CANNARA BIOTECH INC.

MANAGEMENT DISCUSSION AND ANALYSIS
For the three and nine-month periods ended
May 31, 2020 and 2019

This Management Discussion and Analysis ("MD&A") of Cannara Biotech Inc. ("Cannara" or the "Company") has been prepared by management as of July 24, 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 nine-month periods ended May 31, 2020 and 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 that 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:

COVID-19

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 disruptions 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. 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. Currently, the effects of COVID-19 have had limited impact on our business, however, the situation is dynamic and the ultimate duration and magnitude of the impact on the economy and on 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") 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, the Company has leased out a significant portion of the currently unused area of the Farnham Facility.

Subsequent to period end, the Company completed a reorganization whereby it now, through a subsidiary, owns 99.8%of ShopCBD.com Inc. which operates an online e-commerce platform in the U.S. hemp-based CBD market by offering a curated selection 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 cannabis 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.

HIGHLIGHTS - THIRD QUARTER 2020

OPERATIONAL

- Activities at the Farnham Facility have ramped up following the receipt of the cultivation license on January 31, 2020. Phase 1 is now operating at full capacity and the Company is harvesting 1 to 2 flowering rooms per week, which is in line with the planned activities. The Company had a total of 48,711 plants in the cultivation cycle at the following stages as at May 31, 2020:

    - 9,231 plants in cloning;
    - 11,995 plants in vegetation;
    - 26,649 plants in flowering; and
    - 836 mother plants.

  As at May 31, 2020, it is expected that the Company's biological assets will yield approximately 1,272 kilograms of dried cannabis once harvested.

- On April 20, 2020, the Company successfully harvested its first crop. First harvested lots will be treated as research and development, to test and refine the growers' cultivation methodologies and adjust the Company's systems and environmental controls to consistently produce high yielding premium cannabis.

- Following the procedures necessary to obtain its retail sale license, a sample of the first two lots were sent at the beginning of June 2020 to Health Canada for analysis. A minimum waiting period of 60 days following quality acceptance by Health Canada is required to obtain a sales license, which would then allow the Company to enter into contracts to sell its products directly to Société québécoise du cannabis ("SQDC") (refer below to Highlights – subsequent to May 31, 2020) and other licensed retailers of cannabis in Canada. It is expected that we will receive the amended sale license by the end of the calendar year.

- The Company is in active discussions with other licensed producers in order to sell its products on the wholesale market in anticipation of receipt of the sales license.

- During May 2020, the Company announced the nomination and appointment of Mary Durocher as a new member of the Board of Directors and the departure of its Chief Operating Officer, Barry Laxer.

- As part of its environmental initiatives incorporated into the operations at the Farnham Facility, the Company had been granted a first tranche of a government grant for $416,458 for the assets purchased in exchange for a 10 year commitment on its environmental footprint reduction initiatives. In addition, the Company may be granted an additional amount estimated to be up to 25% of the initial amount received if certain requirements of the application are satisfied. The amount of grants received have been recognized as deferred income and are being recognized as other income based on the useful life of the assets related to the grant.

HIGHLIGHTS - THIRD QUARTER 2020 *(continued)*

CAPITAL TRANSACTIONS

- On April 14, 2020, the Company granted a total of 160,000 stock options to various employees.
- During the three-month period ended May 31, 2020, the Company issued 1,656,000 common shares as a result of the exercise of previously issued warrants for gross proceeds of $165,600.
- On May 27, 2020, the Company received $68,000 for the exercise of previously issued warrants. Subsequent to period end, 680,000 common shares were issued in connection with this exercise.

