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CANNARA BIOTECH INC.

Condensed Interim Consolidated Financial Statements

For the three-month periods ended

November 30, 2023 and 2022
(Unaudited)

CANNARA BIOTECH INC.

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(Unaudited)

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CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Financial Position
As at November 30, 2023 and August 31, 2023
(Unaudited - in Canadian dollars)

	November 30, 2023	August 31, 2023
Assets		
Current assets		
Cash	$ 2,639,385	$ 4,270,517
Accounts receivable	9,880,853	10,592,705
Biological assets (note 3)	6,432,262	5,774,121
Inventory (note 4)	30,321,481	27,997,589
Prepaid expenses and other assets	3,488,726	3,060,904
	52,762,707	51,695,836
Deposits	256,434	256,434
Deferred financing costs (note 7)	57,774	57,774
Deposits on property, plant and equipment	221,668	75,496
Property, plant and equipment (note 5)	90,787,958	89,259,697
Right-of-use asset (note 6)	735,372	177,017
	$ 144,821,913	$ 141,522,254
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 12,270,213	$ 13,926,096
Sales tax payable	748,528	1,051,026
Deferred lease revenue	351,903	99,108
Deferred revenue	131,294	23,020
Revolving credit facilities (note 7)	5,500,000	3,000,000
Current portion of convertible debenture (note 7)	1,000,000	1,000,000
Current portion of deferred grant income	38,739	38,739
Current portion of lease liabilities (note 6)	255,294	78,877
Current portion of term loan (note 7)	1,965,961	1,965,961
	22,261,932	21,182,827
Lease liabilities (note 6)	520,264	97,143
Convertible debentures (note 7)	4,925,114	4,753,133
Deferred grant income	767,473	777,158
Deferred lease revenue	–	79,675
Term loan (note 7)	34,488,063	34,888,274
	62,962,846	61,778,210
Shareholders’ equity		
Share capital	88,527,915	88,803,613
Contributed surplus	10,630,139	10,349,568
Deficit	(17,229,696)	(19,339,846)
Accumulated other comprehensive loss	(69,291)	(69,291)
Total equity	81,859,067	79,744,044
Contingencies (note 13)		
Subsequent events (note 17)		
	$ 144,821,913	$ 141,522,254

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statement of Net Income and Comprehensive Income (Loss)
For the three-month periods ended November 30, 2023 and 2022
(Unaudited)

	Three-month periods ended November 30, 2023	Three-month periods ended November 30, 2022
Revenue		
Revenue from sale of goods (note 14)	$ 26,329,085	$ 11,215,699
Excise taxes	(7,811,953)	(2,773,308)
Net revenue from sale of goods	18,517,132	8,442,391
Services revenue (note 14)	–	931,111
Lease revenue (note 14)	909,396	867,912
Other income	56,766	70,191
	19,483,294	10,311,605
Cost of sales		
Cost of goods sold (note 4)	11,475,142	5,506,890
Cost of services	–	696,736
Lease operating costs	72,435	84,581
Gross profit before fair value adjustments	7,935,717	4,023,398
Changes in fair value of inventory sold	(6,224,666)	(1,999,327)
Unrealized gain on changes in fair value of biological assets (note 3)	6,524,305	2,808,524
Gross profit	8,235,356	4,832,595
Operating expenses		
General and administrative (note 10)	2,363,362	1,849,202
Research and development	210,190	216,371
Selling, marketing and promotion	1,293,034	508,053
Professional and legal fees	234,981	233,543
Share-based compensation (note 9)	280,571	562,559
Amortization (note 5 and 6)	409,192	294,012
Loss on disposal of property, plant and equipment	5,380	25,980
	4,796,710	3,689,720
Operating income	3,438,646	1,142,875
Net finance expense (note 11)	1,331,367	1,139,924
Net income	2,107,279	2,951
Other comprehensive loss		
Foreign currency translation adjustments	–	(68,388)
Total comprehensive income (loss)	$ 2,107,279	$ (65,437)
Basic and diluted earnings per share (note 8)	$ 0.02	$ 0.00
Weighted average number of common shares, basic	90,220,861	87,721,759
Weighted average number of common shares, diluted	91,010,044	87,839,566

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Changes in Equity
For the three-month periods ended November 30, 2023 and 2022
(Unaudited - in Canadian dollars)

