CANNARA BIOTECH INC.

MANAGEMENT DISCUSSION AND ANALYSIS
For the three-month periods ended
November 30, 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 January 29, 2021 and should be read in conjunction with the condensed interim consolidated financial statements and related notes thereto of the Company for the three-month periods ended November 30, 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 also be read in conjunction with the information contained in the annual audited consolidated financial statements of the Company and the notes thereto for the year ended August 31, 2020.

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.

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".

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.

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 indirect wholly owned subsidiary, Cannara Biotech (Québec) Inc. (hereafter "Cannara QC"). The Company has completed the construction of 170,000 square feet of its purpose-built modern and secure 625,000 square feet indoor cultivation facility ("Farnham Facility") and, through its subsidiary, Cannara Biotech (Québec) Inc., has obtained its licence from Health Canada to cultivate and process cannabis on January 31, 2020, further amended on January 6, 2021, to permit Cannara to sell dried cannabis products to provincial retail distributors in Canada ("Licence"). The Company now has the necessary licences to start delivering cannabis products to the Société québécoise du cannabis ("SQDC") under its existing Letter of Intent. 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, utilities 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.

As part of its capital management strategy, the Company has also leased out, as of today, all the currently unused area of the Farnham Facility in order to increase cash flows until future phases are ready to be constructed.

ShopCBD.com Inc., a subsidiary of the Company, 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.

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 DURING THE QUARTER

Operational

- During the quarter, Cannara's primary focus has been on the key items necessary to prepare the Company to begin generating commercial revenue: cultivation and post-harvest activities; building its brand portfolio; and readying inventory to begin shipping its dried flower products across the province of Quebec. In addition, Cannara finalized the procedures and documentation necessary for Cannara QC to obtain an amendment to its Licence to sell its cannabis products. Subsequent to quarter-end, Cannara QC received its licence to sell to provincial retail distributors on January 6, 2021.
- In September 2020, the Company entered into a new lease agreement with a new tenant for its Farnham Facility, which coincided with the termination of a current lease agreement. The new tenant started to occupy the same space on November 1, 2020.
- On November 26, 2020, the Company obtained a letter to extend the maturity date on one of its mortgages payable from September 6, 2021 to March 6, 2022.
- On November 27, 2020, the Company entered into a one-year wholesale supply agreement with a licensed producer for which the Company agreed to sell 200 kg of cannabis per month commencing January 1, 2021.

Financial

- On September 25, 2020, $1,000,000 was drawn from the credit facilities. In addition, on November 30, 2020, the Company met the conditions attached to the additional credit availability of $4,000,000.

Capital transactions

- During the first quarter of 2021, the Company granted a total of 250,000 stock options to a board member.
- During the first quarter of 2021, the Company issued 100,720 common shares as a result of the settlement of a liability with a third party in the amount of $10,072.

HIGHLIGHTS – SUBSEQUENT TO QUARTER ENDED NOVEMBER 30, 2020

- During December 2020, the Company granted a total of 722,000 stock options to employees.
- Following the lease agreement signed on November 30, 2020, an existing tenant started to occupy the last remaining space for lease at the Farnham Facility on January 1, 2021. The lease agreement is for the period up to October 2022.
- The Company now has the necessary licences to start delivering cannabis products to the SQDC under its existing Letter of Intent. The Company is in active ongoing discussions with the SQDC following the receipt of the amended sale licence to plan for the next steps of delivering the Company's products to Québec stores.
- On January 21, 2021, the Company completed its first monthly shipment of 201.61 kg of dried cannabis to its wholesale partner under its one-year supply agreement.
- Subsequent to quarter-end, in December 2020 and in January 2021, the Company drew down a further $1 million from its credit facilities with a related party to support cash flows until the Company starts generating revenue from its provincial retail distribution channels. The Company intends to draw $1 million from credit facilities monthly to support cash flows until it starts generating revenue from provincial distributors.

