CANNARA BIOTECH INC.

MANAGEMENT DISCUSSION AND ANALYSIS
For the three and six-month periods ended
February 29, 2020 and February 28, 2019

This Management Discussion and Analysis ("MD&A") of Cannara Biotech Inc. ("Cannara" or the "Company") has been prepared by management as of April 14, 2020 and should be read in conjunction with the condensed interim consolidated financial statements and related notes thereto of the Company for the three and six-month periods ended February 29, 2020 and February 28, 2019. The condensed interim consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). Certain information and notes usually provided in the annual financial statements have been omitted or condensed. Therefore, this MD&A should 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 and annual information forms can be found on-line at www.sedar.com.

FORWARD-LOOKING STATEMENTS

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

In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "intends" and "estimates". By their very nature, forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section "Risk Factors" as well as those factors detailed from time to time in the Company's interim and annual financial statements and the related MD&A of those statements.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended.

The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

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

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. 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. Additional risk factors identified subsequent to August 31, 2019 are as follows:

<u>COVID-19</u>

The COVID-19 outbreak has been declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian and provincial governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and in Canada resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions however the success of these interventions is not currently determinable. The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect our business is not known at this time.

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 indoor cultivation, processing and sale of premium dried cannabis and cannabis derivatives under *The Cannabis Act* through its wholly-owned subsidiary, Cannara Biotech (Québec) Inc. (hereafter "Cannara QC") received its license for the cultivation, processing and medical sale of cannabis from Health Canada (the “License”) on January 31, 2020 and effectively commenced its cannabis cultivation operations as at that date. The Company has recently completed the retrofitting of 170,000 square feet of a 625,000 square foot building (“Phase 1”) into a purpose-built pharmaceutical-grade indoor cannabis cultivation facility (the “Farnham Facility”) for usage by Cannara QC. The Farnham Facility is located in the eastern townships, less than 45 minutes from downtown Montreal, which makes it an ideal location in terms of security, electricity, utility and shipping costs. Leveraging Quebec's low electricity costs, the Farnham Facility has access to 15 megawatts of hydropower at a price significantly less expensive than elsewhere in Canada.

In order to increase cash flows during the phased construction of the Farnham Facility, the Company has leased out a significant portion of the currently unused area of the Farnham Facility.

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

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.

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

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

OPERATIONAL HIGHLIGHTS DURING THE SECOND QUARTER

Reception of the License and commencement of cultivation operations

On January 31, 2020, the Company, via its subsidiary, Cannara QC, received its license from Health Canada for Phase 1 of the Farnham Facility, and as a result, the cultivation operations were officially launched on February 3, 2020.

From a cultivation perspective, the first four weeks of the operations have proven to be very successful. The plants are responding positively to the environmental conditions at the Farnham Facility, providing initial validation of the engineering and experience the team has put into developing the operational plan and building Phase 1.

The Company is currently cultivating 16 carefully selected premium genetics with a genetic bank of over 200 additional strains. As at February 29, 2020, the Company had a total of 18,012 plants in the cultivation cycle at the following stages:

- 14,894 plants in vegetation;
- 2,657 plants in flowering; and
- 461 mother plants.

The Company expects its first harvest before mid-year and is engaging with other licensed producers to wholesale product on anticipation that the Company's research and development efforts will lead to a commercially viable first harvest. The Company expects to engage in wholesale agreements while it waits to receive its license to sell cannabis to provincial bodies under the recreational framework from Health Canada.

As at the date of this MD&A, Cannara has now populated 14 grow rooms, covering over 28,000 square feet of canopy and expects to propagate the remaining rooms in April 2020. Under the current cultivation schedule, the Company is targeting two harvests per week by early summer.

CAPITAL TRANSACTIONS DURING THE SECOND QUARTER

On February 5, 2020 and February 7, 2020, the Company issued 3,000,000 common shares as a result of the exercise of previously issued warrants for gross proceeds of $300,000.