	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total equity
As at August 31, 2023	90,305,852	$ 88,803,613	$ 10,349,568	$ (19,339,846)	$ (69,291)	$ 79,744,044
Net income	–	–	–	2,107,279	–	2,107,279
Share-based compensation (note 9)						
Employee compensation	–	–	280,571	–	–	280,571
Repurchase and cancellation of common shares Under NCIB (note 8 (b))	(281,900)	(275,698)	–	2,871	–	(272,827)
As at November 30, 2023	90,023,952	$ 88,527,915	$ 10,630,139	$ (17,229,696)	$ (69,291)	$ 81,859,067

	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive gain	Total equity
As at August 31, 2022	87,698,132	$ 83,296,250	$ 9,724,114	$ (26,299,730)	$ 15,127	$ 66,735,761
Net income	–	–	–	2,951	–	2,951
Other comprehensive loss						
Foreign currency translation adjustments	–	–	–	–	(68,388)	(68,388)
Comprehensive loss	–	–	–	2,951	(68,388)	(65,437)
Share-based compensation (note 9)						
Employee compensation	–	–	558,283	–	–	558,283
Other services	–	–	4,276	–	–	4,276
	–	–	562,559	–	–	562,559
Exercise of stock options (notes 8 and 9)	50,000	88,100	(38,100)	–	–	50,000
As at November 30, 2022	87,748,132	$ 83,384,350	$ 10,248,573	$ (26,296,779)	$ (53,261)	$ 67,282,883

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Cash Flows
For the three-month periods ended November 30, 2023 and 2022
(Unaudited - in Canadian dollars)

	November 30, 2023	November 30, 2022
Cash provided by (used in):		
Operating		
Net income	$ 2,107,279	$ 2,951
Items not involving cash:		
Changes in fair value of inventory sold	6,224,666	1,999,327
Unrealized gain on changes in fair value of biological assets (note 3)	(6,524,305)	(2,808,524)
Amortization of property, plant and equipment (note 5)	1,557,627	1,136,760
Amortization of right-of-use asset (note 6)	58,563	30,132
Interest expense (note 11)	993,717	854,420
Interest on lease liabilities (note 6)	12,590	9,492
Accretion on financing and amortization of financing costs (note 7)	201,252	257,756
Share-based compensation (note 9)	280,571	562,559
Loss on disposal of property, plant and equipment	5,380	25,980
Interest income (note 11)	(55,460)	(73,372)
Other	–	57
Net change in non-cash operating working capital items (note 16)	(4,507,663)	(2,312,626)
	354,217	(315,088)
Financing		
Net purchase of shares under NCIB (note 8 (b))	(272,827)	–
Stock options exercised (note 9)	–	50,000
Proceeds from credit facility	2,500,000	–
Repayment of term loan (note 7)	(491,490)	(491,490)
Interest paid on debt instruments (note 7)	(958,389)	(710,331)
Lease payments (note 6)	(29,970)	(76,587)
	747,324	(1,228,408)
Investing		
Interest received	35,970	63,125
Deposits on property, plant and equipment	(159,969)	(291,027)
Acquisitions of property, plant and equipment (note 5)	(2,613,649)	(3,534,941)
Proceeds from disposal of property, plant and equipment	4,975	19,000
	(2,732,673)	(3,743,843)
Net change in cash	(1,631,132)	(5,287,339)
Effect of foreign exchange on cash	–	(68,388)
Cash, beginning of period	4,270,517	12,114,691
Cash, end of period	$ 2,639,385	$ 6,758,964

See accompanying notes to condensed interim consolidated financial statements.

1. Nature of operations

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

Cannara owns and operates two Quebec-based mega cultivation facilities spanning over 1,650,000 square feet. Cannara’s first purpose-built, modern indoor cultivation facility is located in Farnham, Quebec and measures 625,000 square feet, comprising 170,000 square feet of operational licensed cultivation area and 414,000 square feet of leased warehouse space ("Farnham Facility"). The second facility, acquired in June 2021, is a hybrid greenhouse facility that is being redesigned to replicate the indoor cultivation environment. The facility is comprised of 24 independent growing zones totaling 600,000 square feet, a 225,000 square feet cannabis 2.0 processing center and a 200,000 square 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.

The Company continues to invest in capital expenditures at its Valleyfield Facility, redesigning and activating 9 growing zones to-date, measuring a total of 225,000 square feet of active growing capacity. Multiple harvests have occurred since the start of the Valleyfield cultivation operations in November 2021 and have resulted in increased revenues as the harvested cannabis is processed and sold in Canada under the Company’s flagship brands, Tribal, Nugz and Orchid CBD.