HIGHLIGHTS – SUBSEQUENT TO MAY 31, 2020

- On July 6, 2020, the Company announced the completion of a non-binding Letter of Intent (LOI) with the SQDC. The LOI with the SQDC is expected to convert to a comprehensive and binding purchase order once Cannara is granted its sales license from Health Canada.
- On July 6, 2020, pursuant to the terms of a Share Exchange Agreement dated May 26, 2020 among Cannara, Global ShopCBD.com Inc. (“Global”) and the shareholders of Global, Cannara has acquired 99.8% of the issued and outstanding shares of Global that it did not already own in consideration for the issuance of 23,145,110 common shares of Cannara pro rata to the shareholders of Global at a deemed price of $0.10 per share.
- On July 17, 2020, the Company signed a term sheet with a related-party lender providing it access to an initial credit facility of $1,000,000 to be used for working capital purposes bearing interest at 13%. The Company will also be granted an additional credit facility of $4,000,000 to be disbursed in four monthly tranches following the signing of an agreement with the SQDC. Repayment of the credit facilities are required within eighteen months of disbursement. In addition, the Company obtained a letter to extend the maturity date of one of its current mortgages payable from April 6, 2021 to September 6, 2021.
- During June and July 2020, the Company issued 2,287,000 common shares as a result of the exercise of previously issued warrants for gross proceeds of $228,700. On June 20, 2020 and July 12, 2020, all remaining 7,125,710 warrants expired.
- In June 2020, as part of the COVID-19 incentives provided to companies, the government of Québec enhanced some of its government grants previously applied for by the Company. As such, the Company had been granted an additional amount of approximately $27,000. The Company has also been granted a total of $96,691 in government grants for the assets purchased in relation to other energy savings initiatives at the Farnham Facility.
- In July 2020, David Abramovitch announced his resignation as a member of the Board of Directors. The Company is evaluating alternative independent directors and will fill the vacancy in a timely fashion.

SUMMARY OF FINANCIAL INFORMATION

Consolidated statement of financial position

	May 31, 2020	February 29, 2020	November 30, 2019	August 31, 2019	May 31, 2019	February 28, 2019	November 30, 2018	August 31, 2018
Current assets	$ 13,358,400	$ 15,743,534	$ 18,907,512	$ 27,828,255	$ 32,671,723	$ 43,270,167	$ 45,302,239	$ 13,484,718
Non-current assets	44,509,845	43,476,215	42,968,691	40,274,883	35,119,971	26,679,329	21,391,987	15,375,580
Total assets	57,868,245	59,219,749	61,876,203	68,103,138	67,791,694	69,949,496	66,694,226	28,860,298
Current liabilities	9,747,671	8,310,185	7,548,974	5,090,627	4,240,736	9,550,340	40,909,973	1,163,886
Non-current liabilities	6,519,482	7,075,879	7,090,591	13,083,995	13,122,476	13,156,463	12,936,874	12,953,991
Total liabilities	16,267,153	15,386,064	14,639,565	18,174,622	17,363,212	22,706,803	53,846,847	14,117,877
Net assets	$ 41,601,092	$ 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		Nine-month periods ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
Revenues				
Lease revenues	$ 710,272	$ 506,785	$ 1,879,280	$ 1,543,666
Product revenues - hemp-based CBD	41,237	-	54,312	-
Other income	12,397	-	31,996	-
	763,906	506,785	1,965,588	1,543,666
Cost of sales				
Lease operating costs	87,671	221,157	307,655	355,531
Cost of goods sold - hemp-based CBD	29,607	-	41,477	-
	117,278	221,157	349,132	355,531
Unrealized gain on changes in fair value of biological assets	69,113	-	69,113	-
Operating expenses	2,861,677	2,340,234	8,507,483	6,364,531
Gain on sublease on initial recognition	(25,894)	-	(25,894)	-
Share-based compensation	25,064	430,224	303,872	990,910
Amortization	113,654	150,429	1,367,156	417,452
Operating loss	(2,258,760)	(2,635,259)	(8,467,048)	(6,584,758)
Listing expense for the reverse acquisition of Dunbar Capital Corp.	-	-	-	1,875,243
Net finance expense	248,343	187,416	718,127	679,826
	248,343	187,416	718,127	2,555,069
Net loss	$ (2,507,103)	$ (2,822,675)	$ (9,185,175)	$ (9,139,827)
Net loss attributable to:				
Shareholders of the Company	$ (2,374,841)	$ (2,554,316)	$ (8,623,108)	$ (8,737,859)
Non-controlling interest	(132,262)	(268,359)	(562,067)	(401,968)
Basic and diluted loss per share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.02)

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 listing expense, share-based compensation, amortization, net finance expenses and income tax. Ancillary other income, lease revenues and lease operating costs, have been categorized as Other.

