



Quebec Grown  
Premium Grade Cannabis

# MANAGEMENT DISCUSSION & ANALYSIS

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For the three-month period ended  
November 30, 2023

January 29, 2024

CANNARA BIOTECH INC.

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

This Management Discussion and Analysis (“MD&A”) of Cannara Biotech Inc. (“Cannara” or the “Company”) has been prepared by management as of January 29, 2024, and should be read in conjunction with the condensed interim consolidated financial statements and related notes thereto of the Company for the three-month periods ended November 30, 2023, and 2022. The condensed interim consolidated financial statements were 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”). Certain information and notes usually provided in the annual financial statements have been omitted or condensed. Therefore, this MD&A should also be read in conjunction with the information contained in the annual audited consolidated financial statements of the Company and the notes thereto for the year ended August 31, 2023.

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

All references in this MD&A to “Q1 2024” and “first quarter of 2024” are to Cannara's fiscal quarter ended November 30, 2023, and “Q1 2023” and “first quarter of 2023” are to Cannara's fiscal quarter ended November 30, 2022.

Additional information filed by Cannara with the Canadian Securities Administrators, including quarterly reports, annual reports and other material contracts can be found on-line at [www.sedarplus.ca](http://www.sedarplus.ca).

### **FORWARD-LOOKING STATEMENTS**

This MD&A may contain “forward-looking information” within the meaning of Canadian securities legislation (“forward-looking statements”). These forward-looking statements are made as of the date of this MD&A and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation. Forward-looking statements relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events and include, but are not limited to, the Company and its operations, its projections or estimates about its future business operations, its planned expansion activities, the adequacy of its financial resources, 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-GAAP 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-GAAP financial measures, in addition to conventional measures prepared in accordance with IFRS, enable investors and analysts to evaluate the Company’s operating results, underlying performance and future prospects in a manner similar to management.

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

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”, the OTCQB under the symbol “LOVFF” and the Frankfurt Stock Exchange under the symbol “8CB0”. The Company’s headquarters are located in Montreal, Quebec.

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

**COMPANY PROFILE (continued)**

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

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

Cannara promises a better value proposition for consumers, retailers, and investors alike—consumers save money when purchasing premium Cannara cannabis products, retailers experience a higher volume and velocity of sales, and investors benefit from a sustainable operation generating healthy gross margins. The Cannara platform consists of 2 low-cost facilities in Quebec, a lean labour force, and a passionate management team dedicated to product innovation, thoughtful leadership, and maintaining a low cost-structure, all designed to allow for the highest quality products at some of the most disruptive prices in retail. The Cannara model has resulted in a grassroots following in Quebec, significant brand awareness and affinity amongst Ontario, Alberta, British Columbia, and Saskatchewan retailers and consumers, and additional inquiries for product distribution across the rest of Canada. At the date of this release, Cannara products can be found in every single cannabis retail store in Quebec, in 92% of Ontario stores, in over 81% of Alberta stores and 80% of British Columbia stores<sup>1</sup>.

From 2021 to 2022, the Company launched operations at the Valleyfield Facility and activated 6 of its 24 growing zones to grow production capacity to meet the Company’s expanding demand. During the year of 2023, the Company expanded its production capacity at the Valleyfield Facility by 50%, activating another 3 new growing zones, bringing its total active cultivation canopy to over 250,000 square feet and plants under cultivation to approximately 90,000, with an additional 11,000 plants under cultivation at the Farnham Facility. Together, both facilities are currently capable of generating approximately 30,500 kg of cannabis per year, a 50% increase in production capacity over the prior year. Cannara has only completed 28% of its current Valleyfield Facility expansion plans and is focused on continuing to activate more growing zones in line with growing demand for its products. The Company has set an objective for fiscal 2024 of activating 1 additional 25,000 square foot growing zone all the while focusing on quality, product innovation and achieving cost savings from economies of scale. Subsequent to quarter-end, the 10<sup>th</sup> growing zone at Valleyfield was activated in January 2024. In Q1 2024, the Company generated \$19.5 million of net revenue, a gross profit before fair value adjustments of \$7.9 million or 41%, an Adjusted EBITDA of \$5.2 million<sup>2</sup> or 27%, a net income of \$2.1 million, free cash flow of \$4.9 million<sup>3</sup> and an earnings per share of \$0.02 for the quarter.

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

<sup>1</sup> Trellis Distribution Insights, January 2024

<sup>2</sup> Adjusted EBITDA is a non-GAAP measure. A reconciliation from net income is included in section “Selected Financial Information” of this MD&A

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

## CANNARA BIOTECH INC.

Management Discussion & Analysis

For the three-month period ended November 30, 2023



### COMPANY PROFILE (continued)

As of November 30, 2023, Cannara's distribution network services 5 provinces, Quebec, Ontario, Saskatchewan, Alberta, and British Columbia, with Quebec and Ontario being its current major markets. The Company estimated its Quebec market share to be approximately 8.7% for the first quarter of 2024, from 8.5% in the prior quarter (4<sup>th</sup> largest Licensed Producer ("LP") in Quebec by market share)<sup>4</sup>. For Ontario, the Company's estimated overall market share rose from 3.0% in the fourth quarter of 2023 to 3.15% in first quarter of 2024, bolstered by the vape and concentrate category in which the Company held a 5.2% and 9.6% market share in those respective categories for the period. The Company once again exemplified its ability to achieve significant market penetration in a short timeframe in Alberta, where the Company grew market share by 98% (1.2% to 2.3%) from Q4 2023 to Q1 2024, having only entered the market in May 2023. In British Columbia, the Company maintained a 0.84% market share for the first quarter of 2024.<sup>5</sup>

Subsequent to year-end, the Company's market share has continued to increase, with Cannara's estimated market share for the month of December rising to 8.8% in Quebec (3<sup>rd</sup> in rank amongst LPs), 3.1% in Alberta (9<sup>th</sup> in LP rank), 1.0% in British Columbia (22<sup>nd</sup> in LP rank). In Ontario, the Company estimated its market share for the month of December at 3.0% in Ontario (9<sup>th</sup> in LP rank)<sup>6</sup>.

Additional information about Cannara may be found at [www.cannara.ca](http://www.cannara.ca).

Investor information may be found at [www.investors.cannara.ca](http://www.investors.cannara.ca).

Cannara's Swag Shop may be found at <https://cannaraswag.shop>.

### CANNARA'S FACILITIES

FACILITY	SIZE	CAPACITY	TYPE	ELECTRICITY	FACILITY HIGHLIGHTS
<b>FARNHAM, QUEBEC</b>	Licensed area: 170 000 sf Site: 625,000 sf Land: 1,430,000 sf	Active Grow Area: 28,000 sf  3,500 kg current capacity  Active Cloning and Mother Area: 23,000 sf	Indoor	Power rate of approx. \$0.065/kw	<ul style="list-style-type: none"><li>• Licensed area completed in 2019</li><li>• State-of-the-art</li><li>• 11 independent grow rooms + cloning and mother rooms for both facilities</li><li>• Automated cultivation systems</li><li>• Solventless hash laboratory</li><li>• Pre-roll manufacturing center</li><li>• Packaging center</li><li>• R&amp;D facility</li></ul>
<b>VALLEYFIELD, QUEBEC</b>	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: 225,000 sf (9 zones)  27,000 kg Current capacity  96,500 kg Full capacity	Indoor	Preferential contracted power rate of approx. \$0.035/kw	<ul style="list-style-type: none"><li>• Purpose-built in 2020</li><li>• Onsite Hydro Quebec substation</li><li>• Fully outfitted and automated</li><li>• 24 independent grow rooms</li><li>• Blackout &amp; shading systems</li><li>• Purpose-built cannabis greenhouse converted to replicate indoor conditions</li><li>• Processing center (under construction)</li><li>• BHO extraction laboratory</li></ul>

<sup>4</sup> Based on estimated sales data provided by Weed Crawler, for the period of June to August 2023 and September to November 2023

<sup>5</sup> Based on estimated sales data provided by Headset, for the period of June to August 2023 and September to November 2023