The Company generated a net income of approximately $2.1 million during the three-month period ended November 30, 2023 (2022 – nil) and has a deficit of approximately $17.2 million as at November 30, 2023 (August 31, 2023 - $19.3 million). The Company expects that its existing cash resources of $2.7 million as at November 30, 2023, along with the forecasted cash flows and available undrawn term loan and credit facilities (note 7), will enable it to fund its planned operating expenses for at least the next twelve months from November 30, 2023.

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

2. Basis of preparation and significant accounting policies

(a) Statement of compliance

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

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

(b) Basis of preparation

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

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

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

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

(Unaudited - in Canadian dollars)

3. Biological assets

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

Carrying amount, August 31, 2022	$	5,712,456
Production costs capitalized		17,369,513
Change in fair value due to biological transformation, less cost to sell		21,101,614
Transferred to inventory upon harvest		(38,409,462)
Carrying amount, August 31, 2023	$	5,774,121
Production costs capitalized		4,851,285
Change in fair value due to biological transformation, less cost to sell		6,524,305
Transferred to inventory upon harvest		(10,717,449)
Carrying amount, November 30, 2023	$	6,432,262

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

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

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

Because there is no actively traded commodity market for cannabis plants and dried product, the valuation of the biological assets is obtained using valuations techniques where the inputs are based upon unobservable market data and are classified as level 3 in the fair market value hierarchy. There has been no transfer between levels as at November 30, 2023.

(Unaudited - in Canadian dollars)

3. Biological assets (continued)

Management's identified significant unobservable inputs, their values and sensitivity analysis are presented in the table below. The Company's estimates are, by their nature, subject to change, and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods. The income approach calculates the present value of expected future cash flows from the Company's biological assets using the following inputs for the period ended November 30, 2023:

Unobservable inputs	Input values	Sensitivity analysis
Wholesale and retail selling price Represents the average expected wholesale and retail selling price per gram of dried cannabis, excluding excise taxes, where applicable, which is expected to approximate future wholesale and retail selling prices. The average selling price varies depending on the estimated products.	Weighted average of $3.17 per gram (August 31, 2023 – $3.16 per gram) of dried cannabis packaged $1.50 per gram of dried cannabis unpackaged (August 31, 2023 - $1.50 per gram)	An increase or decrease of 5% applied to the selling price would result in a change of approximately $489,000 to the valuation.
Yield per plant Represents the average number of grams of dried cannabis expected to be harvested from each cannabis plant from the two facilities.	75 grams per plant (August 31, 2023 – 77 grams per plant)	An increase or decrease of 5% applied to the average yield per plant would result in a change of approximately $321,000 to the valuation.
Stage of completion Calculated by taking the average number of days in the cultivation cycle over the total estimated duration of a cultivation cycle which is currently approximately 13 to 14 weeks from clone to harvest.	Weighted average stage of completion is 49% (August 31, 2023 - 50%)	An increase or decrease of 5% applied to the average stage of growth per plant would result in a change of approximately $297,000 to the valuation.

As at November 30, 2023, it is expected that the Company's biological assets will yield approximately 8,056 kilograms of dried cannabis when harvested (August 31, 2023 - 7,716 kilograms of dried cannabis).

(Unaudited - in Canadian dollars)

4. Inventory

Inventory consists of the following:

	Capitalized cost	Fair value adjustment[1]	November 30, 2023 Total
Raw materials - cultivation and supplies	$ 3,505,153	$ –	$ 3,505,153
Harvested cannabis			
Dried cannabis and work-in-progress	9,315,672	8,839,286	18,154,958
Finished goods	2,584,311	299,947	2,884,258
Derivative products			
Derivatives products and work-in-progress	3,921,890	464,219	4,386,109
Finished goods	951,503	21,560	973,063
Finished goods – cannabis accessories	417,940	–	417,940
	$ 20,696,469	$ 9,625,012	$ 30,321,481

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

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

The amount of inventory expensed as cost of goods sold during the three-month period ended November 30, 2023 was $11,475,142 (2022 – $5,506,890), including an impairment loss on inventory of $ 723,577 (2022 – $36,349) for cannabis that cost exceeds its net realizable value.

