 compared to Q1 2022 relating to its remaining growing zones to that are required to be activated at the Valleyfield Facility to generate further revenues, in addition to slight increase in pre-roll product format sizes while maintaining pricing structure to consumers.

Adjusted EBITDA amounted to $1.7 million, compared to $1 million in the same period of the prior year, an increase of $0.7 million or 70%. Net income amounted to $3,000, compared to a loss of $0.5 million in the same period of the prior year, an increase of $0.5 million or 101%, as a result of increased revenues generated from the increased cannabis production.

For the first quarter of 2023, free cash flow was $2 million compared to $1.2 million in the same period of the prior year. The increase is attributable to additional cannabis sales received compared to previous quarter.

SELECTED SEGMENT RESULTS OF OPERATIONS

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

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

Selected Segment Financial Highlights	Three-month period ended November 30, 2022				Three-month period ended November 30, 2021			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Gross revenue[1]	$ 9,373,502	$ 867,912	$ -	$ 10,241,414	$ 5,415,981	$ 899,004	$ 12,350	$ 6,327,335
Other income	70,191	-	-	70,191	237,241	-	-	237,241
	9,443,693	867,912	-	10,311,605	5,653,222	899,004	12,350	6,564,576
Gross profit, before fair value adjustments	3,240,067	783,331	-	4,023,398	2,180,288	828,576	5,161	3,014,025
%[2]	34%	90%	-	39%	39%	92%	42%	46%
Gross profit	4,049,264	783,331	-	4,832,595	1,786,305	828,576	5,161	2,620,042
%[3]	43%	90%	-	47%	32%	92%	42%	40%
Operating expenses	2,807,169	-	-	2,807,169	2,368,704	-	25,020	2,393,724
Segment operating income (loss)	1,242,095	783,331	-	2,025,426	(582,399)	828,576	(19,859)	226,318
%[4]	13%	90%	-	20%	-10%	92%	-161%	3%
Net finance expense	-	-	1,139,924	1,139,924	-	-	547,254	547,254
Other	-	-	882,551	882,551	-	-	209,563	209,563

[1] Gross revenue included revenue from sale of goods, net of excise taxes and lease revenues.
[2] Gross profit before fair value adjustments % is determined as Gross profit before fair value adjustments divided by Total revenues.
[3] Gross profit % is determined as Gross profit divided by Total revenues.
[4] Segment operating income (loss) % is determined as Segment operaring income (loss) divided by Total revenues.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Cannabis operations

For the three-month period ended November 30, 2022, the segment generated $8.4 million in cannabis-related and cannabis accessories revenues, net of excise taxes, compared to $5.4 million for the same period of the prior year, an increase of $3 million or 56%. The main source of revenues is from the retail market, primarily from the Quebec and Ontario market. The increase in sales is attributable to the increased production at the Valleyfield Facility and increasing demand for its products in Quebec, Ontario, Saskatchewan and British Colombia. The Company also utilizes its wholesale distribution network as leverage to generate additional revenues from time to time.

Highlights of the first quarter of 2023 are as follows:

- Activation of the 7th growing zone at the Valleyfield Facility – a total of 175,000 square foot of cultivation area is actively operating;
- Introduction of 2 new genetics in the Quebec market: Triple Burger and Galactic Rntz;
- Launch of the butane extracted live resin vape cartridge and the live resin full spectrum extract in the Ontario Market;
- Introduction of Nugz 14g smalls and Nugz 15g Strain Hunter – new dry flower format SKUs;
- Launch of CBD oil products in the Quebec market in a variety of formats and concentrations of THC/CBD;
- Launch of cannabis accessory in Ontario with the Tribal UNI Pro Ark Battery for vape cartridge;
- Increased employee's headcount from approximately 190 employees in Q1 2022 to 280 employees in Q1 2023; a 47% increase, to support the growth of the operations; and
- Approximately 2,270 kg of cannabis or 675,000 units sold across 3 flagship brands during the first quarter of 2023. This compares to 1,475 kg of cannabis or 344,500 units sold in the first quarter of 2022, a 53% increase in cannabis sold.

For the three-month period ended November 30, 2022, the Company generated $0.9 million as service revenues for cannabis manufacturing services rendered to another licensed producer, compared to nil in the prior period.