<sup>6</sup> Based on estimated sales data provided by Headset, for the month of December 2023

**CANNARA’S BRAND PORTFOLIO**

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

BRAND	STORY	PRODUCT MIX	MARKETS
	Tribal delivers uncompromised premium grade cannabis products to consumers who have a deep relationship with cannabis. From pheno-hunting rare genetics to unfolding each strain’s lineage and flavour profiles, Tribal offers a continuous rotation of “AAAA” genetic strains at entry level pricing.	Dried Flower Pre-Rolls Live Resin Full Spectrum Extract Live Resin Vape Cartridges Accessories	Quebec Ontario Saskatchewan Alberta British Columbia
	Nugz is a cult-worthy movement committed to abundance, quality, and value. Nugz offers an exceptional product at disruptive retail prices specifically designed for long-time cannabis enthusiasts who have a sharp sense for quality but are looking for a price break that aligns with consuming habits.	Dried Flower Milled Flower (Grind) Pre-Rolls Infused Pre-Rolls Old School Hash Ice Water Hash Fresh Frozen Hash Rosin Vape Cartridges Accessories	Quebec Ontario Saskatchewan Alberta British Columbia
	Orchid CBD is a wellness brand dedicated to providing premium CBD-dominant cannabis. Orchid CBD offers award winning strains of terpene-rich, trichome covered, oversized dried flowers that deliver softer blissful experiences with no compromise on quality and flavours.	Dried Flower Pre-Rolls Oils Live Resin Vape (Q2 2024)	Quebec Ontario Saskatchewan Alberta British Columbia

**CANNARA’S GENETIC PORTFOLIO**

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

GENETIC	BRAND	LAUNCH DATE	THC – CBD	TYPE	AROMAS & FLAVOURS
<b>GELATO MINT</b> 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.
<b>CUBAN LINX</b> Pheno #1	Tribal	June 2021	THC ≈ 28% CBD ≈ 1%	Sativa	Cuban Linx packs a rich lemony aroma accentuated by hints of gassy diesel and a touch of spice.
<b>TERPLE</b> 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.
<b>POWER SHERB</b> Pheno #3	Tribal	May 2022	THC ≈ 24% CBD ≈ 1%	Indica	Power Sherb is silky smooth on the exhale and evokes a truly unique smell and taste of sweet gas and Neapolitan ice cream.
<b>TRIPLE BURGER</b> Pheno # 72	Tribal	Nov 2022	THC ≈ 26% CBD ≈ 1%	Indica	Triple Burger complements Cannara’s genetic library with heavy gas aroma and hints of skunk, rubber, and cheese and a touch of sweetness.

**CANNARA'S GENETIC PORTFOLIO (continued)**

GENETIC	BRAND	LAUNCH DATE	THC – CBD	TYPE	AROMAS & FLAVOURS
<b>GALACTIC RNTZ</b> 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.
<b>JIGGLERS</b> Pheno #22	Tribal	Oct 2023	THC ≈ 22% CBD ≈ 1%	Indica	Jigglers offers flavours and aromas of strawberries & cream.
<b>DRIP STATION</b> Pheno #15	Tribal	Oct 2023	THC ≈ 25% CBD ≈ 1%	Indica	Drip Station presents gasoline scents blended with dewy earth and black licorice flavours.
<b>EARLY LEMON BERRY</b> 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.
<b>SLAPZ</b> Pheno #50	Nugz	May 2022	THC ≈ 22% CBD ≈ 1%	Indica	Slapz delivers incredibly sweet sour-gassy aromas with a mix of light earthy flavours.
<b>CBD RUNTZ</b> Pheno #7	Orchid CBD	June 2021	THC ≈ 8% CBD ≈ 15%	Hybrid - Sativa	Canada's #1 CBD Flower in sales for 2023 <sup>7</sup> , 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.

**CANNARA'S COMPETITIVE ADVANTAGE**

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

**Quality, attention to detail and transparency**

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

**Price competitiveness**

Cannara has continued to maintain a value-based pricing approach without compromising quality. With significant cost advantages due to Quebec's low cost of electricity, utilities and labor, favorable acquisition cost of its Facilities in addition to being fully vertically integrated achieving economies of scale, Cannara expects to continue its value-based pricing approach while building a sustainable and profitable business.

<sup>7</sup> Based on estimated sales data provided by Headset, for the year 2023

**CANNARA'S COMPETITIVE ADVANTAGE (continued)****Innovation in products**

Cannara continues to innovate building its product portfolio across several categories including pre-rolls, infused pre-rolls, milled flower and vapes, launching a total of 74 SKUs in markets across Canada in fiscal 2023, increasing its in-market SKU count from 23 to 97, representing an increase of over 322%. During the first quarter of 2024, Cannara launched a further 58 SKUs across Canada which include its Nugz Joints and Reefers—a 10- and 12-pack of pre-rolls, respectively, in an attention grabbing french fry pack, the Nugz Wrap, a 1-gram hemp cone pre-roll with glass tip, Nugz Infused Pre-rolls, Nugz Grind, a 7-gram milled flower offering with a branded loading tool, Nugz Vapes, and finally new genetics for its Tribal Live Resin Vape Cartridges and Live Resin Full Spectrum Extracts.

**Innovation in genetics**

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

**Community responsiveness**

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

**Thought leadership**

Cannara's approach to the cannabis market has been driven by its pursuit for customer satisfaction and a commitment to delivering value to a broad consumer base market, from new entrants to experienced consumer segments. Over the course of the last year, the Company has exemplified thought leadership by bringing disruption and innovation to the Canadian cannabis market. In December 2023, Cannara was awarded four awards at the fourth annual KIND Awards, Canada's largest consumer-facing awards chosen by budtenders for:

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

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

## MAIN MARKET INSIGHTS

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

### Estimated Cannara Market Share Q1 2024 and Q4 2023

Province	Q1 2024	Q4 2023	% Change
QC	8.7%	8.5%	2.4%
ON	3.15%	3.0%	4.0%
AB	2.3%	1.2%	98.3%
BC	0.84%	0.80%	6.3%

### Estimated Cannara Market Share December 2023

Province	December 2023	% Change from Q1 2024
QC	8.8%	1.2%
ON	3.0%	-4.8%
AB	3.1%	36.5%
BC	1.0%	21.4%

## QUEBEC

The provincial distributor of Quebec, SQDC, generated estimated revenues of approximately \$172 million for the three-month period ending November 30, 2023<sup>8</sup>. The Company estimated its market share during this period to be approximately 8.7% in Quebec (4<sup>th</sup> largest licensed producer in Quebec by market share), representing a 2.4% increase from prior quarter. Subsequent to year-end, in December, Cannara's market share increased to 8.8%<sup>9</sup>.

The SQDC retail footprint has expanded from 28 stores in fiscal year 2020 to 98 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 Columbia 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<sup>10</sup>.

<sup>8</sup> Based on estimated sales data provided by Weed Crawler, for the period of September to November 2023

<sup>9</sup> Based on estimated sales data provided by Weed Crawler, for the periods of September to November 2023 and December 2023

<sup>10</sup> SQDC, Annual Report 2022

**MAIN MARKET INSIGHTS (continued)****ONTARIO**

The Ontario market is leading recreational cannabis sales nationally. According to Headset Data, from September 2023 to November 2023, Ontario retail stores sold approximately \$476 million in cannabis products<sup>11</sup>. The Company estimated that it had a 3.15% market share in Ontario in Q1 2024, marking the Company as the 9<sup>th</sup> largest licensed producer selling into the OCS. This growth is primarily driven by the vape and concentrate categories in which the Company holds a market share of 5.2% and 9.6% in each respective category for the period. Subsequent to year-end, market share slightly decreased to 3.0% as a result of new SKU load-ins in November with restock following in January 2024<sup>12</sup>. The Company currently has 64 listed SKUs in the Ontario market as of Q1 2024, and an additional 40 new SKUs were accepted by the OCS to be launched in Q2 and Q3 of 2024. Cannara products can be found in over 1,500 retail stores across Ontario, representing over 92% of stores in Ontario<sup>13</sup>.