(Unaudited - in Canadian dollars)

5. Property, plant and equipment

	Land	Buildings	Facility production equipment	Computer equipment and software	Vehicles	Furniture and fixtures	Construction in progress	Total
Cost								
Balance as at August 31, 2023	$ 2,452,085	$ 75,479,394	$ 14,490,667	$ 1,626,042	$ 40,440	$ 2,407,859	$ 6,731,664	$ 103,228,151
Additions	–	81,440	96,539	22,922	–	75,698	2,819,644	3,096,243
Transfer	–	670,954	–	–	–	–	(670,954)	–
Disposal	–	–	(13,602)	–	(2,000)	–	–	(15,602)
Balance as at November 30, 2023	$ 2,452,085	$ 76,231,788	$ 14,573,604	$ 1,648,964	$ 38,440	$ 2,483,557	$ 8,880,354	$ 106,308,792
Accumulated amortization								
Balance as at August 31, 2023	$ –	$ (9,503,932)	$ (2,831,044)	$ (948,334)	$ (17,025)	$ (668,119)	$ –	$ (13,968,454)
Amortization	–	(1,066,377)	(352,376)	(75,971)	(2,006)	(60,897)	–	(1,557,627)
Disposal	–	–	4,760	–	487	–	–	5,247
Balance as at November 30, 2023	$ –	$ (10,570,309)	$ (3,178,660)	$ (1,024,305)	$ (18,544)	$ (729,016)	$ –	$ (15,520,834)
Net book value								
Balance as at November 30, 2023	$ 2,452,085	$ 65,661,479	$ 11,394,944	$ 624,659	$ 19,896	$ 1,754,541	$ 8,880,354	$ 90,787,958

For the three-month period ended November 30, 2023 and November 30, 2022, the assets included in construction in progress represent the Valleyfield Facility and related capital expenditures incurred to render the facility operational, for the redesign of the remaining growing zones, the construction of warehouse and processing space center. The costs are transferred to other categories as the assets become available or ready for use. As part of its real estate segment, the Company used the non-cannabis licensed area of the Farnham building to generate lease revenues. A carrying value of $10,156,926 related to the Farnham building is recognized as an investment property.

(Unaudited - in Canadian dollars)

5. Property, plant and equipment (continued)

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

During the three-month period ended November 30, 2023, the Company recognized $1,557,627 (2022 - $1,136,760) as amortization expense, of which $350,629 have been recognized in the consolidated statement of income and comprehensive loss, nil have been included in cost of services and $1,206,998 have been included in the calculation of the biological assets and inventory valuation and for which some lots were ultimately used for research and development (2023 - $263,880, $14,537 and $858,343 respectively).

(Unaudited - in Canadian dollars)

6. Right-of-use assets and lease liabilities

(a) Right-of-use assets

	November 30, 2023	August 31, 2023
Cost		
Balance, beginning of period	$ 312,974	$ 575,176
Additions	616,918	189,945
Derecognition of fully amortized assets	–	(452,147)
Balance, end of period	$ 929,892	$ 312,974
Accumulated depreciation		
Balance, beginning of period	$ (135,957)	$ (461,057)
Amortization	(58,563)	(127,047)
Derecognition of fully amortized assets	–	452,147
Balance, end of period	$ (194,520)	$ (135,957)
Net book value		
Balance, end of period	$ 735,372	$ 177,017

(b) Lease liabilities

	November 30, 2023	August 31, 2023
Maturity analysis - contractual undiscounted cash flows:		
Less than one year	$ 266,109	$ 87,157
One to five years	642,814	101,842
Total undiscounted lease liabilities	$ 908,923	$ 188,999
Current	$ 255,294	$ 78,877
Non-current	520,264	97,143
Lease liabilities included in the condensed interim consolidated statement of financial position	$ 775,558	$ 176,020

Balance as at August 31, 2023	$ 176,020
Additions	616,918
Lease payments	(29,970)
Interest on lease liabilities	12,590
Balance as at November 30, 2023	$ 775,558

(Unaudited - in Canadian dollars)

7. Financing

(a) Revolving credit facility

	November 30, 2023	August 31, 2023
Net carrying value, beginning of period	$ 3,000,000	$ –
Proceeds from revolving credit facility	2,500,000	3,000,000
Net carrying value, end of period	$ 5,500,000	$ 3,000,000

	2024	Expiry date
Revolving credit facility A	$ 2,000,000	2024-01-16
Revolving credit facility B	600,000	2023-12-30
Revolving credit facility C	400,000	2024-01-08
Revolving credit facility D	1,500,000	2024-01-26
Revolving credit facility E	1,000,000	2023-12-05
Net carrying value, end of year	$ 5,500,000	