For the three-month period ended November 30, 2022, the Company generated $71,000 as other income related to government incentives, various tax credits granted, and other ancillary revenue compared to $237,000 for same period of the prior year.

For the three-month period ended November 30, 2022, the Company incurred $5.5 million in costs of goods sold, compared to $3.5 million for the same period of the prior year as a result of increased labor and operating costs given the increase in revenues. For the three-month period ended November 30, 2022, the Company incurred $0.7 million in management services cost related to a manufacturing services agreement signed in the second quarter of 2022, compared to nil in the prior period. The segment generated a gross profit before fair value adjustments of $3.2 million or 34% for the three-month period ended November 30, 2022, compared to $2.2 million or 39% for the same period of the prior year.

Fair value adjustment on sale of inventory includes the fair value of biological assets included in the value of inventory transferred to cost of goods sold. The change in fair value of inventory sold recognized during the three-month period ended November 30, 2022, amounted to $2 million compared to $1.9 million for the same period of the prior year.

For the three-month periods ended November 30, 2022, the Company has recognized an unrealized gain on changes in fair value of biological assets of $2.8 million on the lots in the cultivation cycle that have not yet been harvested compared to $1.5 million for the same period of the prior year. The increase in fair value of biological assets is the direct result of Valleyfield Facility increased plant count currently in cultivation.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Cannabis operations (continued)

The segment generated $4.1 million in gross profit for the three-month period ended November 30, 2022, compared to $1.8 million in the same period of the prior year, representing a favorable increase of $2.3 million or 127%. The increase results primarily from gross profit generated from its retail cannabis sales and unrealized gains in the fair value of biological assets as previously explained above.

For the three-month period ended November 30, 2022, the segment incurred $2.8 million in operating expenses compared to $2.4 million in the same period of the prior year resulting in an increase of $0.4 million or 17%.

For the first quarter of 2023, the increase in operating expenses is mainly attributable to:

- An increase of $0.2 million in general and administrative expenses, which is mainly attributable to increase in salaries to support both Facilities and other overhead expenses; and
- An increase of $0.2 million in selling, marketing, and promotion, which is aligned with the increase in revenues generated.

Overall, the segment generated operating income of $1.2 million for the first quarter of 2023, compared to a loss of $0.6 million in the same period of the prior year, representing a favorable increase in operating income of $1.8 million, as a result of the factors described above.

Real estate operations

As part of the Company's capital management strategy, the Company has leased out all currently unoccupied space in the Farnham facility. As at November 30, 2022, the Company leased 414,114 square feet of the total 625,000 available square feet to two tenants.

For the three-month period ended November 30, 2022, the Company generated lease revenues of $0.9 million compared to $0.9 million in the same period of the prior year. The lease revenues for the first quarter of 2022 were similar to the same period of the prior year. To realize these lease revenues during this period, the Company incurred $85,000 in lease operating costs compared to $70,000 in the same period of the prior year.

For the three-month period ended November 30, 2022, the segment generated operating income of $0.8 million compared to $0.8 million for the same period of the prior year.

Other

For the first quarter of 2023, the segment incurred $1.1 million in net finance and $0.9 million in other expenses, compared to $0.5 million and $0.2 million for the same period of the prior year. The increase in net finance expense is explained by the interest incurred on the upsized debt from $21.8 million to $50 million that occurred in Q4 2022, and other debt-related fees. The increase in other expense is mainly explained by an increase of $0.6 million in share-based compensation as the result of the stock options granted during the first quarter of 2023.

QUARTERLY FINANCIAL POSITION AND RESULTS

The following table sets forth, for the quarter indicated, selected information relating to the Company's consolidated financial position as well as revenues, gross profit, net income (loss) attributable to Shareholders of the Company, related basic and diluted income (loss) per share attributable to Shareholders of the Company and adjusted EBITDA for the eight completed fiscal quarters to date:

	November 30, 2022	August 31, 2022	May 31, 2022	February 28, 2022	November 30, 2021	August 31, 2021	May 31, 2021	February 28, 2021
Current assets	$ 38,393,438	$ 40,988,684	$ 24,492,459	$ 22,655,663	$ 26,801,623	$ 19,246,733	$ 13,863,004	$ 10,524,748
Non-current assets	87,032,849	84,628,363	82,336,646	79,035,367	75,338,952	72,775,880	44,062,718	43,679,577
Total assets	125,426,287	125,617,047	106,829,105	101,691,030	102,140,575	92,022,613	57,925,722	54,204,325
Current liabilities	11,262,823	11,861,085	11,489,526	7,910,429	8,100,090	6,833,798	4,697,602	3,101,290
Non-current liabilities	46,880,581	47,020,201	31,162,576	31,237,792	30,518,676	21,073,003	16,732,890	16,868,088
Total liabilities	58,143,404	58,881,286	42,652,102	39,148,221	38,618,766	27,906,801	21,430,492	19,969,378
Net assets	$ 67,282,883	$ 66,735,761	$ 64,177,003	$ 62,542,809	$ 63,521,809	$ 64,115,812	$ 36,495,230	$ 34,234,947

	November 30, 2022	August 31, 2022	May 31, 2022	February 28, 2022	November 30, 2021	August 31, 2021	May 31, 2021	February 28, 2021
Total revenues	$ 10,311,605	$ 11,947,112	$ 10,063,716	$ 7,422,354	$ 6,564,576	$ 6,481,739	$ 7,159,331	$ 2,257,754
Gross profit before fair value adjustments	4,023,398	4,759,816	3,735,420	2,635,607	3,014,025	3,440,799	3,506,278	1,298,261
%[2]	39%	40%	37%	36%	46%	53%	49%	58%
Gross profit	4,832,595	7,103,374	4,748,643	3,015,577	2,620,042	4,526,126	4,419,124	2,095,208
Net income (loss) attributable to Shareholders of the Company	2,951	2,553,444	1,428,297	(1,145,823)	(530,499)	1,131,843	1,697,802	(862,756)
Basic and diluted income (loss) per share	$ -	$ 0.01	$ 0.01	$ (0.01)	$ (0.01)	$ 0.01	$ 0.01	$ (0.01)
Adjusted EBITDA[1]	1,680,484	2,493,253	1,819,450	33,998	974,320	1,364,415	2,562,835	(716,750)
Cash from (used) in operating activities	(315,088)	(3,157,570)	(1,709,746)	(1,325,035)	113,460	1,394,724	1,508,662	(1,504,916)
Free cash flow[3]	1,997,538	2,510,534	1,485,633	233,620	1,174,519	1,437,106	2,076,916	(448,162)

[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 below.
[2] Gross profit before fair value adjustments % is determined as Gross profit before fair value adjustments divided by Total revenues.
[3] Free cash flow is a non-GAAP financial performance measure with no standard definition under IFRS and is defined as cash flow from operations excluding changes in non-cash operating working capital.

Factors Affecting the Variability of Quarterly Results

There are quarter-over-quarter variations in net sales revenue, net results, cash flow from operations and free cash flow principally due to the ramp up in operations since the Company retail debut in February 2021. The Company also acquired a second Facility, the Valleyfield Facility, in June 2021 and invested significantly in the months that follow to redesign the growing zone and prepared for the start of the cultivation activities. Higher expenses are associated with business growth and the development of our product pipeline. First revenues generated from the sale of harvested cannabis from the Valleyfield Facility occurred in the third quarter of 2022 and continues since then. Other factors affecting the variability of quarterly results are changes in inventory levels and from time to time related to average net selling price changes. There has been a decrease in net sales, net results and free cash flow in the first quarter of 2023 compared to fourth quarter of 2022 as a results of temporary pre-roll manufacturing capacity challenges that impacted revenues generated. The Company is working diligently on increasing internal pre-roll manufacturing capacity, and has expects to resolve this situation in addition to increasing its reliance on third-party pre-roll manufacturing production during the second quarter of 2022.