**ALBERTA**

Alberta is Canada's second largest cannabis market and has been a market that Cannara has been focused on growing in since May of 2023. According to Headset Data, from September to November 2023, Alberta retail stores sold approximately \$207 million in cannabis. From September to November 2023, the Company increased its market share from 1.2% to 2.3%, an increase of 98.3%. The Company's performance in Alberta can largely be attributed to Cannara's strong product portfolio and positive initial customer feedback, resulting in the province listing a total of 35 SKUs as at November 30, 2023. As a result of its continued success in the market, Cannara further increased its market share to 3.1% in December 2023, a 36.5% increase from Q1 2024, and holds over 5% market share in both vape and concentrate categories<sup>14</sup>. Growing demand and competitive production costs will enable Cannara and its brands to increase market share by focusing on offering premium-grade cannabis products at competitive prices to the market.

**BRITISH COLUMBIA**

British Columbia represents Canada's fourth largest cannabis marketplace, generating \$192 million in revenue from September to November 2023. Cannara entered the British Columbia market in September 2022 with a significant cost advantage compared to producers in other parts of the country as Quebec offers some of the lowest electricity rates and competitive labour rates across Canada; the two largest cost inputs in cannabis cultivation. The Company estimates that it had a 0.84% market share in British Columbia for Q1 2024. Subsequent to year-end, as of December 2023, the Company increased in market share by an additional 21.4% to 1.0%<sup>15</sup>. Cannara's market presence has grown to 15 currently listed SKUs, with an objective to increase market share through sales and marketing activities.

**LOOKING AHEAD**

Cannara is constantly monitoring growth opportunities that support its commitment to continue to report increased positive Adjusted EBITDA, net income and free cash flows. The Company allocated resources to existing and new activities over the course of the 2024 fiscal year which include:

**FY 2024 Activities**

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

<sup>11</sup> Based on Headset Data for the period of September to November 2023

<sup>12</sup> Based on Headset Data for the periods of September to November 2023 and December 2023

<sup>13</sup> Trellis Distribution Insights, January 2024

<sup>14</sup> Based on Headset Data for the periods of September to November 2023 and December 2023

<sup>15</sup> Based on Headset Data for the periods of September to November 2023 and December 2023

**LOOKING AHEAD (continued)****Respond to Market Demand**

Since the beginning of the Company's retail launch, reaction from consumers have been very positive, requiring the Company to expand its production capacity in order to satisfy demand. During fiscal year 2023, the Company activated 3 additional growing zones of 25,000 square feet at its Valleyfield Facility, reaching a total of 225,000 square feet of active canopy, or approximately 90,000 plants under cultivation. The Company had set an objective for fiscal 2024 to have a total of 10 growing zones activated, while focusing on quality, product innovation and achieving cost savings from economies of scale. Subsequent to quarter-end, the 10<sup>th</sup> growing zones was activated in January 2024. The Valleyfield Facility has a total of 24 growing zones built out, providing Cannara the ability to organically increase production capacity in lockstep with increasing demand.

**New Product Offering**

The Company is focused on the continuing its product innovation in fiscal 2024 across all 3 of its flagship brands. During the three months ended November 30<sup>th</sup> 2023, Cannara introduced a further 58 SKUs across the country, increasing in in market SKU count by 60% to 155 from 97 as at August 31, 2023. New innovative products launched include:

- Quebec's first dabbable concentrates (2 SKUs; QC)
- Nugz Resin Infused Pre-rolls (6 SKUs; ON, QC)
- Nugz Full Spectrum Vape Carts (6 SKUs, ON, AB)
- Nugz Grind Milled Flower (3 SKUs, QC, AB)

**New Genetic Releases**

The Company is constantly researching new genetics to add to its portfolio. During the quarter, Cannara listed 2 additional genetics in the Fall of 2023 (Jigglers – QC, ON, AB and Drip Station – QC, ON, AB). Unique and exclusive genetic cultivars of cannabis continue to resonate with Canadian consumers and serve to set licensed producers apart from one another. New genetic releases are a result of the Company's rigorous pheno-hunting program that involves hand selecting only a few winning plants out of hundreds of different varieties of cannabis strains and phenotypes. Strain and phenotype selection is based on cultivar-brand fit, potency of cannabinoids and terpenes, bud structure, yield, and anticipated market appeal.

Cannara's brand partnership with 50-time US award-winning seed breeder, Exotic Genetix, grants Cannara an exclusive license to use, sell and distribute Exotic Genetix branded products throughout Canada in addition to providing access to direct breeder's knowledge and insights on Exotic Genetix cannabis strains. As a testament to the quality of its cannabis genetic library, Exotic Genetix strains makes up seven of the eleven genetics grown by Cannara, including Gelato Mint, Power Sherb, Galactic Runtz, Jigglers, Drip Station, CBD Runtz and Slapz, each of which have received overwhelmingly positive consumer feedback.

**Increasing Market Penetration in Current Markets and Expanding into New Provinces**

During the quarter, the Company focused on increasing its market share in Quebec, Ontario, British Columbia, and has been aggressively building its new market in Alberta. The Company began selling into Alberta in May of 2023 with 3 live resin vape cartridges and has since increased its portfolio to 35 SKUs in market as of November 2023, carving out a market share of 2.3% for the month of December 2023<sup>16</sup>.

**Continued Positive Adjusted EBITDA**

Cannara's objective is to continue to report positive quarterly Adjusted EBITDA throughout FY2024 and beyond resulting from the Company's focus on premium-grade cannabis products at disruptive retail pricing, its lean operational model, as well as its two facilities benefiting from Quebec's low electricity cost and competitive labour rates. Additionally, with the Company's focus of being fully vertically integrated with its in-house pre-roll manufacturing centre, a solventless hash lab and a butane hash oil ("BHO") extraction lab, Cannara has access to a significant competitive advantage by allowing the Company to fully integrate the use of all cannabis raw inputs. Furthermore, the Company's agility and commitment to profitability has driven the Company to pursue the development of high demand SKUs that will generate healthy gross margins. During Q1 2024, the Company generated Adjusted EBITDA of \$5.2 million compared to \$1.7 million in the same period of prior year, a 201% increase.

<sup>16</sup> Based on estimated sales data provided by Headset, for the month of December 2023

## 2024 QUARTER-TO-DATE AND SUBSEQUENT EVENT HIGHLIGHTS

### OPERATIONAL

#### October 2023 – International sale of cannabis product

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 ("EMA"), 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 EMA'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.

In October 2023, the Company successfully completed its first international export sale of cannabis product to Israel. Although the main focus of revenues for the Company will be generated from its Canadian clients, this sale confirms the Company's ability to complete international sales as an opportunistic and ancillary revenue source.

#### November 2023 – Building in construction at the Valleyfield site

In fiscal 2023, the Company had signed a lease agreement with a new tenant for a building that is under construction adjacent to its Valleyfield site. In November 2023, the lease was mutually terminated with the future tenant and the deferred lease revenue of \$79,675 was reimbursed. The Company now envisions either to use the building as a future cannabis processing site or to sell it to a third party.

#### September 2023 – January 2024 – Continued expansion in Quebec, Ontario, British Columbia and Alberta with additional SKU listings

In line with the Company's core objective on product innovation, Cannara increased its total in market SKU count from 97 as at August 31, 2023 to 167 as at the date of this release. The resulting SKU increase signifies the confidence in Cannara's product portfolio from the Company's provincial clients.

In Quebec, the Company successfully launched 19 SKUs during the period, raising its total SKU portfolio to 41.

In Ontario, the Company listed 21 additional SKUs, bringing its total SKU count from 53 to 74 SKUs, a 40% increase.

As a result of its successful launch in Alberta during 2023, the province accepted an additional 30 SKUs to be listed and sold in Alberta from September 2023 to January 2024, increasing its total in market SKU count to 37 as of the date of this report.

In British Columbia, the Company had the privilege of launching a Holiday limited time offer 1-gram infused hemp pre-roll in November to celebrate the holiday season and prepare the market for the Company's infused pre-rolls in the coming months (listing and launch date to be determined).