The Company has access to the revolving credit facility that was increased from $5 million to $10 million during the third quarter of 2023. This facility is for general working capital purposes. Each tranche drawn on the revolving credit facility has a 60-day term and can be renewed by the Company at the end of the period (see note 17). The revolving credit facilities bear a variable interest rate based on prime rate or banker's acceptance rate plus an applicable margin based on the credit agreement. As at November 30, 2023, the average interest on the revolving credit facilities were 8.92%. The Company has to respect certain covenants (note 7(b)), which were respected as at November 30, 2023. The revolving credit facility matures 3 years from closing date and has the same securities and guarantees as the term loan (note 7 (b) (i)). The revolving credit facility is classified as a current liability as it is being managed and expected to be settled by the Company in its normal operating cycle.

For the three periods ended November 30, 2023, the Company recognized $103,867 as interest expense for the revolving credit facilities. As at November 30, 2023, prepaid interest of $51,722 were included in prepaid expenses and other assets.

(Unaudited - in Canadian dollars)

7. Financing (continued)

(b) Term loan

	November 30, 2023	August 31, 2023
Net carrying value, beginning of period	$ 36,854,235	$ 38,562,521
Repayment of term loan	(491,490)	(1,965,961)
Amortization of deferred financing costs	91,279	257,675
Net carrying value, end of period	$ 36,454,024	$ 36,854,235
Term loan [i]	$ 36,861,772	$ 37,353,262
Less: unamortized financing costs	(407,748)	(499,027)
	36,454,024	36,854,235
Short-term portion of term loan	(1,965,961)	(1,965,961)
	$ 34,488,063	$ 34,888,274

(i) The term loan bears a variable interest rate based on prime and/or banker acceptance rates. As at November 30, 2023, the interest on the term loan was 8.87%. The term loan is reimbursable quarterly based on an amortization schedule of 80 quarters, beginning November 30, 2022 and has a term of 3 year, ending May 31, 2025. The credit facility is secured by a first ranking mortgage against the Farnham and Valleyfield Facility, and is guaranteed with limited recourse, in part, by a related party for a fee based on the amount of the outstanding term loan (note 15(b)).

On May 4, 2023, the Company secured approval to draw an additional $5 million term loan, which has not yet been drawn. In connection with this new term loan, the Company incurred financing costs totalling $57,774 which were presented in deferred financing costs as at November 30, 2023.

For the three-month period ended November 30, 2023, the Company recognized $827,842 as interest expense for the term loan (2022 – $743,403). As at November 30, 2023, prepaid interest of $528,591 was included in prepaid expenses and other assets (August 31, 2023 - $536,362).

The Company has to respect financial covenants such as (a) maintaining a certain liquidity coverage at all the times, and, starting on September 2023, to maintain (b) a fixed charge coverage ratio equal to or more than 1.25 to 1.0, (c) a funded debt to EBITDA ratio equal to or less than 3.0 to 1.0 at each quarter-end; and (d) an adjusted EBITDA of $4 million for each fiscal quarter. The Company was in compliance with the covenants as at November 30, 2023.

(Unaudited - in Canadian dollars)

7. Financing (continued)

(c) Convertible debentures

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

Net carrying value as at August 31, 2022	$	9,590,143
Conversion of debenture		(4,717,783)
Gain on modification of convertible debenture		(52,664)
Interest expense		330,688
Accretion and amortization of deferred issuance costs		602,749
Net carrying value, August 31, 2023		5,753,133
Interest expense		62,008
Accretion and amortization of deferred issuance costs		109,973
Net carrying value as at November 30, 2023	$	5,925,114

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 the increased 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.

During the three-month period ended November 30, 2023, the Company recognized $62,008 as interest expense (2022 - $111,017). The convertible debentures bear interest at 4% per annum and interest is payable at term or at conversion if it occurs. As at November 30, 2023, accrued interest of $579,878 was included in convertible debenture (August 31, 2023 - $517,870).

