CANNARA BIOTECH INC.

MANAGEMENT DISCUSSION AND ANALYSIS
For the three-month periods ended November 30, 2019 and 2018

This Management Discussion and Analysis ("MD&A") of Cannara Biotech Inc. ("Cannara" or the "Company") has been prepared by management as of January 16, 2020 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, 2019 and November 30, 2018. The condensed interim consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). Certain information and notes usually provided in the annual financial statements have been omitted or condensed when not deemed essential to the understanding of the interim financial information of the Company. Therefore, this MD&A should 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, 2019.

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

Additional information filed by us with the Canadian Securities Administrators, including quarterly reports, annual reports, annual information forms and prospectus are located on-line at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A may contain "forward-looking information" within the meaning of Canadian securities legislation ("forward-looking statements"). These forward-looking statements are made as of the date of this MD&A and 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. Certain forward-looking statements in this MD&A include, but are not limited to, the Company's construction plans as outlined under "Business Overview", the receipt from Health Canada of its cultivation, processing and sales license and business development arrangements.

Historical results of operations and trends that may be inferred from the following discussions and analysis may not necessarily indicate future results from operations.

BUSINESS OVERVIEW

Cannara was incorporated under the laws of British Columbia on October 19, 2017 and is currently listed and publicly traded on the Canadian Securities Exchange ("CSE") under the symbol "LOVE", the OTCQB under the symbol "LOVFF" and the Frankfurt Stock Exchange under the symbol "8CB".

Cannara is an emerging vertically integrated cannabis company focused on the indoor cultivation, processing and sale of premium dried cannabis and cannabis derivatives under *The Cannabis Act* through its wholly-owned subsidiaries, Cannara Biotech (Ops) Inc. and Cannara Biotech (Québec) Inc. (together, hereafter "Cannara Ops"). Cannara Ops anticipates receiving its license to cultivate (the "License") cannabis under The Cannabis Act early in the new year as it has provided all requested information to Health Canada. Upon demonstrating the ability to cultivate cannabis to Health Canada, Cannara OPS plans to offer its products to consumers in Québec and throughout Canada.

The registered head office of the Company is located at 333 Decarie Blvd, suite 200, Ville St-Laurent, Québec, H4N 3M9 and its facility and operations are located at 1144 Magenta boul. E, Farnham, Québec, J2N 1C1. Cannara Ops has completed 170,000 square foot retrofitting of a large-scale 625,000 square foot warehouse into a pharmaceutical-grade indoor cannabis cultivation facility (the "Farnham Facility"), which is located less than 45 minutes from downtown Montreal. The Farnham Facility is located in the eastern townships which makes it an ideal location in terms of security, electricity, utility and shipping costs. Leveraging Quebec's low electricity costs, the Farnham Facility will have access to 15 megawatts of hydropower at a price significantly less expensive than elsewhere in Canada. Cannara Ops also expects to generate revenues through licensing and partnership arrangements. In addition, Cannara Ops has leased out a significant portion of the currently unused area of the Farnham Facility in order to increase cash flows during the phased construction of the Farnham Facility.

Additional information about the Company may be found at www.cannara.ca.

In addition, the Company, through a subsidiary, owns 61.23% of ShopCBD.com Inc. which has recently launched its online e-commerce platform focused on tapping into the growing U.S. Hemp CBD market by platform offering curated selections of top tier products in a fast, secure and reliable transaction.

Additional information about ShopCBD.com may be found at www.shopcbd.com.

OPERATIONAL HIGHLIGHTS DURING THE QUARTER

Completion of Phase 1 Construction of the Farnham Facility and Submission of Site Evidence Package to Health Canada

On September 12, 2019, the Company announced that Cannara Biotech (Québec) Inc. submitted to Health Canada its Site Evidence Package for Phase 1 of the Farnham Facility which will permit the Company to cultivate, process and sell premium dried cannabis and cannabis derivatives under *The Cannabis Act.* The submission of the Site Evidence Package marked the substantial completion of the 170,000 square foot Phase 1 construction of the Farnham Facility.