#### September 2023 – January 2024 Cannara QC, ON, BC & AB Product Launches

Brand	Product Name	Product Type	Format	Listing Province
NUGZ	NUGZ BLANKS	Accessories	5 units	ON
NUGZ	NUGZ BUDDER	Budder	1g	QC
NUGZ	SLAPZ FRESH FROZEN HASH ROSIN	Fresh Frozen Hash Rosin	1g	AB
NUGZ	TERPLE FRESH FROZEN HASH ROSIN	Fresh Frozen Hash Rosin	1g	AB
NUGZ	GALACTIC BURGER FULL SPECTRUM VAPE	Full Spectrum Vape	1g	ON, AB
NUGZ	LEMON LINX FULL SPECTRUM VAPE CART	Full Spectrum Vape	1g	AB
NUGZ	SLERPLE FULL SPECTRUM VAPE CART	Full Spectrum Vape	1g	ON
NUGZ	G SHERB FULL SPECTRUM VAPE CART	Full Spectrum Vape	1g	AB
NUGZ	SLAPZ ICE WATER HASH	Ice Water Hash	1g	QC
NUGZ	GALACTIC BURGER INFUSED PRE-ROLL	Infused Pre-rolls	3 x 0.6g	ON, QC

Brand	Product Name	Product Type	Format	Listing Province
NUGZ	G SHERB INFUSED PRE-ROLLS	Infused Pre-rolls	3 x 0.6g	QC
NUGZ	SLERPLE INFUSED PRE-ROLLS	Infused Pre-rolls	3 x 0.6g	ON, QC
NUGZ	LEMON LINX INFUSED PRE-ROLLS	Infused Pre-rolls	3 x 0.6g	QC
NUGZ	SLERPLE OLD SCHOOL HASH	Infused Pre-rolls	2g	QC
NUGZ	RED'S BIG STICK	Infused Wrap	1.5g	BC
NUGZ	KINGPIN SATIVA INFUSED WRAP	Infused Wrap Pre-roll	1g	ON
NUGZ	GELATO SHERB GRIND	Milled Flower	15g	QC
NUGZ	GELATO SHERB GRIND	Milled Flower	7g	AB
NUGZ	SLERPLE GRIND	Milled Flower	7g	AB
NUGZ	GALACTIC BURGER OLD SCHOOL HASH	Old School Hash	2g	ON, QC
NUGZ	G SHERB OLD SCHOOL HASH	Old School Hash	2g	AB, QC
NUGZ	LEMON LINX OLD SCHOOL HASH	Old School Hash	2g	QC
NUGZ	JOINTS	Pre-roll (multi pack)	12 x 0.6g	AB
NUGZ	JOINTS SATIVA	Pre-roll (multi pack)	12 x 0.6g	AB
NUGZ	WRAP SATIVA	Pre-roll (single pack)	1g	ON, AB
NUGZ	WRAP	Pre-roll (single pack)	1g	AB
NUGZ	EARLY LEMON BERRY	Whole Flower	7g	ON
NUGZ	NUGZ INDICA	Whole Flower	15g	QC
NUGZ	PHENO HUNTER	Whole Flower	28g	QC
NUGZ	NUGZ SATIVA	Whole Flower	14g /15g	AB, QC
ORCHID CBD	CBD RNTZ LIVE RESIN VAPE	Full Spectrum Vape	1g	ON
ORCHID CBD	CBD 2500 SWEET STRAWBERRIES	Oils	50mL	ON
ORCHID CBD	THC   CBD 30:15 SWEET STRAWBERRIES	Oils	20mL	ON
ORCHID CBD	CBD RUNTZ	Whole Flower	28g	ON
ORCHID CBD	CBD RUNTZ	Whole Flower	3.5g	AB
TRIBAL	CUBAN LINX 510 VAPE BATTERY	Batteries	1ea	ON
TRIBAL	JIGGLERS LIVE RESIN FSE	Full Spectrum Extract	1g	ON
TRIBAL	G MINT LIVE RESIN FSE	Full Spectrum Extract	1g	AB, QC
TRIBAL	CUBAN LINX LIVE RESIN FSE	Full Spectrum Extract	1g	AB
TRIBAL	TRIPLE BURGER LIVE RESIN VAPE CART	Live Resin Vape Cart	1g	AB
TRIBAL	CUBAN LINX LIVE RESIN VAPE CART	Live Resin Vape Cart	1g	AB
TRIBAL	TERPLE LIVE RESIN VAPE CART	Live Resin Vape Cart	1g	AB
TRIBAL	DRIP STATION PRE-ROLL	Pre-roll (multi pack)	5 x 0.6g/0.5g	ON, QC
TRIBAL	JIGGLERS PRE-ROLL	Pre-roll (multi pack)	5 x 0.6g/0.5g	ON, QC
TRIBAL	CUBAN LINX PRE-ROLL	Pre-roll (multi pack)	5 x 0.6g	AB
TRIBAL	GELATO MINT PRE-ROLL	Pre-roll (multi pack)	5 x 0.6g	AB
TRIBAL	GALACTIC RNTZ PRE-ROLL	Pre-roll (multi pack)	5 x 0.6g	AB
TRIBAL	POWER SHERB PRE-ROLL	Pre-roll (multi pack)	5 x 0.6g	AB
TRIBAL	TRIPLE BURGER PRE-ROLL	Pre-roll (multi pack)	5 x 0.6g	AB
TRIBAL	TERPLE PRE-ROLL	Pre-roll (multi pack)	5 x 0.6g	AB
TRIBAL	DRIP STATION	Whole Flower	3.5g	ON, QC
TRIBAL	GELATO MINT	Whole Flower	28g	ON
TRIBAL	JIGGLERS	Whole Flower	3.5g	ON, QC
TRIBAL	POWER SHERB	Whole Flower	28g	ON
TRIBAL	CUBAN LINX	Whole Flower	3.5g	AB
TRIBAL	GELATO MINT	Whole Flower	3.5g	AB
TRIBAL	GALACTIC RNTZ	Whole Flower	3.5g	AB
TRIBAL	POWER SHERB	Whole Flower	3.5g	AB
TRIBAL	TRIPLE BURGER	Whole Flower	3.5g	AB

## CANNARA BIOTECH INC.

Management Discussion & Analysis

For the three-month period ended November 30, 2023



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

#### FINANCING

The Company has access to a revolving credit facility for working capital purposes. During the first quarter of 2024, the Company drew \$2.5 million. Subsequent to quarter end, the Company drew a further \$1,000,000 to support its growing working capital needs. Each tranche drawn on the credit facility has a 60-day term and can be renewed at the end of the period.

#### CAPITAL TRANSACTIONS

On November 11, 2022, Cannara obtained the approval from the TSX-V for a normal course issuer bid (the "NCIB") to be transacted through the facilities of the TSX-V. Pursuant to the NCIB, Cannara may purchase up to 1,500,000 of its common shares, or approximately 1.5% of its float for cancellation over a 12-month period. Purchases will be made at prevailing market prices commencing December 3, 2022, and ending December 2, 2023. In connection with the NCIB, the Company established a share purchase plan with its designated broker to facilitate the purchase of shares under the NCIB at times when the Company would ordinarily not be permitted to purchase its shares due to regulatory restrictions or self-imposed blackout periods.

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

Subsequent to quarter-end, the Company purchased 5,000 additional common shares having a book value of \$4,890 for cash consideration of \$4,313. All shares purchased were cancelled.