SUMMARY OF FINANCIAL INFORMATION

Consolidated statement of financial position

	November 30, 2020	August 31, 2020	May 31, 2020	February 29, 2020	November 30, 2019	August 31, 2019	May 31, 2019	February 28, 2019
Current assets	$ 7,229,559	$ 10,529,856	$ 13,358,400	$ 15,743,534	$ 18,907,512	$ 27,828,255	$ 32,671,723	$ 43,270,167
Non-current assets	44,335,430	44,320,572	44,509,845	43,476,215	42,968,691	40,274,883	35,119,971	26,679,329
Total assets	51,564,989	54,850,428	57,868,245	59,219,749	61,876,203	68,103,138	67,791,694	69,949,496
Current liabilities	2,761,325	3,476,952	9,747,671	8,310,185	7,548,974	5,090,627	4,240,736	9,550,340
Non-current liabilities	13,774,253	13,008,615	6,519,482	7,075,879	7,090,591	13,083,995	13,122,476	13,156,463
Total liabilities	16,535,578	16,485,567	16,267,153	15,386,064	14,639,565	18,174,622	17,363,212	22,706,803
Net assets	$ 35,029,411	$ 38,364,861	$ 41,601,092	$ 43,833,685	$ 47,236,638	$ 49,928,516	$ 50,428,482	$ 47,242,693

Consolidated statement of net loss

	Three-month periods ended November 30, 2020	Three-month periods ended November 30, 2019
Revenue		
Revenue from sale of goods	$ 777,406	$ 5,721
Lease revenue	556,932	527,528
Other income	33,843	-
	1,368,181	533,249
Cost of sales		
Cost of goods sold	773,189	3,923
Lease operating costs	98,847	29,632
Gross profit before fair value adjustments	496,145	499,694
Changes in fair value of inventory sold	(203,310)	-
Unrealized loss on changes in fair value of biological assets	(790,195)	-
Gross profit (loss)	(497,360)	499,694
Operating expenses	2,282,352	2,456,983
Share-based compensation	103,721	232,355
Amortization	274,489	528,428
Operating loss	(3,157,922)	(2,718,072)
Net finance expense	337,111	222,928
	337,111	222,928
Loss before income taxes	(3,495,033)	(2,941,000)
Income tax expense	-	-
Net loss	$ (3,495,033)	$ (2,941,000)
Net loss attributable to:		
Shareholders of the Company	$ (3,495,033)	$ (2,719,232)
Non-controlling interest	-	(221,768)
Basic and diluted loss per share	$ (0.01)	$ (0.01)

RESULTS OF OPERATIONS

The Company operates in two segments: (1) Indoor cannabis operations which encompasses the cultivation, processing and sale of dried cannabis and cannabis derivatives exclusively for the Quebec and Canadian market ("Cannabis operations") and (2) Real estate operations related to the Farnham building ("Real estate operations").

The chief operating decision-maker assesses performance based on segment operating results which were defined as segment loss before share-based compensation, amortization, net finance expense and income tax. Categorized as Other are items related to U.S. hemp-based CBD products revenues and related operating costs.