Phase 1 consists of 110,000 square feet of space dedicated to the cultivation of premium dried cannabis. The remaining 60,000 square feet of finished space is designed to accommodate various processing stages such as extraction and packaging or may be utilized as further cultivation space.

The current cultivation capacity for Phase 1 is estimated at 10,000 kg of premium cannabis per annum and can potentially reach 15,000 kg – 20,000 kg of premium cannabis if all remaining Phase 1 space is used for cultivation. The remaining Phases of the Farnham Facility are planned to consist of additional cultivation space, a research and development area and a variety of production and processing capabilities for a range of cannabis derivatives products such as extracts and cannabis-infused products.

During the three-month period ended November 30, 2019, the Company concentrated its efforts on finalizing Phase 1 construction in addition to purchasing and installing various production equipment required to cultivate cannabis, refining the Company’s processes and related standard operating procedures including the implementation of a dedicated Enterprise Resource Planning (“ERP”) system, and onboarding new hires in anticipation of the license to cultivate being awarded in the early year.

Mortgage financing facility with Canadian Imperial Bank of Commerce

On October 10, 2019, the Company secured a first mortgage against its Farnham Facility in the value of $6 million with a Canadian financial institution at an interest rate of prime plus 2%. As of November 30, 2019, the interest rate related to the mortgage was 5.95%. These funds were applied to reduce the existing mortgage payable.

Partnership Arrangements

The Company has mutually agreed to terminate the current Letter of Intent with a partner in the beverage industry as strategic initiatives of both companies have shifted. The Company continues to have ongoing discussions and negotiations with strategic partners that will assist the Company in producing leading cannabis derivatives products, develop new delivery technology and create a platform for brand licensing.

Launch of ShopCBD.com

The Company, through its subsidiary ShopCBD.com, launched its online e-commerce platform for the United Sates (U.S.), www.shopCBD.com, in November 2019. The main business focus of the platform is to provide consumers an economical way to purchase, review and compare a selection of top-tier hemp-based CBD products that have been vetted by independent lab results and curated based on factors such as safety, reliability and consistency of hemp-based CBD content. However, the launch of ShopCBD.com in November 2019 coincided with a period of greater regulatory and operational uncertainties to the hemp-derived CBD industry in the U.S. than originally anticipated, mainly:

- Increased FDA activity and barriers to entry, especially in advertising and distribution;
- News of vaping related illnesses across the United States;
- Bans of vaping products across multiple states;
- Major platforms such as Google and Facebook further entrenching their positions against advertising of CBD products;
- Increased proliferation of CBD brands and products in the marketplace that have not undergone acceptable manufacturing quality standards;
- Continued obstacles to banking and payment processing solutions for the transaction of hemp-derived CBD products; and
- Continued variability in municipal, city and state laws governing the production and sale of hemp-derived CBD products.

As a result of the above, ShopCBD.com has focused its capital and human resources on testing and proving out organically driven user acquisition models. Specifically, to continue to build out digital presence in owned mediums, strengthening its vendor and affiliate partnerships, drive search engine optimization efforts, while vigilantly testing paid marketing initiatives in preparation to scale at the right moment.

Given the ongoing regulatory uncertainty governing the sale of hemp-derived CBD products, the Company continues to exercise caution and patience, controlling costs and reinforcing the strategy to aggressively compete in the U.S. market.

CAPITAL TRANSACTIONS DURING THE QUARTER

On September 26, 2019, the Company issued an additional 200,000 common shares as a result of the exercise of previously issued warrants for gross proceeds of $20,000.

SUMMARY OF FINANCIAL INFORMATION

Consolidated statement of financial position

Cannara Biotech (Ops) Inc. was incorporated on February 21, 2018. The financial position of all quarters since the incorporation are presented in the table below, except for the period between February 21, 2018 and May 31, 2018 since the Company did not have any significant activities.