8. Share Capital

(a) Authorized

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

(b) Transactions on share capital

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

(Unaudited - in Canadian dollars)

8. Share Capital (continued)

(c) Earnings per share

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

The calculations for basic and diluted earnings per share for the period ended November 30, 2023 and 2022 was as follows:

	November 30, 2023	November 30, 2022
Net income	$ 2,107,279	$ 2,951
Issued common shares as at September 1, 2023 and 2022	90,305,852	87,698,132
Effect of stock options exercised for common shares	–	23,627
Repurchase and cancellation of common shares under NCIB (notes 8 (b))	(84,991)	–
Weighted average number of common shares, basic	90,220,861	87,721,759
Impact of dilutive securities:		
Stock options	–	117,807
RSUs	789,183	–
Weighted average number of common shares, diluted	91,010,044	87,839,566
Earning per share – basic	$ 0.02	$ 0.00
Earning per share – diluted	$ 0.02	$ 0.00

For the three-month ended November 30, 2023, excluded from the weighted average number of diluted common shares calculation as their effect would have been anti-dilutive was 3,828,800 share options, and 3,166,667 shares potentially to be issued under the convertible debentures that may potentially dilute earnings per share in the future (2022 – 2,963,245 share options and 5,944,444 shares as-if the convertible debentures were converted).

(Unaudited - in Canadian dollars)

9. Share-based compensation

(a) Stock option plan

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

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

The activity of outstanding share options for the three-month ended November 30, 2023 and 2022 was as follows:

	November 30, 2023		November 30, 2022	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of period	3,831,945	$ 1.65	2,452,412	$ 1.50
Granted	–	–	2,172,500	1.50
Exercised	–	–	(50,000)	1.00
Forfeited	(2,500)	1.80	(61,188)	1.80
Expired	(645)	1.80	(479)	1.80
Outstanding, end of period	3,828,800	1.65	4,513,245	1.50
Exercisable, end of period	2,194,121	$ 1.64	1,480,029	$ 1.40

During the three-month period ended November 30, 2023, the Company recorded a share-based compensation expense of $192,276 in the consolidated statement of income and comprehensive income (loss) (2022 – $562,559).

9. Share-based compensation (continued)

(a) Stock option plan (continued)

During the first quarter of 2024, the Company granted nil options in accordance with the employee share option plan.

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

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

		November 30, 2022
Share price [(i)]	$	1.10
Exercise price	$	1.50
Risk-free interest rate [(ii)]		3.40%
Expected life [(iii)]		5 years
Expected price volatility [(iv)]		89%
Fair value of the option	$	0.80
Expected dividend yield [(v)]		Nil

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

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

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

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

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

(Unaudited - in Canadian dollars)

9. Share-based compensation (continued)

(a) Stock option plan (continued)

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

Expiry date	Exercise price $	Number outstanding	Number exercisable
December 17, 2023	$ 1.80	79,500	79,500
May 1, 2024	1.80	69,400	69,400
October 3, 2024	1.80	12,500	12,500
November 25, 2024	1.80	2,000	2,000
January 16, 2025	1.80	42,000	40,248
April 14, 2025	1.80	8,000	7,164
May 4, 2025	1.80	40,000	40,000
July 24, 2025	1.80	347,500	292,098
November 10, 2025	1.80	25,000	25,000
December 15, 2025	1.80	26,600	19,410
February 1, 2026	1.80	50,000	34,367
July 27, 2026	1.80	22,500	13,127
December 7, 2026	1.80	586,000	292,493
April 26, 2027	1.80	7,500	2,967
July 26, 2027	1.80	105,000	34,998
September 29, 2027	1.80	1,400,000	788,849
September 29, 2027	1.00	750,000	437,500
November 24, 2027	1.80	10,000	2,500
January 20, 2028	1.80	22,800	–
April 21, 2028	1.80	12,500	–
July 26, 2028	1.80	210,000	–
		3,828,800	2,194,121

(Unaudited - in Canadian dollars)

9. Share-based compensation (continued)

(b) Restricted Share Units ("RSU")

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

The outstanding RSUs for the three-month period ended November 30, 2023 and 2022 are as follows:

	November 30, 2023		November 30, 2022	
	Number	Weighted average fair value	Number	Weighted average fair value
Outstanding, beginning of period	789,183	$ 0.90	–	$ –
Granted	–	–	–	–
Outstanding, end of period	789,183	$ 0.90	–	$ –

During the year ended August 31, 2023, the Company granted 789,183 RSUs without performance conditions and exercisable for no consideration.

During the three periods ended November 30, 2023, the Company recorded a share-based compensation expense of $88,295 (2022 – Nil) in the consolidated statement of income and comprehensive income (loss).