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.

	February 29, 2020	November 30, 2019	August 31, 2019	May 31, 2019	February 28, 2019	November 30, 2018	August 31, 2018
Current assets	$ 15,743,534	$ 18,907,512	$ 27,828,255	$ 32,671,723	$ 43,270,167	$ 45,302,239	$ 13,484,718
Non-current assets	43,476,215	42,968,691	40,274,883	35,119,971	26,679,329	21,391,987	15,375,580
Total assets	59,219,749	61,876,203	68,103,138	67,791,694	69,949,496	66,694,226	28,860,298
Current liabilities	8,310,185	7,548,974	5,090,627	4,240,736	9,550,340	40,909,973	1,163,886
Non-current liabilities	7,075,879	7,090,591	13,083,995	13,122,476	13,156,463	12,936,874	12,953,991
Total liabilities	15,386,064	14,639,565	18,174,622	17,363,212	22,706,803	53,846,847	14,117,877
Net assets	$ 43,833,685	$ 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 periods ended		Six-month periods ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Revenues				
Lease revenues	$ 641,480	$ 518,438	$ 1,169,008	$ 1,036,881
Product revenues	7,354	-	13,075	-
Other income	19,599	-	19,599	-
	668,433	518,438	1,201,682	1,036,881
Cost of sale				
Lease operating costs	190,352	81,836	219,984	134,374
Cost of goods sold	7,947	-	11,870	-
	198,299	81,836	231,854	134,374
Operating expenses	3,188,823	1,833,526	5,645,806	4,024,297
Share-based compensation	46,453	421,613	278,808	560,686
Amortization	725,074	138,962	1,253,502	267,023
Operating loss	(3,490,216)	(1,957,499)	(6,208,288)	(3,949,499)
Listing expense for the reverse acquisition of Dunbar Capital Corp.	-	1,875,243	-	1,875,243
Net finance expense	246,856	179,184	469,784	492,410
	246,856	2,054,427	469,784	2,367,653
Net loss	$ (3,737,072)	$ (4,011,926)	$ (6,678,072)	$ (6,317,152)
Net loss attributable to:				
Shareholders of the Company	$ (3,529,035)	$ (3,878,317)	$ (6,248,267)	$ (6,183,543)
Non-controlling interest	(208,037)	(133,609)	(429,805)	(133,609)
Basic and diluted loss per share	$ (0.01)	$ (0.01)	$ (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 Québec and 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 February 29, 2020				Three-month period ended February 28, 2019			
	Canadian Operations	U.S. Operations	Other	Total	Canadian Operations	U.S. Operations	Other	Total
Revenues								
Lease revenues	$ -	$ -	$ 641,480	$ 641,480	$ -	$ -	$ 518,438	$ 518,438
Product revenues	-	7,354	-	7,354	-	-	-	-
Other income	-	-	19,599	19,599	-	-	-	-
	-	7,354	661,079	668,433	-	-	518,438	518,438
Cost of sale								
Lease operating costs	-	-	190,352	190,352	-	-	81,836	81,836
Cost of goods sold	-	7,947	-	7,947	-	-	-	-
	-	7,947	190,352	198,299	-	-	81,836	81,836
Operating expenses	2,666,770	522,053	-	3,188,823	1,375,075	458,451	-	1,833,526
Segment operating income (loss)	(2,666,770)	(522,646)	470,727	(2,718,689)	(1,375,075)	(458,451)	436,602	(1,396,924)
Listing expense related to the reverse acquisition	-	-	-	-	-	-	1,875,243	1,875,243
Share-based compensation	-	-	46,453	46,453	-	-	421,613	421,613
Amortization	-	-	725,074	725,074	-	-	138,962	138,962
Net finance expense	-	-	246,856	246,856	-	-	179,184	179,184
Segment net loss	$ (2,666,770)	$ (522,646)	$ (547,656)	$ (3,737,072)	$ (1,375,075)	$ (458,451)	$ (2,178,400)	$ (4,011,926)
Segment net loss attributable to:								
Shareholders of the Company	$ (2,666,770)	$ (314,609)	$ (547,656)	$ (3,529,035)	$ (1,375,075)	$ (324,842)	$ (2,178,400)	$ (3,878,317)
Non-controlling interest	-	(208,037)	-	(208,037)	-	(133,609)	-	(133,609)