	November 30, 2019	August 31, 2019	May 31, 2019	February 28, 2019	November 30, 2018	August 31, 2018
Current assets	$ 18,907,512	$ 27,828,255	$ 32,671,723	$ 43,270,167	$ 45,302,239	$ 13,484,718
Non-current assets	42,968,691	40,274,883	35,119,971	26,679,329	21,391,987	15,375,580
Total assets	61,876,203	68,103,138	67,791,694	69,949,496	66,694,226	28,860,298
Current liabilities	7,548,974	5,090,627	4,240,736	9,550,340	40,909,973	1,163,886
Non-current liabilities	7,090,591	13,083,995	13,122,476	13,156,463	12,936,874	12,953,991
Total liabilities	14,639,565	18,174,622	17,363,212	22,706,803	53,846,847	14,117,877
Net assets	$ 47,236,638	$ 49,928,516	$ 50,428,482	$ 47,242,693	$ 12,847,379	$ 14,742,421

Consolidated statement of net loss

	Three-month period ended November 30, 2019	Three-month period ended November 30, 2018
Revenues:		
Product revenue	$ 5,721	$ -
Lease revenue	527,528	518,443
	533,249	518,443
Cost of revenues:		
Cost of goods sold	3,923	-
Lease operating costs	29,632	52,538
	33,555	52,538
Operating expenses	2,456,983	2,190,771
Share-based compensation	232,355	139,073
Amortization	528,428	128,061
Operating loss before undernoted	(2,718,072)	(1,992,000)
Net finance expense	222,928	313,226
Net loss	$ (2,941,000)	$ (2,305,226)
Net loss attributable to:		
Shareholders of the Company	$ (2,719,232)	$ (2,305,226)
Non-controlling interest	(221,768)	-
Basic and diluted loss per share	$ (0.01)	$ (0.01)

RESULTS OF OPERATIONS

The Company operates in two segments: 1) Indoor cannabis operations which encompasses the cultivation, processing and sale of premium dried cannabis and cannabis derivatives exclusively for the Canadian market (Canadian operations) and 2) E-commerce retailer of curated selection of top tier U.S. hemp-based CBD products exclusively for the U.S. market. (U.S. operations).

The chief operating decision-maker assesses performance based on segment operating results, which was defined as segment operating loss before share-based compensation, amortization, net finance expenses and income taxes. These items, including ancillary lease revenues and lease operating costs, have been categorized as Other.

				Three-month period ended November 30, 2019
	Canadian Operations	U.S. Operations	Other	Total
Revenues:				
Product revenue	$ -	$ 5,721	$ -	$ 5,721
Lease revenue	-	-	527,528	527,528
	-	5,721	527,528	533,249
Cost of revenues:				
Cost of goods sold	-	3,923	-	3,923
Lease operating costs	-	-	29,632	29,632
	-	3,923	29,632	33,555
Operating expenses	1,856,014	600,969	-	2,456,983
Segment operating income (loss) before undernoted	(1,856,014)	(599,171)	497,896	(1,957,289)
Share-based compensation	-	-	232,355	232,355
Amortization	-	-	528,428	528,428
Net finance expense	-	-	222,928	222,928
Segment loss before income taxes	(1,856,014)	(599,171)	(485,815)	(2,941,000)
Segment net loss	$ (1,856,014)	$ (599,171)	$ (485,815)	$ (2,941,000)
Segment net loss attributable to:				
Shareholders of the Company	$ (1,856,014)	$ (377,403)	$ (485,815)	$ (2,719,232)
Non-controlling interest	-	(221,768)	-	(221,768)