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

#### SELECTED FINANCIAL INFORMATION

Selected Financial Highlights	Three-month periods ended	
	November 30, 2023	November 30, 2022
Gross revenue <sup>1</sup>	\$ 19,426,528	\$ 10,241,414
Other income	56,766	70,191
	19,483,294	10,311,605
Gross profit, before fair value adjustments	7,935,717	4,023,398
% <sup>2</sup>	41%	39%
Gross profit	8,235,356	4,832,595
% <sup>3</sup>	42%	47%
Operating expenses	4,796,710	3,689,720
Operating income	3,438,646	1,142,875
% <sup>4</sup>	18%	11%
Net finance expense	1,331,367	1,139,924
Net income	2,107,279	2,951
% <sup>5</sup>	11%	0%
Adjusted EBITDA <sup>6</sup>	5,170,812	1,716,833
% <sup>6</sup>	27%	17%
Basic earning per share	\$ 0.02	\$ -
Diluted earning per share	\$ 0.02	\$ -

**CANNARA BIOTECH INC.**

Management Discussion &amp; Analysis

For the three-month period ended November 30, 2023

**SELECTED FINANCIAL INFORMATION (continued)**

	November 30, 2023	August 31, 2023
Cash	\$ 2,639,385	\$ 4,270,517
Accounts receivable	9,880,853	10,592,705
Biological assets	6,432,262	5,774,121
Inventory	30,321,481	27,997,589
Working capital <sup>7</sup>	30,500,775	30,513,009
Total assets	144,821,913	141,522,254
Total current liabilities	22,261,932	21,182,827
Total non-current liabilities	40,700,914	40,595,383
Net assets	81,859,067	79,744,044
Free cash flow <sup>6</sup>	4,861,880	11,550,569

<sup>1</sup> Gross revenue included revenue from sale of goods, net of excise taxes, services revenues and lease revenues.<sup>2</sup> Gross profit before fair value adjustments % is determined as Gross profit before fair value adjustments divided by Total revenues.<sup>3</sup> Gross profit % is determined as Gross profit divided by Total revenues.<sup>4</sup> Operating income % is determined as Operating income divided by Total revenues.<sup>5</sup> Net income % is determined as Net income divided by Total revenues.<sup>6</sup> 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 for the current period and the comparative period of prior year is presented in the MD&amp;A.

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

<sup>7</sup> Working capital is determined as total current assets minus total current liabilities.

	Three-month periods ended	
	November 30, 2023	November 30, 2022
<b>Adjusted EBITDA</b>		
Net income	\$ 2,107,279	\$ 2,951
Adjustments:		
Changes in fair value of inventory sold	6,224,666	1,999,327
Unrealized gain on changes in fair value of biological assets	(6,524,305)	(2,808,524)
Amortization, including amortization in cost of good sold	1,022,277	758,267
Write-down of inventory to net realizable value	723,577	36,349
Loss on disposal of property, plant and equipment	5,380	25,980
Share-based compensation	280,571	562,559
Net finance expense	1,331,367	1,139,924
Adjusted EBITDA <sup>1</sup>	\$ 5,170,812	\$ 1,716,833
<b>Free cash flow</b>		
Cash from (used) in operating activities	\$ 354,217	\$ (315,088)
Adjustment:		
Changes in non-cash operating working capital	(4,507,663)	(2,312,626)
Free cash flow <sup>1</sup>	\$ 4,861,880	\$ 1,997,538

<sup>1</sup> Adjusted EBITDA and free cash flow is a non-GAAP financial performance measure with no standard definition under IFRS.**Q1 2024 vs Q1 2023 Highlights**

- Gross cannabis revenues before excise taxes increased to \$26.3 million in Q1 2024 from \$11.2 million in Q1 2023, a 135% increase. The increase is attributable to the increased production from its Valleyfield Facility in addition to continued growing demand for its products;
- Total revenues, net of excise taxes, increased to \$19.5 million in Q1 2024 from \$10.3 million in Q1 2023, an 89% increase.
- Gross profit, before fair value adjustments, increased to \$7.9 million in Q1 2024 from \$4 million in Q1 2023, a 98% increase;
- Gross profit percentage before fair value adjustments in Q1 2024 was 41% compared to 39% in Q1 2023;
- Operating income increased to \$3.4 million in Q1 2024 from \$1.1 million in Q1 2023, a 210% increase, inline with increases in total revenues;
- Net income increased to \$2.1 million in Q1 2024 from \$3,000 in Q1 2023. Net income for Q1 2024 represented 11% of total net revenues;
- Adjusted EBITDA increased by 206%, from \$1.7 million in Q1 2023 to \$5.2 million in Q1 2024;

**SELECTED FINANCIAL INFORMATION (continued)****Q1 2024 vs Q1 2023 Highlights (continued)**

- The Company generated positive operating cash flow amounting to \$0.4 million in Q1 2024 compared to cash flow used of \$0.3 million in Q1 2023;
- Free cash flow for Q1 2024 increased to \$4.9 million from \$2 million in Q1 2023, an 145% increase; and
- Generated an earnings per share of \$0.02 in Q1 2024 compared to nil in Q1 2023.

**Quarter over Quarter (“QoQ”) Highlights – Q1 2024 vs Q4 2023**

- Gross cannabis revenues before excise taxes increased by 11% QoQ, from \$23.8 million in Q4 2023 to \$26.3 million in Q1 2024 as a result of the Company’s continued focus on market share growth in its main markets through product innovation;
- Total revenues, net of excise taxes, increased by 7% QoQ, from \$18.3 million in Q4 2023 to \$19.5 million in Q1 2024;
- Gross profit, before fair value adjustments, increased by 15% QoQ, from \$6.9 million to \$7.9 million in Q1 2024;
- Gross profit percentage before fair value adjustments improved from 38% in Q4 2023 to 41% in Q1 2024. The resulting increase in gross profit percentage before fair value adjustments results from the Company’s focus on achieving benefits from its economies of scale as it continues to grow its operations;
- Operating income decreased to \$3.4 million in Q1 2024 from \$5.8 million in Q4 2023, a \$2.4 million decrease resulting primarily from larger gain from fair value adjustments in Q4 2023. Removing the effect of the fair value adjustments, operating income increased by \$0.3 million QoQ;
- Net income decreased to \$2.1 million in Q1 2024 from \$4.6 million in Q4 2023 due to above mentioned fair value adjustments;
- Adjusted EBITDA increased by 5% QoQ, from \$4.9 million in Q4 2023 to \$5.2 million in Q1 2024;
- Cash flow from operating activities decreased by 88%, from \$2.8 million in Q4 2023 to \$0.4 million in Q1 2024 due to the Company’s investment in front-loading the purchase of packaging materials during the quarter to meet timelines factoring in New Year supply chain delays and to achieve larger bulk price discounts; and
- Free cash flow increased by 10% QoQ, as free cash flow for Q1 2024 was \$4.9 million compared to \$4.4 million in Q4 2023.

**SELECTED SEGMENT RESULTS OF OPERATIONS**

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

The chief operating decision-maker assesses performance based on segment operating results, which were defined as segment operating income (loss) before share-based compensation, amortization, net finance expense, loss on disposal of property, plant and equipment and income tax.

## CANNARA BIOTECH INC.

### Management Discussion & Analysis

For the three-month period ended November 30, 2023

#### SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Selected Segment Financial Highlights	Three-month period ended November 30, 2023				Three-month period ended November 30, 2022			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Gross revenue	\$ 26,329,085	\$ 909,396	\$ -	\$ 27,238,481	\$ 11,215,699	\$ 867,912	\$ -	\$ 12,083,611
Excise taxes	(7,811,953)	-	-	(7,811,953)	(2,773,308)	-	-	(2,773,308)
Net Revenue	18,517,132	909,396	-	19,426,528	8,442,391	867,912	-	9,310,303
Services revenue	-	-	-	-	931,111	-	-	931,111
Other income	56,766	-	-	56,766	70,191	-	-	70,191
	18,573,898	909,396	-	19,483,294	9,443,693	867,912	-	10,311,605
Gross profit, before fair value adjustments	7,098,756	836,961	-	7,935,717	3,240,067	783,331	-	4,023,398
% <sup>1</sup>	38%	92%	-	41%	34%	90%	-	39%
Gross profit	7,398,395	836,961	-	8,235,356	4,049,264	783,331	-	4,832,595
% <sup>2</sup>	40%	92%	-	42%	43%	90%	-	47%
Operating expenses	4,101,567	-	-	4,101,567	2,807,169	-	-	2,807,169
Segment operating income <sup>3</sup>	3,296,828	836,961	-	4,133,789	1,242,095	783,331	-	2,025,426
% <sup>4</sup>	18%	92%	-	21%	13%	90%	-	20%
Net finance expense	-	-	1,331,367	1,331,367	-	-	1,139,924	1,139,924
Other	-	-	695,143	695,143	-	-	882,551	882,551
Segment net income (loss)	3,296,828	836,961	(2,026,510)	2,107,279	1,242,095	783,331	(2,022,475)	2,951

<sup>1</sup> Gross profit before fair value adjustments % is determined as Gross profit before fair value adjustments divided by Total revenues.