RESULTS OF OPERATIONS *(continued)*

	Three-month period ended November 30, 2020				Three-month period ended November 30, 2019			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Revenue								
Revenue from sale of goods	$ 679,125	$ -	$ 98,281	$ 777,406	$ -	$ -	$ 5,721	$ 5,721
Lease revenue	-	556,932	-	556,932	-	527,528	-	527,528
Other income	33,843	-	-	33,843	-	-	-	-
	712,968	556,932	98,281	1,368,181	-	527,528	5,721	533,249
Cost of sales								
Cost of goods sold	689,955	-	83,234	773,189	-	-	3,923	3,923
Lease operating costs	-	98,847	-	98,847	-	29,632	-	29,632
Segment gross profit before fair value adjustments	23,013	458,085	15,047	496,145	-	497,896	1,798	499,694
Changes in fair value of inventory sold	(203,310)	-	-	(203,310)	-	-	-	-
Unrealized loss on changes in fair value of biological assets	(790,195)	-	-	(790,195)	-	-	-	-
Segment gross profit (loss)	(970,492)	458,085	15,047	(497,360)	-	497,896	1,798	499,694
Operating expenses	2,036,321	-	246,031	2,282,352	1,856,014	-	600,969	2,456,983
Segment operating income (loss)	(3,006,813)	458,085	(230,984)	(2,779,712)	(1,856,014)	497,896	(599,171)	(1,957,289)
Share-based compensation	-	-	103,721	103,721	-	-	232,355	232,355
Amortization	-	-	274,489	274,489	-	-	528,428	528,428
Net finance expense	-	-	337,111	337,111	-	-	222,928	222,928
Segment loss before income taxes	(3,006,813)	458,085	(946,305)	(3,495,033)	(1,856,014)	497,896	(1,582,882)	(2,941,000)
Net income (loss)	$ (3,006,813)	$ 458,085	$ (946,305)	$ (3,495,033)	$ (1,856,014)	$ 497,896	$ (1,582,882)	$ (2,941,000)
Segment net loss attributable to:								
Shareholders of the Company	$ (3,006,813)	$ 458,085	$ (946,305)	$ (3,495,033)	$ (1,856,014)	$ 497,896	$ (1,361,114)	$ (2,719,232)
Non-controlling interest	-	-	-	-	-	-	(221,768)	(221,768)

RESULTS OF OPERATIONS *(continued)*

Cannabis operations

For the three-month period ended November 30, 2020, the segment generated $679,125 in cannabis-related revenues from its wholesale clients compared to nil for the same period of the prior year. The Company incurred $689,955 in costs of goods sold, including an impairment loss on inventories described below, during the first quarter of 2021 related to its wholesale revenues. Excluding the impairment loss, the segment generated a gross profit of $199,663 or 29.4% on cannabis-related revenues compared to nil for the same period of the prior year. In addition, the amount recognized in cost of goods sold includes an impairment loss on inventory of $210,493, realized on cannabis inventory that will no longer be sold in retail channels to ensure Cannara meets its commitment for specific criteria requested by its customers.

Fair value adjustment on sale of inventory includes the fair value of biological assets included in the value of inventory transferred to cost of good sold. The change in fair value of inventory sold recognized during the period amounted to $203,310 compared to nil for the same period of the prior year.

The Company generated ancillary cannabis revenues of $27,999 from the sale of a cannabis lot that was grown during a period where the Company was only performing research and development activities on its cultivation process. The Company continued to test new genetics and related cultivation methodologies and techniques that are expected to generate increased yield and quality consistent with the Company's mission to provide premium cannabis products to the retail market. These costs are presented as research and development.

For the three-month period ended November 30, 2020, the Company has recognized an unrealized loss on changes in fair value of biological assets of $790,195 on lots currently in the cultivation cycle that have not yet been harvested compared to nil for the same period of the prior year. The unrealized loss on changes in fair value of biological assets is due to the delays caused in the reception of the amendment to its Licence to allow the Company to sell its product to provincial retail distributors. The delay impacted management's assumption of the sales channel used to determine the fair value of the lots that were in cultivation during fourth quarter of 2020 and ones harvested during the first quarter of 2021.

For the three-month period ended November 30, 2020, the Company recognized $5,844 as other income for government incentives granted compared to nil for same period of the prior year. The Company has been awarded various grants in the prior year 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 November 30, 2020, the segment incurred $2,036,321 in operating expenses compared to $1,856,014 in the same period of the prior year resulting in an increase of $180,307.

RESULTS OF OPERATIONS *(continued)*

Cannabis operations *(continued)*

The increase in operating expenses is mainly attributable to:

- An increase of $550,394 in research and development for the three-month period ended November 30, 2020, as a result of the expenses incurred to research, test and develop Cannara's cultivation methodologies and the material and labor costs. The Company continued to conduct activities to test and develop cultivation methodologies that are expected to generate increased yield and quality to support the commercialization of a premium cannabis product;
- A decrease of $257,350 in general and administrative expenses for the three-month period ended November 30, 2020. In the same period of the prior year, those expenses included the costs to launch the Company and prepare the Company to apply for its Licence;
- A decrease of $179,792 in professional fees for the three-month period ended November 30, 2020, due to non-recurring expenses incurred in the same period of the prior year to bring the Company public on the Canadian Stock Exchange. During the first quarter of 2021, the Company reduced all professional fees to a minimum until revenues are generated from main operations; and
- An increase of $67,055 in market analysis and packaging branding development for the three-month period ended November 30, 2020, as the Company started to prepare the launch of its cannabis brand portfolio for the Québec market.