		Three-month period ended November 30, 2018		
	Canadian Operations	U.S. Operations	Other	Total
Revenues:				
Product revenue	$ -	$ -	$ -	$ -
Lease revenue	-	-	518,443	518,443
	-	-	518,443	518,443
Cost of revenues:				
Cost of goods sold	-	-	-	-
Lease operating costs	-	-	52,538	52,538
	-	-	52,538	52,538
Operating expenses	2,190,771	-	-	2,190,771
Segment operating income (loss) before undernoted	(2,190,771)	-	465,905	(1,724,866)
Share-based compensation	-	-	139,073	139,073
Amortization	-	-	128,061	128,061
Net finance expense	-	-	313,226	313,226
Segment loss before income taxes	(2,190,771)	-	(114,455)	(2,305,226)
Segment net loss	$ (2,190,771)	$ -	$ (114,455)	$ (2,305,226)
Segment net loss attributable to:				
Shareholders of the Company	$ (2,190,771)	$ -	$ (114,455)	$ (2,305,226)
Non-controlling interest	-	-	-	-

Canadian Operations

For the three-month period ended November 30, 2019, the segment had not yet generated cannabis-related revenues from its Canadian operations as the Cannara OPS has not yet obtained its license to cultivate and sell cannabis under *The Cannabis Act.*

For the three-month period ended November 30, 2019, the segment incurred $1,856,014 in operating expenses compared to $2,190,771 in the same period of prior year resulting in a favorable decrease in operating expenses of $334,757. The decrease in operating expenses is attributable to:

- An increase of $239,585 in general and administrative expenses as a result of non-capitalizable expenses incurred to prepare the Farnham Facility in anticipation of the License, expenses incurred to support the growth of hired human resources and additional insurance costs;
- An increase of $117,992 in investor relation expenses as the Company had not been public in the same period of the prior year;
- A decrease of $247,407 in marketing expenses as the Company had prepared its initial brand portfolio and corporate marketing campaign during the three-month period ended November 30, 2018. The Company is anticipating to further spend on marketing and roll out Cannara Ops' cannabis brand strategy subsequent to the License being granted; and
- A decrease of $412,983 in professional fees as a result of expenses incurred in the same period of prior year to prepare the Company to be a publicly listed entity on the Canadian Stock Exchange in January 2019, in addition to, consultancy expenses incurred for the Health Canada License application and to prepare for the Cannara Ops' cultivation operations which included the development of standard operating procedures.

The segment operating loss for the three-month period ended November 30, 2019 was $1,856,014 compared to $2,190,771 in the same period of prior year.

U.S. Operations

For the three-month period ended November 30, 2019, the Company generated product revenue of $5,721 and incurred $3,923 in costs of goods sold resulting in a gross profit of $1,798 and a gross profit margin of 31%. ShopCBD.com was launched during November 2019.

For the three-month period ended November 30, 2019, the segment incurred $600,969 in operating expenses compared to nil in the same period of prior year as the segment was only created in the third quarter of 2019. Current period operating expenses mainly comprise of $204,364 in salaries and benefits to develop, support and operate the business, $188,112 in marketing spend to launch and drive traffic to ShopCBD.com and $156,372 in general and administrative expenses relating to the operation of the e-commerce platform and office-related expenses.

The segment incurred $599,171 in operating loss from its U.S. operations, of which $377,403 is attributable to the shareholders of the Company.

Other

In order to increase cash flow while the Company continues to build out its phased approach of the Farnham Facility, the Company leased 333,551 square feet of the total 625,000 available square feet to two tenants.

The Company generated lease revenues of $527,528 for the three-month period ended November 30, 2019 compared to $518,443 in the same period of prior year as a result of contractual rent escalations. In order to realize these lease revenues, the Company spent $29,632 in lease operating costs during the three-month period ended November 30, 2019 compared to $52,538 in the same period of prior year. The decrease in lease operating expenses is attributable to the cancellation of a property management agreement in October 2019 as the Company will internally manage the property to increase net revenues from leases.

The segment generated $497,896 in operating income for the three-month period ended November 30, 2019 which is comparable to $465,905 earned in the same period of prior year.