	Three-month period ended May 31, 2020				Three-month period ended May 31, 2019			
	Canadian Operations	U.S. Operations	Other	Total	Canadian Operations	U.S. Operations	Other	Total
Revenues								
Lease revenues	$ -	$ -	$ 710,272	$ 710,272	$ -	$ -	$ 506,785	$ 506,785
Product revenues - hemp-based CBD	-	41,237	-	41,237	-	-	-	-
Other income	12,397	-	-	12,397	-	-	-	-
	12,397	41,237	710,272	763,906	-	-	506,785	506,785
Cost of sales								
Lease operating costs	-	-	87,671	87,671	-	-	221,157	221,157
Cost of goods sold - hemp-based CBD	-	29,607	-	29,607	-	-	-	-
	-	29,607	87,671	117,278	-	-	221,157	221,157
Unrealized gain on changes in fair value of biological assets	69,113	-	-	69,113	-	-	-	-
Segment gross profit	81,510	11,630	622,601	715,741	-	-	285,628	285,628
Operating expenses (gain)	2,466,415	395,262	(25,894)	2,835,783	1,812,406	527,828	-	2,340,234
Segment operating income (loss)	(2,384,905)	(383,632)	648,495	(2,120,042)	(1,812,406)	(527,828)	285,628	(2,054,606)
Share-based compensation	-	-	25,064	25,064	-	-	430,224	430,224
Amortization	-	-	113,654	113,654	-	-	150,429	150,429
Net finance expense	-	-	248,343	248,343	-	-	187,416	187,416
Segment loss before income taxes	(2,384,905)	(383,632)	261,434	(2,507,103)	(1,812,406)	(527,828)	(482,441)	(2,822,675)
Segment net loss	$ (2,384,905)	$ (383,632)	$ 261,434	$ (2,507,103)	$ (1,812,406)	$ (527,828)	$ (482,441)	$ (2,822,675)
Segment net loss attributable to:								
Shareholders of the Company	$ (2,384,905)	$ (251,370)	$ 261,434	$ (2,374,841)	$ (1,812,406)	$ (259,469)	$ (482,441)	$ (2,554,316)
Non-controlling interest	-	(132,262)	-	(132,262)	-	(268,359)	-	(268,359)

RESULTS OF OPERATIONS *(continued)*

	Nine-month period ended May 31, 2020				Nine-month period ended May 31, 2019			
	Canadian Operations	U.S. Operations	Other	Total	Canadian Operations	U.S. Operations	Other	Total
Revenues								
Lease revenues	$ -	$ -	$ 1,879,280	$ 1,879,280	$ -	$ -	$ 1,543,666	$ 1,543,666
Product revenues - hemp-based CBD	-	54,312	-	54,312	-	-	-	-
Other income	14,496	-	17,500	31,996	-	-	-	-
	14,496	54,312	1,896,780	1,965,588	-	-	1,543,666	1,543,666
Cost of sales								
Lease operating costs	-	-	307,655	307,655	-	-	355,531	355,531
Cost of goods sold - hemp-based CBD	-	41,477	-	41,477	-	-	-	-
	-	41,477	307,655	349,132	-	-	355,531	355,531
Unrealized gain on changes in fair value of biological assets	69,113	-	-	69,113	-	-	-	-
Segment gross profit	83,609	12,835	1,589,125	1,685,569	-	-	1,188,135	1,188,135
Operating expenses (gain)	6,989,199	1,518,284	(25,894)	8,481,589	5,378,252	986,279	-	6,364,531
Segment operating income (loss)	(6,905,590)	(1,505,449)	1,615,019	(6,796,020)	(5,378,252)	(986,279)	1,188,135	(5,176,396)
Listing expense related to the reverse acquisition of Dunbar Capital Corp.	-	-	-	-	-	-	1,875,243	1,875,243
Share-based compensation	-	-	303,872	303,872	-	-	990,910	990,910
Amortization	-	-	1,367,156	1,367,156	-	-	417,452	417,452
Net finance expense	-	-	718,127	718,127	-	-	679,826	679,826
Segment loss before income taxes	(6,905,590)	(1,505,449)	(774,136)	(9,185,175)	(5,378,252)	(986,279)	(2,775,296)	(9,139,827)
Segment net loss	$ (6,905,590)	$ (1,505,449)	$ (774,136)	$ (9,185,175)	$ (5,378,252)	$ (986,279)	$ (2,775,296)	$ (9,139,827)
Segment net loss attributable to:								
Shareholders of the Company	$ (6,905,590)	$ (943,382)	$ (774,136)	$ (8,623,108)	$ (5,378,252)	$ (584,311)	$ (2,775,296)	$ (8,737,859)
Non-controlling interest	-	(562,067)	-	(562,067)	-	(401,968)	-	(401,968)