	Three-month periods ended							
	November 30, 2022	August 31, 2022	May 31, 2022	February 28, 2022	November 30, 2021	August 31, 2021	May 31, 2021	February 28, 2021
Adjusted EBITDA reconciliation								
Net income (loss)	$ 2,951	$ 2,553,444	$ 1,428,297	$ (1,145,823)	$ (530,499)	$ 1,131,843	$ 1,697,802	$ (862,756)
Adjustments:								
Changes in fair value of inventory sold	1,999,327	2,427,690	2,267,056	1,269,679	1,866,480	2,036,305	1,526,050	447,885
Unrealized gain on changes in fair value of biological assets	(2,808,524)	(4,771,248)	(3,280,279)	(1,649,649)	(1,472,497)	(3,121,632)	(2,438,896)	(1,244,832)
Amortization, including amortization in cost of good sold	758,267	980,816	1,142,886	629,027	592,559	807,266	1,117,260	385,393
Loss on disposal of property, plant and equipment	25,980	8,227	8,480	6,444	24,662	12,136	-	54,224
Gain on sublease	-	-	-	-	(12,876)	(24,442)	-	-
Share-based compensation, including share-based compensation in cost of good sold	562,559	85,047	147,221	151,324	(40,763)	88,088	99,106	51,385
Net finance expense	1,139,924	1,209,277	105,789	772,996	547,254	434,851	561,513	451,951
Adjusted EBITDA	$ 1,680,484	$ 2,493,253	$ 1,819,450	$ 33,998	$ 974,320	$ 1,364,415	$ 2,562,835	$ (716,750)
Free cash flow reconciliation								
Cash from (used) in operating activities	$ (315,088)	$ (3,157,570)	$ (1,709,746)	$ (1,325,035)	$ 113,460	$ 1,394,724	$ 1,508,662	$ (1,504,916)
Adjustment:								
Changes in non-cash operating working capital	(2,312,626)	(5,668,104)	(3,195,379)	(1,558,655)	(1,061,059)	(42,382)	(568,254)	(1,056,754)
Free cash flow[3]	1,997,538	2,510,534	1,485,633	233,620	1,174,519	1,437,106	2,076,916	(448,162)

CASH FLOW ANALYSIS

		Three-month periods ended	
		November 30, 2022	November 30, 2021
Cash from (used) in operating activities	$	(315,088) $	113,460
Cash from financing activities		(1,228,408)	9,509,326
Cash used in investing activities		(3,743,843)	(3,609,398)

Operating activities

For the first quarter of 2023, cash used in operating activities was $0.3 million, which is explained by the timing of investing in biological assets and inventory and the collection of receivables from cannabis sales generated. The operations continue to grow to respond to the high demand of the Company's products and to support its market share expansion to other provinces.

Financing activities

For the first quarter of 2023, cash flow from financing activities was $1.3 million which was mainly attributable to the reimbursement of capital on the term loan for $0.5 million and payment of related interests for $0.7 million. The Company also paid $77,000 in lease-related payments and received $50,000 for the exercise of stock options.

Investing activities

For the first quarter of 2023, cash used in investing activities was $3.7 million which was mainly attributable to the construction of butane extraction lab, office and warehouse space and initial costs related to the processing centre build out at the Valleyfield Facility. In addition to capital expenditures incurred resulting from the expected increased post-harvest requirements. Interest received relating to interest earned on cash balances held at a Canadian financial institution amounted to $63,000 for the three-month period of 2023. There is no restriction on the Company's ability to use its cash for its operational needs while it earns interest on the unused balance.

LIQUIDITY AND CAPITAL RESOURCES

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

The Company has a working capital of $27.1 million as at November 30, 2022 (August 31, 2022 - $29.1 million). The Company has been able to maintain its working capital compared to prior year due to the liquidities generated through the sale of its cannabis products.

As at November 30, 2022, the Company's working capital was composed of:

- cash on hand of $6.8 million (August 31, 2022 - $12.1 million); and
- accounts receivable, lease receivable, biological assets, inventory and prepaid expenses and other assets of $31.6 million (August 31, 2022 - $28.9 million); less
- accounts payable and accrued liabilities, sales tax payable, deferred lease revenue and deferred grant income of $9.1 million (August 31, 2022 - $9.7 million); and
- current portion of long-term debt, lease liabilities and term loan of $2.2 million (August 31, 2022 - $2.2 million).

The Company may continue to have capital requirements in excess of its currently available resources. In the event the Company's plans change, its assumptions change or prove inaccurate, or its capital resources in addition to projected cash flow, if any, prove to be insufficient to fund operations, the Company may be required to seek additional financing.

The Company expects that its existing cash resources of $6.8 million as at November 30, 2022, along with its forecasted cashflows and undrawn credit facilities, will be able to fund its planned operating expenses for at least the next twelve months from November 30, 2022.