The segment net loss for the three-month period ended November 30, 2019 was $485,815 compared to $114,455 in the same period of prior year, resulting in an unfavorable increase in net loss of $371,360. The increase is attributable to:

- An increase of $93,282 in share-based compensation as a result of more stock options granted as at November 30, 2019 compared to November 30, 2018;
- An increase of $400,367 in amortization as the Company began depreciating the Farnham Facility and related assets, effective September 12, 2019; and
- A decrease of $90,298 in finance expense which is mainly attributable to the lower interest rate paid on the new mortgage payable secured in October 2019.

Prior Quarter Financial Results

The following table sets forth, for the quarter indicated, information relating to the Company's revenues, net loss attributable to Shareholders of the Company and related basic and diluted loss per share attributable to Shareholders of the Company for the six completed fiscal quarters to date:

	Total revenues		Net loss attributable to Shareholders of the Company				Basic and diluted loss per share
	Other	Total	Canadian Operations	U.S. Operations	Other	Total	Total
August 31, 2018	$ 432,637	$ 432,637	$ (1,727,442)	$ -	$ (385,455)	$ (2,112,897)	$ (0.01)
November 30, 2018	518,443	$ 518,443	(2,190,771)	-	(114,455)	(2,305,226)	$ (0.01)
February 28, 2019	518,438	$ 518,438	(1,346,132)	(353,785)	(2,178,400)	(3,878,317)	$ (0.01)
May 31, 2019	506,785	$ 506,785	(1,770,336)	(301,539)	(482,441)	(2,554,316)	$ (0.01)
August 31, 2019	553,308	$ 553,308	(2,116,301)	(425,310)	(1,035,579)	(3,577,190)	$ (0.01)
November 30, 2019	527,528	$ 533,249	(1,856,014)	(377,403)	(485,815)	(2,719,232)	$ (0.01)

LIQUIDITY AND CAPITAL RESOURCES

As of the date of this MD&A, the Company has not started generating revenues from its main operations and has financed its operations and met its capital requirements primarily through a mortgage and equity financings. The Company's objectives when managing its liquidity and capital resources are to generate sufficient cash to fund the Company's operations and working capital requirements. The Company has a working capital of $11,358,538 as at November 30, 2019 (August 31, 2019 - $22,737,628). The decrease in the working capital is mainly attributable to the classification of the new mortgage payable, which has been classified as current on the condensed interim consolidated statement of financial position. Despite having monthly repayment terms over 20 years, the mortgage also includes a clause that specifies that the lender can demand repayment of the mortgage at any time. Furthermore, the Company continued to spend on construction and acquisition of production equipment to operationalize Phase 1 of the Farnham Facility, which also reduce the level of remaining liquidity.

As at November 30, 2019, the Company's working capital was composed of:

- cash on hand of $16,964,105 (August 31, 2019 - $26,505,992);
- nil in restricted cash relating to a subscription receipt issued by a subsidiary (August 31, 2019 - $211,000);
- accounts receivable, sales tax receivable, prepaid expenses and inventory of $1,943,407 (August 31, 2019 - $1,111,263);
- trades payable and accrued liabilities of $1,417,604 (August 31, 2019 - $4,739,820);
- nil in liabilities relating to a subscription receipt issued by a subsidiary (August 31, 2019 - $211,000);
- current portion of lease liability of $179,784 (August 31, 2019 - $139,807); and
- current portion of mortgage payable of $5,951,586 (August 31, 2019 – nil).

Of the balance of cash on hand, $10,173,099 (August 31, 2019 - $18,905,198) is held by Cannara Biotech (OPS) Inc. for use towards the Company's Canadian operations and $6,791,006 (August 31, 2019 - $7,600,794) is held by Global shopCBD.com and ShopCBD.com to fund the development of its U.S. operations.