(Unaudited - in Canadian dollars)

10. General and administrative

	Three-month periods ended November 30, 2023	November 30, 2022
Salaries and benefits	$ 1,100,232	$ 864,296
Administrative and regulatory expense	994,641	590,097
Facility expense	268,489	394,809
General and administrative	$ 2,363,362	$ 1,849,202

11. Net finance expense

	Three-month periods ended November 30, 2023	November 30, 2022
Interest income	$ 55,460	$ 73,372
Foreign exchange gain	72	72,523
Finance income	55,532	145,895
Interest on term loan	827,842	743,403
Interest on credit facilities	103,867	–
Interest on convertible debentures	62,008	111,017
Interest on lease liabilities	12,590	9,492
Fees related to letter of credit	53,111	53,111
Debt financing guarantee fees	93,750	93,750
Accretion and amortization of financing costs	201,252	257,756
Other finance expense	32,479	17,290
Finance expense	1,386,899	1,285,819
Net finance expense	$ 1,331,367	$ 1,139,924

12. Financial instruments

Fair value measurements

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

The fair value of the revolving credit facilities, long-term debt, convertible debentures and term loan approximate their carrying amounts, as the interest rate approximates the current market rate.

13. Contingencies

In the normal course of business, the Company may be involved in various legal and regulatory proceedings. The Company believes that the resolution of these proceedings will not have a material favourable or unfavourable effect on its condensed interim consolidated statement of financial position or financial performance. As at November 30, 2023, there are no material claims in favor or against the Company.

14. Segment disclosures

(a) Reportable segments

The Company operates in two segments: (1) Indoor cannabis operations which encompasses the cultivation, processing and sale of dried cannabis and cannabis derivatives for the Canadian market ("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 before share-based compensation, amortization, net finance expense, loss on disposal of property, plant and equipment and income tax. Categorized as "Other" are items related to U.S. hemp-based CBD products revenues and related operating costs. The accounting policies of the segments are the same as those described in Note 3 of the audited financial statements of the Company for the year ended August 31, 2023.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements
For the three-month periods ended November 30, 2023 and 2022
(Unaudited - in Canadian dollars)

14. Segment disclosures (continued)

(a) Reportable segments (continued)

	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
Revenue								
Revenue from sale of goods	$ 26,329,085	$ –	$ –	$ 26,329,085	$11,215,699	$ –	$ –	$11,215,699
Excise taxes	(7,811,953)	–	–	(7,811,953)	(2,773,308)	–	–	(2,773,308)
Net revenue from sale of goods	18,517,132	–	–	18,517,132	8,442,391	–	–	8,442,391
Services revenues	–	–	–	–	931,111	–	–	931,111
Lease revenue	–	909,396	–	909,396	–	867,912	–	867,912
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
Cost of revenues								
Cost of goods sold	11,475,142	–	–	11,475,142	5,506,890	–	–	5,506,890
Cost of services	–	–	–	–	696,736	–	–	696,736
Lease operating costs	–	72,435	–	72,435	–	84,581	–	84,581
Segment gross profit before fair value adjustments	7,098,756	836,961	–	7,935,717	3,240,067	783,331	–	4,023,398
Changes in fair value of inventory sold	(6,224,666)	–	–	(6,224,666)	(1,999,327)	–	–	(1,999,327)
Unrealized gain on changes in fair value of biological assets	6,524,305	–	–	6,524,305	2,808,524	–	–	2,808,524
Segment gross profit	7,398,395	836,961	–	8,235,356	4,049,264	783,331	–	4,832,595
Operating expenses	4,101,567	–	–	4,101,567	2,807,169	–	–	2,807,169
Segment operating income	3,296,828	836,961	–	4,133,789	1,242,095	783,331	–	2,025,426
Share-based compensation	–	–	280,571	280,571	–	–	562,559	562,559
Amortization	–	–	409,192	409,192	–	–	294,012	294,012
Loss on disposal of property, plant and equipment	–	–	5,380	5,380	–	–	25,980	25,980
Net finance expense	–	–	1,331,367	1,331,367	–	–	1,139,924	1,139,924
Net income (loss)	$ 3,296,828	$ 836,961	$ (2,026,510)	$ 2,107,279	$ 1,242,095	$ 783,331	$ (2,022,475)	$ 2,951

(Unaudited - in Canadian dollars)

14. Segment disclosures (continued)

(b) Entity-wide disclosures

All property, plant and equipment are located in Canada.