LIQUIDITY AND CAPITAL RESOURCES *(continued)*

Financing

Type of loan	Interest Rate	Maturity		Balance as at November 30, 2022		Balance as at August 31, 2022
Term loan (1)	7.95%	May 31, 2025 (2)	$	38,137,116	$	38,562,521
Convertible debenture A	4%	June 21, 2024		5,286,464		5,124,548
Convertible debenture B	4%	July 12, 2024		4,606,341		4,465,595

(1) The base term of the term loan is 3 years ending May 31, 2025. The term loan bears a variable interest rate based on prime and/or banker acceptance rates. As at November 30, 2022, the interest rate was 7.95%. The Company has to respect financial covenants including (a) maintaining a certain liquidity coverage at all the times, and, starting on September 2023, to maintain (b) a fixed charge coverage ratio equal to or more than 1.25 to 1.0, (c) a funded debt to EBITDA ratio equal to or less than 3.0 to 1.0 at each quarter-end; and (d) a minimum EBITDA of $3 million for the fiscal quarter of May 31, 2023 and a minimum EBITDA of $4 million for the fiscal quarter ending August 31, 2023 and thereafter. The Company was in compliance with the covenants as at November 30, 2022.

Other contractual obligations

		Carrying amount		Less than one year		One to five years		Thereafter		Total contractual amount
Accounts payable and accrued liabilities	$	8,779,999	$	8,779,999	$	-	$	-	$	8,779,999
Long-term debt (2)		2,637		2,659		-		-		2,659
Lease liabilities (2)		169,569		169,104		11,617		-		180,721
Convertible debentures (2)		9,892,805		-		10,700,000		-		10,700,000
Term loan (1)		38,137,116		1,965,961		36,861,772		-		38,827,733

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

Financing with a related party

For the three-month period ended November 30, 2023, the Company recognized $0.2 million as interest expense on the convertible debentures and fees on a debt guarantee while in the same period of the prior year, the Company incurred $0.3 million as interest expense on the mortgage and on the convertible debentures. The mortgage payable of $6.55 million along with accrued interest were reimbursed in the prior year as part of the revised loan agreement with a banking institution. As at November 30, 2022, accrued interest on the convertible debentures of $0.6 million and accrued fees on debt financing guarantee fee of $62,500 were included in accounts payable and accrued liabilities (as at August 31, 2022 - $0.5 million and $0.4 million, respectively) and total convertible debentures amounted to $10.7 million (as at August 31, 2022 – convertible debentures amounted to $10.7 million).

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.

TRANSACTIONS AND BALANCES WITH RELATED PARTIES *(continued)*

Key management personnel compensation

For the three-month period ended November 30, 2023, salaries and benefits incurred for key management personnel amounted to $210,000 (2022 - $107,500); share-based compensation attributable to key management and directors was $488,000 (2022 - $26,500) and director fees were $17,500 (2022 - $17,500). As at November 30, 2022, the Company owed $61,000 (August 31, 2022 - $53,000) to key management personnel for accrued salaries and vacation expenses and $15,000 to directors (August 31, 2022 – $15,000).

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

The carrying amount of the accounts receivable in the consolidated statement of financial position is presented net of an allowance for expected credit losses, estimated by the Company's management based, in part, on the age of the specific receivable balance and the current and expected collection trends. As at November 30, 2022, none of the receivables were past due. The allowance for expected credit loss was nil as at November 30, 2022. 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 November 30, 2022, the Company had current assets of $38.4 million and current liabilities of $11.3 million, for a working capital balance of $27.1 million. The Company expects that its existing cash resources of $6.8 million as at November 30, 2022, along with its forecasted cashflows and available undrawn credit facilities, will be able to fund its planned operating expenses for at least the next twelve months from November 30, 2022.

Interest rate risk

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

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

Concentration risk

The Company has a significant concentration of its revenues generated from customers that, if eliminated, would have a significant impact on the Company's operations. For the three-month period ended November 30, 2022, the Company has generated 96% of its cannabis revenues from two provincial distributors.

CRITICAL ACCOUNTING ESTIMATES

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES

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

SUMMARY OF OUTSTANDING SHARE DATA

Summary of Outstanding Share Data as of January 20, 2023:

Authorized:	Unlimited number of voting and participating common shares without par value.
Issued and outstanding:	877,481,321 common shares
	44,471,911 stock options
	59,444,444 contingently issuable common shares upon conversion of convertible debentures

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

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