RESULTS OF OPERATIONS *(continued)*

Canadian Operations

For the three and nine-month periods ended May 31, 2020, the segment had not yet generated cannabis-related revenues since the cultivation activities only started in February 2020 following the grant of the cultivation license. First harvest occurred on April 20, 2020 and since then, harvests have been occurring every week. Following the harvest, the cannabis is placed into a two-week hang and dry process followed by a trimming and curing process. Cannabinoids, pesticides, heavy metals and microbial testing is performed at the final stage of the post-harvest phase. Research samples are also taken throughout the post-harvest process. As at May 31, 2020, all harvested crops were in the drying or trimming process. All first harvested lots were considered research and development and all related costs were expensed in the condensed interim consolidated statement of loss and comprehensive loss. The Company's cultivation and compliance staff are working on developing improved cultivation methodologies and techniques that are expected to generate increased yield and quality consistent with premium cannabis product for commercialization.

For the three and nine-month period ended May 31, 2020, the Company has recognized an unrealized gain on changes in the fair value of biological assets of $69,113 on lots currently in cultivation cycle that have not yet been harvested compared to nil in same period of the prior year. All lots currently in cultivation phase are growing for commercialization and will be offered on the wholesale market. It is estimated that the lots planted in July 2020 will be sold to the retail market once the amended sales license is obtained, which is expected to occur by the end of calendar year.

For the three and nine-month periods ended May 31, 2020, the Company recognized $12,397 and $14,496 as other income for government incentives granted compared to nil for same period of the prior year. The Company has been awarded various grants which are mainly related to the energy efficient, eco-friendly and pollution reducing technology implemented at the Farnham facility.

For the three-month period ended May 31, 2020, the segment incurred $2,466,415 in operating expenses compared to $1,812,406 in the same period of the prior year resulting in an unfavorable increase in operating expenses of $654,009.

For the nine-month period ended May 31, 2020, the segment incurred $6,989,199 in operating expenses compared to $5,378,252 in the same period of the prior year resulting in an unfavorable increase in operating expenses of $1,610,947.

The increase in operating expenses is mainly attributable to:

- An increase of $721,414 in general and administrative expenses for the nine-month period 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. General and administrative expenses for the three-month period were similar to same period of prior year.

RESULTS OF OPERATIONS *(continued)*

Canadian Operations *(continued)*

- An increase of $328,645 in salaries and benefits for the nine-month periods as a result of hires made to support the launch to become fully operational following the reception of the License from Health Canada on January 31, 2020. With the commencement of the cultivation activities, cultivation costs and related salaries and benefits are now accounted for as inventory or expensed to research and development costs. The Company did not have any cultivation costs in the same period of prior year;
- An increase of $1,340,521 and $1,922,926 in research and development for the three and nine-month periods, as a result of the expenses incurred to research, test and develop Cannara's cultivation methodologies and the material and labor costs related to its first lots harvested. The Company is conducting activities to test and develop cultivation methodologies that are expected to generate increased yield and quality which will facilitate the commercialization of a premium cannabis product;
- A decrease of $167,330 and $33,637 in regulatory and investor relation expenses for the three and nine-month periods due to non-recurring fees incurred relating to the reverse take-over on January 14, 2019.
- A decrease of $289,460 in marketing expenses for the nine-month period due to the Company postponing marketing spend until it receives its License to further develop the Company's cannabis brand portfolio. For the three-month period, there was an increase of $58,142 as the Company invested in market studies to analyze consumer's purchasing behavior and evaluate the Company's brand portfolio in anticipation of the commercialization of its cannabis products; and
- A decrease of $527,294 and $1,038,941 in professional fees for the three and nine-month periods as a result of expenses incurred in the same period of the prior year to bring the company public on the Canadian Stock Exchange. During the three-month period of 2020, the Company also reduced its fees to keep costs at minimum until revenues are generated from its main operations.

The segment operating losses for the three and nine-month periods ended May 31, 2020 were $2,384,905 and $6,905,590 compared to $1,812,406 and $5,378,252 in the same period of the prior year.