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

	Three-month period ended November 30, 2019
Cash used in operating activities	$ 3,383,725
Cash used in from financing activities	399,467
Cash used in investing activities	5,755,462

Operating activities

For the three-month period November 30, 2019, cash used for operating activities was $3,383,725. The cash flow used in operating activities was primarily attributable to expenses relating to salaries of personnel, initial non-capitalizable expenses to prepare the Farnham facility for operations including the implementation of an ERP system, professional fees for the development of the Company's business operations, additional insurance premiums to cover a purpose-built cannabis facility and office, travel and public company related expenses.

Financing activities

For the three-month period ended November 30, 2019, cash used in financing activities was $399,467 which is mainly attributable to interest paid on the mortgage of $301,868, and $68,904 on lease-related payments.

During the three-month period ended November 30, 2019, the Company received a new mortgage of $6,000,000 and the funds obtained were used to pay down the existing mortgage.

Investing activities

For the three-month period ended November 30, 2019, cash used for investing activities was $5,755,462. Investing activities during the period relate substantially to the construction and the acquisition of production equipment in order to render Phase 1 of the Farnham Facility operational in anticipation of the License being granted in the early new year. In addition, the Company invested further $58,663 for the technical development of its online e-commerce platform in relation to its U.S. operations.

For the three-month period ended November 30, 2019, the Company received $88,781 in interest income relating to interest earned on the cash balance held at a schedule 1 financial institution. 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 resource measures

The Company believes it has incurred most of the required capital required to operationalize Phase 1 of the Farnham Facility up to dried cannabis harvesting. For the year ending August 31, 2020, the Company anticipates to further spend on production equipment related to cannabis packaging, extraction and derivatives.

The Company expects that its existing cash resources as at November 30, 2019 will enable it to fund its planned operating expenses for at least the next twelve months from November 30, 2019.

Loans and credit facilities

Type of loan	Interest Rate	Maturity		Balance as at November 30, 2019		Balance as at August 31, 2019
Secured mortgage loan	11%	06-Apr-21	$	6,550,000	$	12,550,000
Secured mortgage loan [1]	5.95%	on demand	$	6,000,000	$	-

(1) The mortgage has a repayment term of 20 years but also includes a clause that specifies that the lender can demand repayment of the mortgage at any time. The mortgage also contains a financial covenant requiring the Company to maintain a debt service ratio of not less than 1.25 to 1.0 each year-end.

Other contractual obligations

		Less than one year		One to five years		Total
Accounts payable and accrued liabilities	$	1,417,604	$	-	$	1,417,604
Mortgage payable, at carrying amount [1]		300,000		12,189,621		12,489,621
Lease liability [2]		307,104		710,145		1,017,249

(1) The contractual obligations relating to the secured mortgage loan that is repayable on demand has been presented based on the contractual repayment term of equal installments over 20 years.

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

OFF-BALANCE SHEET ARRANGEMENTS

As at the date of this MD&A, the Company had no material off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of the Company.

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.

On June 15, 2018, Cannara Biotech (Ops) Inc. acquired the Farnham Facility from a related party pursuant to a Deed of Sale for a price of $12,550,000 payable on or before April 6, 2021, which the purchase price is secured by a first ranking hypothec and bears interest at an annual rate of 13%, calculated and payable monthly. During the three-month period ended November 30, 2019, the Company paid $250,152 in interest on the mortgage payable to a related party. In addition, the Company repaid $6,000,000 against the principle portion of the loan. As at November 30, 2019, the outstanding mortgage payable is $6,550,000 (August 31, 2019 - $12,550,000).

On June 15, 2018, Cannara Biotech (Ops) Inc. entered into a management agreement with a related party whereby said related party would manage the Farnham Facility for an indefinite term. The management agreement provides for the following terms: (i) a monthly management fee equal to 5% of the lease revenue collected; (ii) a monthly supervision fee equal to 5% of cost of operation on the Farnham Facility; and (iii) fees for other services. During the three-month period ended November 30, 2019, the Company paid $13,141 in management fees to the related party and cancelled the agreement during October 2019. The Company plans to internally manage the tenants who are currently occupying the Farnham Facility. As at November 30, 2019, the Company had an outstanding net payable to the related party of $102,646 (August 31, 2019 – net payable of $113,814).