				Six-month period ended February 29, 2020				Six-month period ended February 28, 2019
	Canadian Operations	U.S. Operations	Other	Total	Canadian Operations	U.S. Operations	Other	Total
Revenues								
Lease revenues	$ -	$ -	$ 1,169,008	$ 1,169,008	$ -	$ -	$ 1,036,881	$ 1,036,881
Product revenues	-	13,075	-	13,075	-	-	-	-
Other income	-	-	19,599	19,599	-	-	-	-
	-	13,075	1,188,607	1,201,682	-	-	1,036,881	1,036,881
Cost of sale								
Lease operating costs	-	-	219,984	219,984	-	-	134,374	134,374
Cost of goods sold	-	11,870	-	11,870	-	-	-	-
	-	11,870	219,984	231,854	-	-	134,374	134,374
Operating expenses	4,522,784	1,123,022	-	5,645,806	3,565,846	458,451	-	4,024,297
Segment operating income (loss)	(4,522,784)	(1,121,817)	968,623	(4,675,978)	(3,565,846)	(458,451)	902,507	(3,121,790)
Listing expense related to the reverse acquisition	-	-	-	-	-	-	1,875,243	1,875,243
Share-based compensation	-	-	278,808	278,808	-	-	560,686	560,686
Amortization	-	-	1,253,502	1,253,502	-	-	267,023	267,023
Net finance expense	-	-	469,784	469,784	-	-	492,410	492,410
Segment loss before income taxes	(4,522,784)	(1,121,817)	(1,033,471)	(6,678,072)	(3,565,846)	(458,451)	(2,292,855)	(6,317,152)
Segment net loss	$ (4,522,784)	$ (1,121,817)	$ (1,033,471)	$ (6,678,072)	$ (3,565,846)	$ (458,451)	$ (2,292,855)	$ (6,317,152)
Segment net loss attributable to:								
Shareholders of the Company	$ (4,522,784)	$ (692,012)	$ (1,033,471)	$ (6,248,267)	$ (3,565,846)	$ (324,842)	$ (2,292,855)	$ (6,183,543)
Non-controlling interest	-	(429,805)	-	(429,805)	-	(133,609)	-	(133,609)

Canadian Operations

For the three and six-month periods ended February 29, 2020, the segment had not yet generated cannabis-related revenues from its Canadian operations since the cultivation activities commenced in February 2020 following the grant of the cultivation license. As at February 29, 2020, Cannara QC has not yet harvested its first crop.

For the three-month period ended February 29, 2020, the segment incurred $2,666,770 in operating expenses compared to $1,375,075 in the same period of the prior year resulting in an unfavorable increase in operating expenses of $1,291,695.

For the six-month period ended February 29, 2020, the segment incurred $4,522,784 in operating expenses compared to $3,565,846 in the same period of the prior year resulting in an unfavorable increase in operating expenses of $956,938.

The increase in operating expenses is mainly attributable to:

- An increase of $669,025 and $729,280 in general and administrative expenses for the three and six-month periods as a result of expenses incurred to prepare and launch the operations at the Farnham Facility, including costs for general maintenance of the building and additional insurance costs;
- An increase of $439,812 and $370,809 in salaries and benefits expenses for the three and six-month periods as a result of recent hires made to prepare for the commencement of operations and be ready to cultivate following the reception of the License from Health Canada;
- An increase of $368,675 and $598,050 in research and development for the three and six-month periods as a result of the initial expenses incurred to research, test and develop Cannara's cultivation methodologies and the material and labor costs related to its first harvest (refer to note 12 of the Condensed Interim Consolidated Financial Statements);
- An increase of $133,693 in investor relation expenses for the six-month period as the Company had only gone public on January 14, 2019. Investor relation expenses for the three-month period were similar compared to same period of prior year;
- A decrease of $99,108 and $347,602 in marketing expenses for the three and six-month periods as the Company postponed marketing spend until it received its License to further develop the Company's cannabis brand portfolio; and
- A decrease of $78,663 and $511,647 in professional fees for the three and six-month periods as a result of expenses incurred in the same period of the prior year to prepare the Company to become a publicly listed entity on the Canadian Stock Exchange.

The segment operating loss for the three and six-month period ended February 29, 2020 was $2,666,770 and $4,522,784 compared to $1,375,075 and $3,565,846 in the same period of prior year.

U.S. Operations

For the three-month period ended February 29, 2020, the Company generated product revenue of $7,354 and incurred $7,947 in costs of goods sold resulting in a loss of $593 compared to nil for the same period as prior year. The segment incurred $522,053 in operating expenses compared to $458,451 in the same period of prior year resulting in an unfavorable increase in operating expenses of $63,602.

For the six-month period ended February 29, 2020, the Company generated product revenue of $13,075 and incurred $11,870 in costs of goods sold resulting in a profit of $1,205 compared to nil for the same period as prior year. The segment incurred $1,123,022 in operating expenses compared to $458,451 in the same period of prior year resulting in an unfavorable increase in operating expenses of $664,571.

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 and its impact on revenues, ShopCBD.com has focused its capital and human resources on testing and proving out organically driven user acquisition models and testing paid marketing initiatives in preparation to scale at the right moment.

The increase in operating expenses is mainly attributable to:

- An increase of $59,181 and $263,545 in salaries and benefits for the three and six-month periods to develop, support and operate the business;
- An increase of $91,530 and $279,642 in marketing for the three and six-month periods to launch and drive traffic to ShopCBD.com;
- An increase of $117,489 and $258,389 in general and administrative expenses for the three and six-month periods for the operation of the e-commerce platform and office-related expenses; and
- A decrease of $218,053 and $165,932 in professional fees for the three and six-month periods due to non-recurring start-up fees incurred in prior period.

For the three-month period ended February 29, 2020, the segment incurred $522,646 in operating loss from its U.S. operations, of which $314,609 is attributable to the shareholders of the Company compared to $458,451 in the same period of prior year, of which $324,842 is attributable to the shareholders of the Company.

For the six-month period ended February 29, 2020, the segment incurred $1,121,817 in operating loss from its U.S. operations, of which $692,012 is attributable to the shareholders of the Company compared to $458,451 in the same period of prior year, of which $324,842 is attributable to the shareholders of the Company.

<u>Other</u>

In order to optimize cash flow while the Company has unoccupied space in the Farnham Facility, the Company leased 423,551 square feet of the total 625,000 available square feet to three tenants.

For the three and six-month period ended February 29, 2020, the Company generated lease revenues of $641,480 and $1,169,008 compared to $518,438 and $1,036,881 in the same period of prior year as a result of the addition of a new tenant. In order to realize these lease revenues during the three and six-month periods ended February 29, 2020, the Company spent $190,352 and $219,984 in lease operating costs compared to $81,836 and $134,374 in the same periods of prior year. The increase in lease operating expenses is attributable to the operating costs of the new tenant as well as general operating and maintenance expenses incurred for the tenants.

For the three and six-month period ended February 29, 2020, the segment generated $470,727 and $968,623 in operating income which is comparable to $436,602 and $902,507 earned in the same period of prior year. The additional income from the new tenant was offset by the increased general operating and maintenance expenses incurred on behalf of the tenants.