RESULTS OF OPERATIONS *(continued)*

U.S. Operations

For the three-month period ended May 31, 2020, the Company generated hemp-based CBD product revenues of $41,237 and incurred $29,607 in costs of goods sold resulting in a gross margin of $11,630 compared to nil for the same period of the prior year. The segment incurred $395,262 in operating expenses compared to $527,828 in the same period of the prior year resulting in a decrease in operating expenses of $132,566.

For the nine-month period ended May 31, 2020, the Company generated hemp-based CBD product revenues of $54,312 and incurred $41,477 in costs of goods sold resulting in a gross profit of $12,835 compared to nil for the same period of the prior year. The segment incurred $1,518,284 in operating expenses compared to $986,279 in the same period of the prior year resulting in an increase in operating expenses of $532,005.

The launch of ShopCBD.com in November 2019 coincided with a period of increased regulatory and operational uncertainties to the hemp-derived CBD industry in the U.S. than originally anticipated. The delays in the FDA issuing regulatory guidance for the hemp-based CBD industry has given rise to uncertainty in the legalities of distribution, insurance and banking within the sector. There have been no major developments in this matter since the previous quarter.

As a result of the above and its impact on operations and revenues, ShopCBD.com has focused its capital and human resources on testing and validating organically driven user acquisition models and testing paid marketing initiatives in preparation to scale up the business once we have clarification on the regulatory environment.

The increase in operating expenses is mainly attributable to:

- An increase of $152,512 in salaries and benefits for the nine-month period to develop and operate the business. During the three-month period, there was a decrease of $111,033 in salaries and benefits due to reallocation of certain employees to the Canadian operations.
- An increase of $168,434 and $448,076 in marketing for the three and nine-month periods to launch and drive traffic to ShopCBD.com website;
- An increase of $45,137 and $303,526 in general and administrative expenses for the three and nine-month periods for the operation of the e-commerce platform and office-related expenses; and
- A decrease of $47,946 and $213,878 in professional fees for the three and nine-month periods due to non-recurring start-up fees incurred in the prior period.

For the three-month period ended May 31, 2020, the segment incurred $383,632 in operating losses from its U.S. operations, of which $251,370 is attributable to the shareholders of the Company compared to $527,828 in the same period of the prior year, of which $259,469 is attributable to the shareholders of the Company.

For the nine-month period ended May 31, 2020, the segment incurred $1,505,449 in operating losses from its U.S. operations, of which $943,382 is attributable to the shareholders of the Company compared to $986,279 in the same period of the prior year, of which $584,311 is attributable to the shareholders of the Company.

RESULTS OF OPERATIONS *(continued)*

Other

In order to increase cash flow, the Company has leased out a significant portion of the currently 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 nine-month periods ended May 31, 2020, the Company generated lease revenues of $710,272 and $1,879,280 compared to $506,785 and $1,543,666 in the same period of the prior year. This represents a favorable increase of $203,487 and $335,614, due mainly to the addition of a new tenant. In order to realize these lease revenues during the three and nine-month periods ended May 31, 2020, the Company incurred $87,671 and $307,655 in lease operating costs compared to $221,157 and $355,531 in the same periods of the prior year. The decrease in lease operating expenses is attributable to non-recurring expenses incurred in prior year to accommodate the new tenants.

For the three and nine-month periods ended May 31, 2020, the segment generated $648,495 and $1,589,125 in operating income comparable to $285,628 and $1,188,135 in the same period of the prior year. The additional income from the new tenant in 2020 and the reduction in lease operating costs resulted in an increase of $362,867 and $400,990 in operating income

The segment net income for the three-month period ended May 31, 2020 was $261,434 compared to a net loss of $482,441 in the same period of the prior year resulting in a decrease of net loss of $743,875.The segment net loss for the nine-month period ended May 31, 2020 was $774,136 compared to $2,775,296 in the same period of the prior year, resulting in a decrease of net loss of $2,001,160.

The decrease is attributable to:

- A decrease of $1,875,243 due to non-recurring listing expenses related to the reverse acquisition with Dunbar Capital Corp. recorded in January 2019;
- A decrease of $405,160 and $687,038 in share-based compensation for the three and nine-month periods resulting from the impact of forfeited stock options that occurred during the current period; and
- A decrease of $36,775 in depreciation for the three-month period as depreciation related to assets associated with cultivation activities are now considered part of inventory of the cannabis lots that are designated for commercialization or expensed as research and development costs if the lot had been identified as research and development.
- An increase of $949,704 in amortization for the nine-month period as the Company began depreciating the Farnham Facility building and related assets, effective September 12, 2019.