For the three-month period ended November 30, 2020, the segment incurred $3,006,813 in net loss compared to $1,856,014, in the same period of the prior year, representing an increase of $1,150,799 as the Company's cannabis cultivation activities are now fully operational within Phase 1 of the Farnham Facility.

Real estate operations

As part of the Company's capital management strategy, the Company has leased out a significant portion of the currently unoccupied space in the Farnham Facility during the three-month period ended November 30, 2020. The Company leased 333,551 square feet of the total 625,000 available square feet to three tenants.

For the three-month period ended November 30, 2020, the Company generated lease revenues of $556,932 compared to $527,528 in the same period of the prior year. This represents an increase of $29,404 due mainly to the addition of a new tenant during the first quarter of 2021 at a higher rate per square foot. To realize these lease revenues, the Company incurred for the three-month period ended November 30, 2020 $98,847 in lease operating costs compared to $29,632 and in the same period of the prior year. The increase in lease operating expenses is attributable to expenses incurred in the current period to source and accommodate the new tenant.

The segment net income for the three-month period ended November 30, 2020 was $458,085, compared to $497,896 in the same period of the prior year. The additional income from the new tenant in 2021 offset by the increase in lease operating costs resulted in a decrease of $39,811 in operating income for the quarter ended November 30, 2020.

RESULTS OF OPERATIONS *(continued)*

<u>Other</u>

For the three-month period ended November 30, 2020, the Company generated hemp-based CBD product revenues of $98,281 and incurred $83,234 in costs of goods sold resulting in a gross margin of $15,047 or 15.3% compared to $1,798 for the same period of the prior year.

For the three-month period ended November 30, 2020, the segment incurred $246,031 in operating expenses compared to $600,969 in the same period of the prior year resulting in a decrease in operating expenses of $354,938. The launch of ShopCBD.com in November 2019 coincided with a period of increased regulatory and operational uncertainties within the hemp-derived CBD industry in the U.S. There have been no major developments in this matter since the launch of the e-commerce platform. 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 the Company has greater clarity on the regulatory environment.

For the three-month period ended November 30, 2020, the segment incurred $946,305 in net loss, of which $946,305 is attributable to the shareholders of the Company compared to $1,582,882 in the same period of the prior year, of which $1,361,114 is attributable to the shareholders of the Company, resulting in a decrease of $636,577.

The decrease is mainly attributable to:

- A decrease of $253,939 in amortization for the three-month period ended November 30, 2020 compared to nil the same period of the prior year. The Company began its cannabis operations in the second quarter of 2020 and most of the depreciation related to the property, plant and equipment are now encapsulated in the calculation of the biological assets and cannabis inventory;
- An increase of $114,183 in net finance expense for the three-month period ended November 30, 2020 as there was a significant reduction in the interest rate offered by the bank on cash balances held with a Canadian financial institution, which resulted in a decrease on interest income earned during the first quarter of 2021; and
- A decrease of $128,634 in share-based compensation for the three-month period ended November 30, 2020 resulting from the impact of forfeited stock options that occurred during the current quarter.