<sup>3</sup> Gross profit % is determined as Gross profit divided by Total revenues.

<sup>3</sup> Segment operating income is determined as Segment operating income before non-cash and other items which are included in "Other" segment.

<sup>4</sup> Segment operating income % is determined as Segment operating income divided by Total revenues.

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

For the three-month period ended November 30, 2023, the segment generated \$18.5 million in cannabis-related and cannabis accessories revenues, net of excise taxes, compared to \$8.4 million for the same period of the prior year, an increase of \$10.1 million or 119%. Compared to Q4 2023, cannabis-related and cannabis accessories revenues, net of excise taxes, increased by \$1.3 million, an 8% QoQ growth. The main source of revenues is from the Canadian retail market, more particularly, Quebec, Ontario, Alberta and British Columbia. The increase in sales is attributable to the increased production at the Company's Valleyfield Facility and increasing demand for its products across the country. Periodically, the Company also utilizes its wholesale distribution network to generate additional revenues.

Highlights of the first quarter of 2024 are as follows:

- Actively producing from a total of 9 growing zones out of the Valleyfield Facility, representing 225,000 square feet of active production canopy, bringing the Company's total production capacity for the full fiscal year of 2024 to approximately 30,500kg of cannabis per year in conjunction with the Farnham Facility. Subsequent to quarter-end, the 10<sup>th</sup> growing zones was activated;
- Increased its total product portfolio of cannabis products from 97 SKUS at the end of fiscal 2023, to 155 SKUS as at November 30, 2023; representing an increase of over 60%;
- Successfully completed its first international export sale of cannabis product to Israel confirming the Company's ability to complete international sales as an ancillary revenue source;
- 1,340,000 units were sold during Q1 2024 across 3 flagship brands compared to 675,000 units sold during the same period of the prior year, a 99% increase and 1,202,000 units were sold in Q4 2023, a 11% QoQ growth in units sold;
- Units sold during Q1 2024 represent approximately 3,836 kg in cannabis flower and 2,964 kg of estimated equivalent of cannabis flower used for derivative products. This compares to 2,270 kg of cannabis flower and 380 kg of estimated equivalent of cannabis flower for derivative products sold in the same period of prior year and 3,827 kg of cannabis flower and 2,075 kg of estimated equivalent of cannabis flower for derivative products sold in Q4 2023.

For the three-month period ended November 30, 2023, the Company generated nil as service revenues for cannabis manufacturing services rendered to another licensed producer, compared to \$0.9 million for the same period of the prior year. At the beginning of the second quarter of 2023, the Company terminated the contract from which most service revenues were derived from, which explains the reduction in services revenues generated in the current year. The Company generated \$0.06 million as other income related to government incentives, various tax credits granted, and other ancillary revenue compared to \$0.07 million for same period of the prior year.

For the three-month period ended November 30, 2023, the Company incurred \$11.5 million in costs of goods sold, compared to \$5.5 million for the same period of the prior year due to increased labor and operating costs to support increase in revenues. Q1 2024 cost of goods sold increased by \$0.2 million or 1% compared to Q4 2023.

The segment generated a gross profit before fair value adjustments of \$7.1 million or 38% for the three-month period ended November 30, 2023, compared to \$3.2 million or 34% for the same period of the prior year. Compared to Q4 2023, gross profit before fair value adjustments increased by \$1.1 million or 22%. Gross profit percentage also increased from 35% to 38%.

Fair value adjustment on sale of inventory includes the fair value of biological assets in the value of inventory transferred to cost of goods sold. The change in fair value of inventory sold recognized during the three-month period ended November 30, 2023, amounted to \$6.2 million compared to \$2 million for the same period of the prior year. The increase in the fair value adjustment on sale of inventory is aligned with the increase in sales. Compared to Q4 2023, the fair value adjustment on sale of inventory in Q1 2024 increased by \$1 million or 15%, aligning with the QoQ increase in revenues.

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

For the three-month period ended November 30, 2023, the Company recognized an unrealized gain on changes in fair value of biological assets of \$6.5 million on the lots in the cultivation cycle that have not yet been harvested compared to \$2.8 million for the same period of the prior year. Compared to Q4 2023, the unrealized gain on changes in fair value of biological assets in Q1 2024 decreased by \$1.1 million. The decrease in fair value of biological assets is the result of the revision of the assumptions used to determine the fair value of the biological assets.

The segment generated \$7.4 million or 40% in gross profit for the three-month period ended November 30, 2023, compared to \$4.1 million or 43% for the same period of the prior year, representing a favorable increase of \$3.3 million or 83%. The increase is derived primarily from gross profit generated from its retail cannabis sales and unrealized gains in the fair value of biological assets as previously explained above. Compared to Q4 2023, gross profit in Q1 2024 decreased by \$1.6 million as a result of a larger unrealized gain on changes in fair value of biological assets incurred in Q4 2023.

For the three-month period ended November 30, 2023, the segment incurred \$4.1 million in operating expenses compared to \$2.8 million for the same period of the prior year resulting in an increase of \$1.3 million or 46%. For the three-month period ended November 30, 2023, the increase in operating expenses is mainly attributable to selling, marketing, and promotion expenses, which is aligned with the increase in revenues generated. Compared to Q4 2023, operating expenses in Q1 2024 increased by \$0.6 million mainly due to increased marketing expenses, head count and a one-time head office relocation costs.

Overall, the segment generated operating income of \$3.3 million for the first quarter of 2024, compared to \$1.2 million for the same period of the prior year, representing a favorable increase in operating income of \$2.1 million, due to the factors described above. Compared to Q4 2023, net income decreased by \$2.2, mainly attributable to the larger unrealized gain on changes in fair value of biological assets incurred in Q4 2023.

**Real estate operations**

As part of the Company's capital management strategy, the Company has leased out all unoccupied space in the Farnham Facility. As of November 30, 2023, 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, 2023, the Company generated lease revenues of \$0.9 million was similar to the same period of the prior year. To realize these lease revenues during the three-month period of 2024, the Company incurred \$72,000 in lease operating costs compared to \$85,000 in the same period of the prior year. Compared to Q4 2023, the leases revenues remain consistent, and lease operating costs were higher by \$5,000 mainly due to seasonality of certain costs.

For the three-month period ended November 30, 2023, the segment generated operating income of \$0.9 million was similar to the same period of the prior year and to Q4 2023.

**Other**

For the three-month period ended November 30, 2023, the segment incurred \$1.3 million in net finance expense, compared to \$1.1 million for the same period of the prior year. The increase in net finance expense is explained by the interest incurred on the upsized term loan and credit facilities from \$21.8 million to \$50 million that occurred in Q4 2022, and other debt-related fees. Compared to Q4 2023, the net finance expense of Q1 2024 increased by \$0.1 million due to higher interest rates and further draws on the credit line offset by the repayment of principal on the Company's term loan.

For the three-month period ended November 30, 2023, the segment incurred \$0.7 million in other expenses, compared to \$0.9 million for the same period of the prior year. The decrease in other expense is mainly explained by a decrease in share-based compensation as the result of a lower value of stock options granted during the first quarter of 2024. Compared to Q4 2023, other expenses of Q1 2024 increased by \$0.2 million, attributable to increased amortization during the current quarter.