RESULTS OF OPERATIONS *(continued)*

Prior Quarter Financial Results

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

	Total revenues				Net income (loss) attributable to Shareholders of the Company				Basic and diluted loss per share
	Canadian Operations	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	(1,812,406)	(259,469)	(482,441)	(2,554,316)	(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)	(309,827)	(485,815)	(3,462,412)	(0.01)
May 31, 2020	12,397	41,237	710,272	763,906	(2,384,905)	(251,370)	261,434	(2,374,841)	(0.01)

CASH FLOW ANALYSIS

	Three-month periods ended		Nine-month periods ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
Cash used in operating activities	$ (2,051,183)	$ (2,695,957)	$ (6,861,245)	$ (6,344,069)
Cash used in (from) financing activities	(277,098)	5,079,055	(694,377)	40,920,310
Cash used in investing activities	(1,080,308)	(7,452,296)	(7,779,417)	(16,614,624)

Operating activities

For the three and nine-month periods May 31, 2020, cash used for operating activities was $2,051,183 and $6,861,245. The cash flow used in operating activities was primarily attributable to expenses relating to salaries of personnel, expenses for the operations, research and development expenses related to cultivation activities, professional fees for the development of the Company's business operations, 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 May 31, 2020, cash used in financing activities was $277,098, of which $75,000 was attributable to principal payments against the mortgage outstanding to a Canadian financial institution, interest paid on mortgages of $353,199 and $82,499 for lease-related payments offset by cash received from warrants that were exercised for $233,600.

For the nine-month period ended May 31, 2020, cash used in financing activities was $694,377 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 $553,600 offset by the principal repayment of $6,175,000 towards the outstanding mortgage to a related private lender and to a Canadian financial institution, interest paid on the mortgages of $814,859 and $231,379 on lease-related payments.

RESULTS OF OPERATIONS *(continued)*

Investing activities

For the three-month period ended May 31, 2020, cash used for investing activities was $1,080,308 which is mainly attributable to the construction, deposit and acquisition of production equipment for $1,150,192 in order to render Phase 1 of the Farnham Facility offset by the interest income of $49,564 relating to interest earned on the cash balance held at Canadian Imperial Bank of Canada ("CIBC").

For the nine-month period ended May 31, 2020, cash used for investing activities was $7,779,417 which is mainly attributable to the construction and acquisition of production equipment for $7,881,116 in order to render Phase 1 of the Farnham Facility operational, offset by the interest income of $235,594 relating to interest earned on the cash balances 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 has generated limited hemp-based CBD product revenues and none from its main operations and has financed its operations and met its capital requirements primarily through funds raised in equity financings secured in previous quarters, debt raised against immoveable assets as well as government grants and assistance. 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 $3,610,729 as at May 31, 2020 (August 31, 2019 - $22,737,628). The decrease in the working capital is mainly attributable to the classification of the one mortgage payable, which has been classified as current on the condensed interim consolidated statement of financial position. Subsequent to period end, the Company obtained an extension of the maturity date of the subject mortgage from April 6, 2021 to September 6, 2021. The Company continued to spend on construction and acquisition of production equipment to operationalize Phase 1 of the Farnham Facility, which also reduced liquidity.

As at May 31, 2020, the Company's working capital was composed of:

- cash on hand of $11,139,496 (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, lease receivable, sales tax receivable, biological assets, inventory and prepaid expenses and other assets of $2,218,904 (August 31, 2019 - $1,111,263);
- accounts payable and accrued liabilities, deferred lease revenue and deferred income of $2,697,665 (August 31, 2019 - $4,739,820);
- nil in liabilities relating to a subscription receipt issued by a subsidiary (August 31, 2019 - $211,000); and
- current portion of lease liabilities, long-term debt and mortgages payable of $7,050,006 (August 31, 2019 - $139,807).

LIQUIDITY AND CAPITAL RESOURCES *(continued)*

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 expenditures for operations at Phase 1 of the Farnham Facility up to dried cannabis harvesting and expects to incur some additional capital expenditures for packaging equipment.

The Company expects that its existing cash resources as at May 31, 2020 will enable it to fund its planned operating expenses for at least the next twelve months from May 31, 2020.