(c) Sources of lease revenues

The Company leased 414,114 square feet of the total 625,000 available square feet in its Farnham facility to third parties. For the period ended November 30, 2023, the Company realized 100% of its lease revenue with two lessees:

- The lease term for Tenant A is up to September 30, 2027. Lease revenues from this tenant for the three-month period ended November 30, 2023 amounted to $147,658.
- The lease term for Tenant B is up to October 31, 2024, with options to extend. Lease revenues from this tenant for the three-month period ended November 30, 2023 amounted to $761,738.

Income is generated from customers domiciled in Canada.

(d) Source of cannabis and cannabis accessories revenues

	Three-month periods ended November 30, 2023	November 30, 2022
Revenue from Canadian retailers	$ 25,391,531	$ 11,113,989
Excise taxes	(7,811,953)	(2,773,308)
	17,579,578	8,340,681
Revenue from Canadian wholesale	582,043	101,710
Revenue from online merchandise	56,082	–
Revenue from Israeli wholesale	243,347	–
	$ 18,517,132	$ 8,442,391

For the three-month period ended November 30, 2023, the Company has generated 76% of its cannabis revenues from two provincial distributors (Quebec and Ontario) (2022 – 96%).

(e) Source of services revenues

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

(Unaudited - in Canadian dollars)

15. Related parties

(a) Key management personnel compensation

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

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

	Three-month periods ended	
	November 30, 2023	November 30, 2022
Salaries and benefits	$ 210,000	$ 210,000
Shared-based compensation	231,927	488,185
Board of Directors' fees	25,000	17,500
	$ 466,927	$ 715,685

(b) Other transactions with related parties

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

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

	Three-month periods ended	
	November 30, 2023	November 30, 2022
Nature of transactions:		
Interest on debt financing (i)	62,008	111,017
Interest on lease liabilities (i)	9,134	7,952
Debt financing guarantee fees (iii)	93,750	93,750
	$ 164,892	$ 212,719

(Unaudited - in Canadian dollars)

15. Related parties (continued)

(b) Other transactions with related parties (continued)

	November 30, 2023	August 31, 2023
Balances due to related parties are as follows:		
Accounts payable and accrued interests [i]	$ (62,500)	$ (343,750)
Accounts payable to key management personnel [ii]	(111,298)	(65,799)
Accounts payable to Board of Directors members	(20,448)	(15,269)
Lease liabilities [i]	(593,418)	(187,388)
Convertible debentures, including accrued interest [i]	(6,279,878)	(6,217,870)

(i) The Company has a Board of Director member who is a shareholder in an entity with which the Company entered into various transactions with for the financing of the Farnham and Valleyfield Facilities in addition to a head office lease arrangement.

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

(iii) As part of the financing closed in prior year, a related party is providing certain guarantees to the lenders on the debt financing and is charging the Company a fee in exchange.

16. Cash flow information

Net change in non-cash working capital items:

	Three-month periods ended	
	November 30, 2023	November 30, 2022
Accounts receivable	$ 731,342	$ 2,839,617
Sales tax payable	(302,498)	(304,243)
Lease receivable	–	32,396
Biological assets	(4,851,285)	(3,725,342)
Inventory	2,168,891	(1,154,503)
Prepaid expenses and other assets	(393,370)	66,738
Accounts payable and accrued liabilities	(2,132,452)	(351,422)
Deferred lease revenue	173,120	300,905
Deferred grant income	(9,685)	(9,685)
Deferred revenue	108,274	(7,087)
	$ (4,507,663)	$ (2,312,626)

(Unaudited - in Canadian dollars)

16. Cash flow information (continued)

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

	Three-month periods ended	
	November 30, 2023	November 30, 2022
Variation of property, plant and equipment included in accounts payable and accrued liabilities	$ (468,797)	$ 209,610
Reclass of deposit on property, plant and equipment to property, plant and equipment	–	653,866
Addition to right-of-use assets and lease liabilities	616,918	–

17. Subsequent events

Stock options

Subsequent to year-end, the Company granted a total of 625,000 stock options at an exercise price of $1.20 and 99,000 stock options at an exercise price of $1.80 to employees subject to certain vesting conditions in accordance with the Company's employee share option plan.

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.

RSUs

In December 2023, the Company granted a total of 625,000 RSUs to certain employees and 90,000 RSUs to board members, without performance conditions and exercisable for no consideration.

Revolving credit facilities

Subsequent to quarter-end, the Company extended all expiring tranches of the revolving credit facilities for a 60-day term and drew an additional $1,000,000 on the revolving credit facilities. Funds have been planned to be used for general working capital purposes.

NCIB

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