**SELECTED SEGMENT RESULTS OF OPERATIONS (continued)****QUARTERLY FINANCIAL POSITION AND RESULTS**

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

	November 30, 2023	August 31, 2023	May 31, 2023	February 28, 2023	November 30, 2022	August 31, 2022	May 31, 2022	February 28, 2022
Current assets	\$ 52,762,707	\$ 51,695,836	\$ 45,657,986	\$ 40,820,665	\$ 38,393,438	\$ 40,988,684	\$ 24,492,459	\$ 22,655,663
Non-current assets	92,059,206	89,826,418	89,716,638	88,326,738	87,032,849	84,628,363	82,336,646	79,035,367
Total assets	144,821,913	141,522,254	135,374,624	129,147,403	125,426,287	125,617,047	106,829,105	101,691,030
Current liabilities	22,261,932	21,182,827	18,522,090	15,227,812	11,262,823	11,861,085	11,489,526	7,910,429
Non-current liabilities	40,700,914	40,595,383	41,876,538	42,146,726	46,880,581	47,020,201	31,162,576	31,237,792
Total liabilities	62,962,846	61,778,210	60,398,628	57,374,538	58,143,404	58,881,286	42,652,102	39,148,221
Net assets	\$ 81,859,067	\$ 79,744,044	\$ 74,975,996	\$ 71,772,865	\$ 67,282,883	\$ 66,735,761	\$ 64,177,003	\$ 62,542,809
	November 30, 2023	August 31, 2023	May 31, 2023	February 28, 2023	November 30, 2022	August 31, 2022	May 31, 2022	February 28, 2022
Total revenues	\$ 19,483,294	\$ 18,278,613	\$ 15,936,828	\$ 13,035,756	\$ 10,311,605	\$ 11,947,112	\$ 10,063,716	\$ 7,422,354
Gross profit before fair value adjustments	7,935,717	6,894,634	6,120,878	4,030,629	4,023,398	4,759,816	3,735,420	2,635,607
% <sup>1</sup>	41%	38%	38%	31%	39%	40%	37%	36%
Gross profit	8,235,356	9,844,782	8,594,235	4,261,722	4,832,595	7,103,374	4,748,643	3,015,577
Operating income (loss)	3,438,646	5,831,306	4,282,277	631,335	1,142,875	3,762,721	1,534,086	(372,827)
Net income (loss) attributable to Shareholders of the Company	2,107,279	4,631,879	2,928,643	(618,055)	2,951	2,553,444	1,428,297	(1,145,823)
Basic and diluted income (loss) per share	\$ 0.02	\$ 0.05	\$ 0.03	\$ (0.01)	\$ -	\$ 0.01	\$ 0.01	\$ (0.01)
Adjusted EBITDA <sup>2</sup>	5,170,812	4,906,640	3,887,634	3,220,890	1,716,833	2,566,590	1,914,175	219,755
% <sup>3</sup>	27%	26%	24%	25%	17%	21%	19%	3%
Cash provided by (used in) operating activities	354,217	2,834,177	2,533,823	383,991	(315,088)	(3,157,570)	(1,709,746)	(1,325,035)
Adjustment:								
Changes in non-cash operating working capital	(4,507,663)	(1,605,870)	(689,600)	(1,505,570)	(2,312,626)	(5,668,104)	(3,195,379)	(1,558,655)
Free cash flow <sup>4</sup>	4,861,880	4,440,047	3,223,423	1,889,561	1,997,538	2,510,534	1,485,633	233,620

<sup>1</sup> Gross profit before fair value adjustments % is determined as Gross profit before fair value adjustments divided by Total revenues.

<sup>2</sup> 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.

<sup>3</sup> Adjusted EBITDA % is determined as Adjusted EBITDA divided by Total revenues.

<sup>4</sup> 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 positive quarter-over-quarter variations in total revenues, gross profit before fair value adjustments, Adjusted EBITDA and free cash flow because of the ramp up of the Company's cannabis operations since sales began in February 2021. The Company acquired a second facility, the Valleyfield Facility, in June 2021 and invested significantly in the months that followed to redesign the growing zone and prepare for the start of its expanded cultivation activities. Higher expenses are associated with business growth and the development of Cannara's product pipeline. First revenues generated from the sale of harvested cannabis from the Valleyfield Facility occurred in the third quarter of 2022 and continues to this day. Other factors affecting the variability of quarterly results are changes in inventory levels and, from time to time, the average net selling price changes or inventory write-down to its realizable net value.

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

	Three-month periods ended							
	November 30, 2023	August 31, 2023	May 31, 2023	February 28, 2023	November 30, 2022	August 31, 2022	May 31, 2022	February 28, 2022
<b>Adjusted EBITDA reconciliation</b>								
Net income (loss)	\$ 2,107,279	\$ 4,631,879	\$ 2,928,643	\$ (618,055)	\$ 2,951	\$ 2,553,444	\$ 1,428,297	\$ (1,145,823)
Adjustments:								
Changes in fair value of inventory sold	6,224,666	4,666,241	4,023,826	3,948,425	1,999,327	2,427,690	2,267,056	1,269,679
Unrealized gain on changes in fair value of biological assets	(6,524,305)	(7,616,389)	(6,497,183)	(4,179,518)	(2,808,524)	(4,771,248)	(3,280,279)	(1,649,649)
Amortization, including amortization in cost of good sold	1,022,277	890,248	1,187,620	972,614	758,267	980,816	1,142,886	629,027
Write-down of inventory to net realizable value	723,577	725,814	474,654	1,375,360	36,349	73,337	94,725	185,757
Loss on disposal of property, plant and equipment	5,380	69,841	-	37,267	25,980	8,227	8,480	6,444
Share-based compensation, including share-based compensation in cost of good sold	280,571	339,579	416,440	435,407	562,559	85,047	147,221	151,324
Net finance expense	1,331,367	1,199,427	1,353,634	1,249,390	1,139,924	1,209,277	105,789	772,996
Adjusted EBITDA <sup>1</sup>	\$ 5,170,812	\$ 4,906,640	\$ 3,887,634	\$ 3,220,890	\$ 1,716,833	\$ 2,566,590	\$ 1,914,175	\$ 219,755
<b>Free cash flow reconciliation</b>								
Cash provided by (used in) operating activities	\$ 354,217	\$ 2,834,177	\$ 2,533,823	\$ 383,991	\$ (315,088)	\$ (3,157,570)	\$ (1,709,746)	\$ (1,325,035)
Adjustment:								
Changes in non-cash operating working capital	(4,507,663)	(1,605,870)	(689,600)	(1,505,570)	(2,312,626)	(5,668,104)	(3,195,379)	(1,558,655)
Free cash flow <sup>2</sup>	\$ 4,861,880	\$ 4,440,047	\$ 3,223,423	\$ 1,889,561	\$ 1,997,538	\$ 2,510,534	\$ 1,485,633	\$ 233,620

<sup>1</sup> Adjusted EBITDA is a non-GAAP financial performance measure with no standard definition under IFRS. A reconciliation of this amount for the applicable period is presented in the table above.

<sup>2</sup> Free cash flow is a non-GAAP financial performance measure with no standard definition under IFRS and is defined as cash flow from operations excluding changes in non-cash operating working capital.

**CASH FLOW ANALYSIS**

	Three-month periods ended	
	November 30, 2023	November 30, 2022
Cash provided by (used in) operating activities	\$ 354,217	\$ (315,088)
Cash from (used in) financing activities	747,324	(1,228,408)
Cash used in investing activities	(2,732,673)	(3,743,843)

**Operating activities**

For the first quarter of 2024, the Company generated positive operating cash flow of \$0.4 million, which is explained by increased net income and the timing of investing in biological assets and inventory and the collection of receivables from cannabis sales generated. The operations continue to grow to meet the high demand of the Company's products and to support its market share expansion to other provinces. During the quarter, the Company heavily invested in front-loading the purchase of packaging materials to meet timelines factoring in New Year supply chain delays and to achieve larger bulk price discounts.

**Financing activities**

For the first quarter of 2024, cash from financing activities was \$0.7 million which was mainly attributable to the \$2.5 million received from the credit facility allocated for investing activities offset by the reimbursement of capital on the term loan for \$0.5 million and payment of related interests for \$1 million. The Company also paid \$30,000 in lease-related payments and \$273,000 to purchase its own shares for cancellation under the NCIB.