The related party is considered related to the Company as a shareholder of the related party is also a director on the Company's Board of Directors.

For the three-month period and year ended November 30, 2019, salaries and benefits paid to key management amounted to $168,000, share-based compensation attributable to key management and directors was $72,707 and director fees were $34,500. As at November 30, 2019, the Company owed $59,512 (August 31, 2019 - $74,939) to key management personnel for reimbursement of expenses incurred on the Company's behalf, 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 instrument 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, restricted cash, rental receivables from customers and deposits.

Cash balances in an asset position expose 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. All of the financial institutions within the bank syndicate providing the Company's credit facility meet these qualifications.

The carrying amount of the accounts receivable in the condensed interim consolidated statement of financial position is presented net of an allowance for expected credit losses, estimated by the Company's management based, in part, on the age of the specific receivable balance and the current and expected collection trends. A provision is established when the likelihood of collecting the account has significantly diminished. As at November 30, 2019, none of the rental receivables were past due. The allowance for expected credit loss was nil as at November 30, 2019 (August 31, 2019 - nil). 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, 2019, the Company had current assets of $18,907,512 which is sufficient to settle its current liabilities of $7,548,974. The Company expects that its existing cash as at November 30, 2019 will enable it to fund its planned construction and operating expenses for at least the next twelve months.

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.

RISK FACTORS

It is believed that there are numerous factors could cause actual results to be different from expected and historical results. Other sections of this MD&A include additional factors that could influence the business and financial performance of the business. The markets in which the Company currently competes are very competitive and change rapidly. New risks may emerge, and management may not be able to predict all of them or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements. If any of these risks occur, the Company's business may be harmed, and results of operations and financial condition may suffer.

The Company has identified risk factors that have been disclosed in the MD&A for the year ended August 31, 2019. Please refer to the Risk Factors in the MD&A for the year ended August 31, 2019 for a complete list of potential risk factors.

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 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 consolidated financial statements, depend on the use of estimates and judgments. IFRS also require 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 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.

Management estimates

Management estimates the useful lives of property, plant and equipment in the period during which the assets become available for use. The amounts and timing of recorded expenses for amortization of property, plant and equipment for any period are affected by these estimated useful lives. The estimates are reviewed each period and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. Changes in these factors may cause significant changes in the estimated useful lives of the Company's property, plant and equipment and the related amortization expense in the future.

Critical accounting judgments and assumptions

The judgments and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities relate to the valuation of property, plant and equipment. At each reporting date, management determines whether the property, plant and equipment present indicators of impairment or recovery of an impairment loss. For the purposes of this analysis, management uses its judgment considering factors such as the economic environment and the market in which the Company operates, budget, forecasts and physical obsolescence. If there is any such indication, the recoverable value of the asset is estimated. When assessing expected future cash flows, the Company makes assumptions regarding future operating results and the forecasted period for which the assets will generate cash flows. Although the Company determines the assumptions based on the market information available at the time of the assessment, actual results may differ.

SIGNIFICANT ACCOUNTING POLICIES

The financial information presented in this MD&A has been prepared in accordance with International Financial Reporting Standards. Our significant accounting policies are set out in Note 2 of the condensed interim consolidated financial statements of the Company, as at and for the three-month periods ended November 30, 2019 and 2018.

SUMMARY OF OUTSTANDING SHARE DATA

Summary of Outstanding Share Data as of January 16, 2020:

Authorized:	Unlimited number of voting and participating common shares without par value.
Issued and outstanding:	706,970,705 common shares
	14,748,710 warrants
	39,764,424 options

Zohar Krivorot
Director, CEO and President