Loans and credit facilities

Type of loan	Interest Rate	Maturity	Balance as at May 31, 2020	Balance as at August 31, 2019
Secured mortgage loan (1)	13%	6-Sep-21	$ 6,550,000	$ 12,550,000
Secured mortgage loan (2)	4.45%	On demand (2)	$ 5,825,000	$ -

(1) On July 17, 2020, the Company obtained a letter to extend the maturity date from April 6, 2021 to September 6, 2021.

(2) The mortgage has a repayment term of 20 years. 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. Notwithstanding it's a on demand mortgage, the bank will not recall it back unless the covenant is not met.

Other contractual obligations

	Less than one year	One to five years	Thereafter	Total
Accounts payable and accrued liabilities	$ 2,648,347	$ -	$ -	$ 2,648,347
Other long-term liabilities	-	11,689	-	11,689
Lease liability (2)	321,351	593,749	-	915,100
Mortgage payable, at carrying amount (1)	6,850,000	1,500,000	4,025,000	12,375,000
Deferred income	21,114	105,569	382,875	509,558

(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 principal portion of the loan. As at May 31, 2020, the outstanding mortgage payable was $6,550,000 (August 31, 2019 - $12,550,000). On July 17, 2020, the Company obtained a letter to extend the maturity date from April 6, 2021 to September 6, 2021.

On July 17, 2020, the Company signed a term sheet with a related-party lender providing it access to an initial credit facility of $1,000,000 to be used for working capital purposes bearing an interest of 13%. The Company will also be granted an additional credit facility of $4,000,000 to be disbursed in four monthly tranches following the signing of a supply agreement with the SQDC. Repayment of the credit facilities are required within eighteen months of disbursement.

During the three-month period ended May 31, 2020, the Company incurred $214,624 in interest on the mortgage payable to a related party. As at May 31, 2020, accounts payable, including accrued interests on mortgage payable to a related party was $72,319 (August 31, 2019 – net payable of $113,814).

During the three-month period ended May 31, 2020, the Company incurred $5,388 in lease 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.

For the three-month period ended May 31, 2020, salaries and benefits paid to key management personnel amounted to $136,500, share-based compensation attributable to key management and directors was $43,926 and director fees were $21,000. As at May 31, 2020, the Company owed $27,633 (August 31, 2019 - $74,939) to key management personnel for accrued salaries and vacation expenses and $14,500 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, lease 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 May 31, 2020, none of the lease receivables were past due. The allowance for expected credit loss was nil as at May 31, 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 May 31, 2020, the Company had current assets of $13,358,400 which is sufficient to settle its current liabilities of $9,747,671. The Company expects that its existing cash as at May 31, 2020 will enable it to fund its planned operating expenses for at least the next twelve months. Due to its short-term maturity as of May 31, 2020, a mortgage payable was presented as a current liability. For presentation purpose, if the Company would have obtained the postponement letter described here-in as a Subsequent event, prior to May 31, 2020, the mortgage payable would have been presented as a long-term liability, which would have increased the working capital by $6,539,162; resulting in an adjusted working capital balance of $10,149,891, all other items remaining unchanged.

FINANCIAL INSTRUMENTS RISK MANAGEMENT *(continued)*

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 requires management to exercise judgment in the process of choosing and applying the Company's accounting policies.

These estimates and judgments are based on the circumstances and estimates at the date of the condensed 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 to the following new item disclosed in the condensed interim financial statements.

Critical accounting judgments and assumptions

Valuation of Biological Assets and Inventory
Biological assets, consisting solely of plants, are measured at fair value less costs to sell, up to the point of harvest. Determination of the fair values of the biological assets requires the Company to make a number of estimates, including estimating sales price, cost to complete and cost to sell, the stage of completion in the production process, expected plant loss and expected yield per cannabis plant. As the valuation of biological assets becomes the basis for the cost of finished inventory after harvest, this is also a significant estimate for the valuation of inventory.

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 nine-month periods ended May 31, 2020 and 2019.

SUMMARY OF OUTSTANDING SHARE DATA

Summary of Outstanding Share Data as of July 24, 2020:

Authorized:	Unlimited number of voting and participating common shares without par value.
Issued and outstanding:	737,738,815 common shares
	33,698,169 options

Zohar Krivorot
Director, CEO and President