**Investing activities**

For the first quarter of 2024, cash used in investing activities was \$2.7 million which was mainly attributable to the purchase of equipment to assist in the automation of post-harvest, processing, and packaging activities in addition to the continued capital expenditures incurred for the construction of a new building at its Valleyfield site that is currently envisioned for additional cannabis transformation activities. Interest received relating to interest earned on cash balances held at a Canadian financial institution amounted to \$36,000 for the three-month period of 2024. There is no restriction on the Company's ability to use its cash for its operational needs while it earns interest on the unused balance.

## LIQUIDITY AND CAPITAL RESOURCES

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

The Company has a working capital of \$30.5 million as at November 30, 2023 (August 31, 2023 - \$30.5 million). The Company has been able to maintain its working capital compared to the prior year because of the increased sales of its cannabis products offset by continued investment into its operations.

As at November 30, 2023, the Company's working capital was composed of:

- cash on hand of \$2.6 million (August 31, 2023 - \$4.3 million); and
- accounts receivable, biological assets, inventory and prepaid expenses and other assets of \$50.1 million (August 31, 2023 - \$47.4 million); less
- accounts payable and accrued liabilities, excise tax payable, sales tax payable, deferred revenue, deferred lease revenue and deferred grant income of \$13.5 million (August 31, 2023 - \$15.1 million); and
- credit facility, current portion of long-term debt, current portion of the convertible debenture, lease liabilities and term loan of \$8.8 million (August 31, 2023 - \$6.1 million).

The Company may continue to have capital requirements more than its currently available resources. In the event the Company's plans or its assumptions change or prove inaccurate, or its capital resources in addition to projected cash flow, if any, prove to be insufficient to fund operations, the Company may be required to seek additional financing. The Company expects that its existing cash resources of \$2.6 million as at November 30, 2023, along with its forecasted cashflows and undrawn credit facilities and term loan, will be able to fund its planned operating expenses for at least the next twelve months from November 30, 2023.

## Financing

Type of loan	Interest Rate	Maturity	Balance as at November 30, 2023	Balance as at August 31, 2023
Revolving credit facility A <sup>(1)</sup>	8.9%	January 16, 2024	\$ 2,000,000	\$ 2,000,000
Revolving credit facility B <sup>(1)</sup>	9.0%	December 30, 2023	\$ 600,000	600,000
Revolving credit facility C <sup>(1)</sup>	8.9%	January 8, 2024	\$ 400,000	400,000
Revolving credit facility D <sup>(1)</sup>	8.9%	January 26, 2024	\$ 1,500,000	-
Revolving credit facility E <sup>(1)</sup>	8.9%	December 5, 2023	\$ 1,000,000	-
Term loan <sup>(1)</sup>	8.9%	May 31, 2025 <sup>(2)</sup>	36,454,024	36,854,235
Convertible debenture A <sup>(2)</sup>	4%	January 31, 2025	5,925,114	5,753,133

<sup>(1)</sup> The credit facilities term is 60 days and can be renewed at the end of the period. The base term of the term loan is 3 years ending May 31, 2025. The credit facilities and the term loan bear a variable interest rate based on prime and/or banker acceptance rates plus an acceptable margin. As at November 30, 2023, the average interest rate was 8.9% on the credit facilities and 8.9% on the term loan. The Company has to respect financial covenants including (a) maintaining a certain liquidity coverage at all the times, and, starting on September 2023, to maintain (b) a fixed charge coverage ratio equal to or more than 1.25 to 1.0, (c) a funded debt to EBITDA ratio equal to or less than 3.0 to 1.0 at each quarter-end; and (d) a minimum EBITDA of \$4 million for each fiscal quarter. The Company was in compliance with the covenants as at November 30, 2023.

<sup>(2)</sup> On August 31, 2023, the Company modified the term of the \$5,700,000 convertible debenture from June 21, 2024 to January 31, 2025 with an increase in interest rate from 4% to 9.25% per annum between June 2024 to January 2025. As part of the extension, the holder has the right to demand payment up to \$1,000,000 in principle on the initial maturity date being June 21, 2024.

## **LIQUIDITY AND CAPITAL RESOURCES (continued)**

### **Other contractual obligations**

	Carrying amount	Less than one year	One to five years	Thereafter	Total contractual amount
Accounts payable and accrued liabilities	\$ 12,270,213	\$ 12,270,213	\$ -	\$ -	12,270,213
Revolving credit facilities	5,500,000	5,500,000	-	-	5,500,000
Lease liabilities <sup>(2)</sup>	775,558	266,109	642,814	-	908,923
Convertible debenture	5,925,114	1,000,000	5,279,878	-	6,279,878
Term loan <sup>(1)</sup>	36,454,024	1,965,961	34,895,811	-	36,861,772

- (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 a car lease and several pieces of production equipment. These figures are undiscounted future payments.

### **OFF-BALANCE SHEET ARRANGEMENTS**

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

### **TRANSACTIONS AND BALANCES WITH RELATED PARTIES**

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

#### **Financing with a related party**

For the three-month period of 2024, the Company recognized \$0.2 million as interest expense on the convertible debentures, interest on lease liabilities and debt financing guarantee fees which was similar to the same period of the prior year.

As at November 30, 2023, accrued interest of \$0.6 million on the \$5.7 million convertible debenture was included in the carrying amount of the convertible debenture (as at August 31, 2023 – accrued interest of \$0.6 million on the \$5.7 million was included in the carrying amount of the convertible debentures), and lease liabilities and accrued fees on the debt financing guarantee fees amounted to \$0.7 million that were included in accounts payable and accrued liabilities (as at August 31, 2022 - \$0.5 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.

#### **Key management personnel compensation**

For the three-month period of 2024, salaries and benefits incurred for key management personnel amounted to \$210,000 (2023 - \$210,000); share-based compensation attributable to key management and directors was \$232,000 (2023 - \$488,000) and director fees were \$25,000 (2023 - \$17,500). As at November 30, 2023, the Company owed \$0.1 million (August 31, 2023 - \$66,000) to key management personnel and \$20,000 (August 31, 2023 – \$15,000) to directors for accrued salaries and vacation expenses.

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

**FINANCIAL INSTRUMENTS RISK MANAGEMENT**

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

**Credit risk**

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

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

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

As at November 30, 2023, a marginal number of the receivables were past due. The allowance for expected credit loss was minimal as at November 30, 2023. The Company's maximum credit exposure corresponds to the carrying amount of these financial assets.

**Liquidity risk**

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

As at November 30, 2023, the Company had current assets of \$52.8 million and current liabilities of \$22.3 million, for a working capital balance of \$30.5 million. The Company expects that its existing cash resources of \$2.6 million as at November 30, 2023, along with its forecasted cashflows, undrawn credit facilities and term loan, will be able to fund its planned operating expenses for at least the next twelve months from November 30, 2023.

**Interest rate risk**

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

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

**Concentration risk**

The Company has a significant concentration of its revenues generated from customers that, if eliminated, would have a significant impact on the Company's operations. During the quarter, the Company focused on diversification of its revenues having generated 76% of its cannabis revenues from two provincial distributors, compared to 90% for revenues earned during fiscal year 2023.

**CRITICAL ACCOUNTING ESTIMATES**

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

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

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

Disclosure of the Company's critical accounting estimates and assumptions is presented in note 3 of the audited consolidated financial statements for the year ended August 31, 2023.

**SIGNIFICANT ACCOUNTING POLICIES**

The financial information presented in this MD&A has been prepared in accordance with IFRS Accounting Standards. Our significant accounting policies are set out in note 3 of the audited consolidated financial statements for the year ended August 31, 2023.

**SUMMARY OF OUTSTANDING SHARE DATA**

*Summary of Outstanding Share Data as of January 29, 2024:*

Authorized:	Unlimited number of voting and participating common shares without par value.
Issued and outstanding:	90,018,952 common shares
	4,538,300 stock options
	1,504,183 RSUs
	3,166,667 contingently issuable common shares upon conversion of convertible debentures

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