The segment net loss for the three-month period ended February 29, 2020 was $547,656 compared to $2,178,400 in the same period of prior year, resulting in a favorable decrease of $1,630,744.The segment net loss for the six-month period ended February 29, 2020 was $1,033,471 compared to $2,292,855 in the same period of prior year, resulting in a favorable decrease of $1,259,384.

The decrease is attributable to:

- An increase of $19,599 as a result of ancillary income earned from the sale of unused construction material;
- A decrease of $1,875,243 due to the non-recurring listing expense related to reverse acquisition with Dunbar Capital Corp. recorded in January 2019;
- A decrease of $375,160 and $281,878 in share-based compensation for the three and six-month periods is the result of the impact of forfeited stock options that occurred during the current period; and
- An increase of $586,112 and $986,479 in amortization for the three and six-month period as the Company began depreciating the Farnham Facility and related assets, effective September 12, 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 seven completed fiscal quarters to date:

	Total revenues			Net loss attributable to Shareholders of the Company				Basic and diluted loss per share
	U.S. Operations	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	(1,375,075)	(324,842)	(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	5,721	527,528	533,249	(1,856,014)	(377,403)	(485,815)	(2,719,232)	(0.01)
February 29, 2020	7,354	661,079	668,433	(2,666,770)	(314,609)	(547,656)	(3,529,035)	(0.01)

CASH FLOW ANALYSIS

	Three-month periods ended		Six-month periods ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Cash used in operating activities	$ (1,426,337)	$ (2,006,533)	$ (4,810,062)	$ (3,648,112)
Cash used in from financing activities	(17,812)	36,521,821	(417,279)	35,841,255
Cash used in investing activities	(943,647)	(4,732,933)	(6,699,109)	(9,162,328)

Operating activities

For the three and six-month periods February 29, 2020, cash used for operating activities was $1,426,337 and $4,810,062. The cash flow used in operating activities was primarily attributable to expenses relating to salaries of personnel, expenses to finalize construction of Phase 1 of the Farnham Facility and commence operations including research and development expenses related to cultivation activities, professional fees for the development of the Company's business operations, additional insurance premiums to cover a purpose-built cannabis facility and offices, travel and public company related expenses.

Financing activities

For the three-month period ended February 29, 2020, cash used in financing activities was $17,812, of which $75,000 was attributable to principle payments against the mortgage outstanding to a Canadian financial institution, interest paid on the mortgages of $159,792 and $79,976 for lease-related payments offset by cash received from warrants that were exercised for $300,000.

For the six-month period ended February 29, 2020, cash used in financing activities was $417,279 which is mainly attributable to the proceeds of $6,000,000 related to a first mortgage with a Canadian financial institution and cash received from warrants that were exercised for $320,000 offset by the principal repayment of $6,000,000 towards the outstanding mortgage to a related private lender, interest paid on the mortgages of $461,660 and $148,880 on lease-related payments.

Investing activities

For the three-month period ended February 29, 2020, cash used for investing activities was $943,647 which is mainly attributable to the construction and the acquisition of production equipment of $945,344 in order to render Phase 1 of the Farnham Facility operational, investment of $95,551 for the technical development of its online e-commerce platform in relation to its U.S. operations offset by the interest income of $97,248 relating to interest earned on the cash balance held at Canadian Imperial Bank of Canada ("CIBC").

For the six-month period ended February 29, 2020, cash used for investing activities was $6,699,109 which is mainly attributable to the construction and the acquisition of production equipment of $6,730,924 in order to render Phase 1 of the Farnham Facility operational, investment of $154,214 for the technical development of its online e-commerce platform in relation to its U.S. operations offset by the interest income of $186,029 relating to interest earned on the cash balance held at CIBC.

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 Company only generated limited revenues from its main operations and has financed its operations and met its capital requirements primarily through their existing cash issued from two mortgages, in addition to equity financings secured in previous quarters. The Company's objectives when managing its liquidity and capital resources is to generate sufficient cash to fund the Company's operations and working capital requirements. The Company has a working capital of $7,433,349 as at February 29, 2020 (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. The Company continued to spend on construction and acquisition of production equipment to operationalize Phase 1 of the Farnham Facility, which also reduced the level of remaining liquidity.

As at February 29, 2020, the Company's working capital was composed of:

- cash on hand of $14,559,795 (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 $1,183,739 (August 31, 2019 - $1,111,263);
- accounts payable, accrued liabilities and deferred revenue of $2,240,528 (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 $192,602 (August 31, 2019 - $139,807); and
- current portion of mortgage payable of $5,877,055 (August 31, 2019 – nil).

Of the balance of cash on hand, $9,048,838 (August 31, 2019 - $18,905,198) is held by Cannara, Cannara OPS and Cannara QC for use towards the Company's Canadian and other operations and $5,510,957 (August 31, 2019 - $7,600,794) is held by Global shopCBD.com and ShopCBD.com to fund 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.

Liquidity and capital resource measures

The Company believes it has incurred most of the required capital required to commence operations at 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 February 29, 2020 will enable it to fund its planned operating expenses for at least the next twelve months from February 29, 2020.

Loans and credit facilities

Type of loan	Interest Rate	Maturity	Balance as at February 29, 2020	Balance as at August 31, 2019
Secured mortgage	13%	6-Apr-21	$ 6,550,000	$ 12,550,000
Secured mortgage loan (1)	5.95%	on demand	$ 5,900,000	$ -

(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	Thereafter	Total
Accounts payable and accrued liabilities	$ 2,212,324	$ -	$ -	$ 2,212,324
Other long-term liabilities	-	17,534	-	17,534
Mortgage payable, at carrying amount (1)	300,000	8,050,000	4,100,000	12,450,000
Lease liability (2)	314,855	642,952	-	957,807

(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, the Company 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. In October 2019, the Company repaid $6,000,000 against the principle portion of the loan. As at February 29, 2020, the outstanding mortgage payable was $6,550,000 (August 31, 2019 - $12,550,000).

During the three-month period ended February 29, 2020, the Company incurred $209,958 in interest on the mortgage payable to a related party. As at February 29, 2020, accounts payable, including accrued interests on mortgage payable to a related party was $155,601 (August 31, 2019 – net payable of $113,814).

During the three-month period ended February 29, 2020, the Company incurred $21,480 in leases operating cost with a related party.

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

During the three-month period ended February 20, 2020, the Company incurred $68,820 with a related party for the purchase of production equipment. The balance remains unpaid as at February 20, 2019 (August 31, 2019 – nil).

For the three-month period ended February 29, 2020, salaries and benefits paid to key management amounted to $168,000, share-based compensation attributable to key management and directors was $68,859 and director fees were $9,000. As at February 29, 2020, the Company owed $15,192 (August 31, 2019 - $74,939) to key management personnel for accrued salaries and vacation expenses and $8,000 to directors (August 31, 2019 – nil).

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 February 29, 2020, none of the rental receivables were past due. The allowance for expected credit loss was nil as at February 29, 2020 (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 February 29, 2020, the Company had current assets of $15,743,534 which is sufficient to settle its current liabilities of $8,310,185. The Company expects that its existing cash as at February 29, 2020 will enable it to fund its planned 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.

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.

There is full disclosure of the Company's critical accounting estimates and assumptions in note 3 of the audited consolidated financial statements for the year ended August 31, 2019, in addition of new items disclosed 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 note 3 of the audited consolidated financial statements for the year ended August 31, 2019 and in note 2 of the condensed interim consolidated financial statements of the Company, as at and for the three and six-month periods ended February 29, 2020 and February 29, 2019.

SUMMARY OF OUTSTANDING SHARE DATA

Summary of Outstanding Share Data as of April 14, 2020:

Authorized:	Unlimited number of voting and participating common shares without par value.
Issued and outstanding:	709,970,705 common shares
	11,748,710 warrants
	38,221,000 options

Zohar Krivorot
Director, CEO and President