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
	Other	Total	Cannabis operations	Real estate operations	Other	Total	Total
February 28, 2019	$ -	$ 518,438	$ (1,375,075)	$ 436,602	$ (2,939,844)	$ (3,878,317)	$ (0.01)
May 31, 2019	-	506,785	(1,812,406)	285,628	(1,027,538)	(2,554,316)	(0.01)
August 31, 2019	-	553,308	(2,045,288)	504,944	(2,036,846)	(3,577,190)	(0.01)
November 30, 2019	5,721	533,249	(1,856,014)	497,896	(1,361,114)	(2,719,232)	(0.01)
February 29, 2020	24,854	668,433	(2,664,671)	451,128	(1,315,492)	(3,529,035)	(0.01)
May 31, 2020	41,237	763,906	(2,384,905)	622,601	(612,537)	(2,374,841)	(0.01)
August 31, 2020	63,609	613,355	(2,970,951)	441,368	(1,329,919)	(3,859,502)	(0.01)
November 30, 2020	98,281	1,368,181	(3,006,813)	458,085	(946,305)	(3,495,033)	(0.01)

CASH FLOW ANALYSIS

	Three-month period ended	
	November 30, 2020	November 30, 2019
Cash used in operating activities	$ (3,491,377)	$ (3,383,725)
Cash used in (from) financing activities	621,394	(399,467)
Cash used in investing activities	(844,283)	(5,755,462)

Operating activities

For the three-month period ended November 30, 2020, cash used in operating activities was $3,491,377. 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 and related public company related expenses.

Financing activities

For the three-month period ended November 30, 2020, cash from financing activities was $621,394 which is mainly attributable to cash received from the new credit facilities of $1,000,000 offset by the principal repayment on the mortgage of $75,000 plus interest paid of $191,088, $80,394 of lease-related payments and the payment of issuance costs related to the credit facilities of $31,238.

CASH FLOW ANALYSIS *(continued)*

Investing activities

For the three-month period ended November 30, 2020, cash used in investing activities was $844,283 which is mainly attributable to acquisition and deposit on production equipment for $859,397 to complete the packaging line and production area of the Farnham Facility offset by the interest received of $15,114 relating to interest earned on the cash balance held at a Canadian financial institution. There is no restriction on the Company's ability to use its cash for its operational needs while it earns interest on the unused balance.

LIQUIDITY AND CAPITAL RESOURCES

As of the date of this MD&A, the Company has generated recurrent lease revenues and started to generate recurrent cannabis revenues from the wholesale market. However, limited hemp-based CBD product revenues were generated during the first quarter of 2021. The operations were financed 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, its capital resources and to meet its capital requirements is to generate sufficient cash to fund the Company's operations and working capital requirements.

The Company has a working capital of $4,468,234 as at November 30, 2020 (August 31, 2020 - $7,052,904). The decrease in the working capital is mainly attributable to the use of cash to settle the obligations of the Company incurred during the period.

As at November 30, 2020, the Company's working capital was composed of:

- cash on hand of $4,070,752 (August 31, 2020 - $7,771,177);
- lease receivable, accounts receivable, sales tax receivable, biological assets, inventory and prepaid expenses and other assets of $3,158,807 (August 31, 2020 - $2,758,679);
- accounts payable and accrued liabilities, deferred lease revenue and deferred grant income of $2,247,259 (August 31, 2020 - $2,965,645); and
- current portion of long-term debt, lease liabilities and mortgages payable of $514,066 (August 31, 2020 - $511,307).

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 expects that its existing cash resources as at November 30, 2020 along with cash received subsequent to year end from its credit facilities and commercial sales will enable it to fund its planned operating expenses for at least the next twelve months from November 30, 2020.

LIQUIDITY AND CAPITAL RESOURCES *(continued)*

Loans and credit facilities

Type of loan	Maturity	Balance as at November 30, 2020	Balance as at August 31, 2020
Secured mortgage loan (1)	March 6, 2022	$ 6,550,000	$ 6,550,000
Secured mortgage loan (2)	October 9, 2039 (2)	$ 5,675,000	$ 5,750,000
Credit facilities (3)	March 25, 2022	$ 1,000,000	$ -

(1) On November 26, 2020, the Company obtained an extension to the maturity date of this mortgage loan from September 6, 2021 to March 6, 2022.

(2) The mortgage has a repayment term of 20 years. In the event of default of the covenant, the secured mortgage loan can be repayable on demand. The financial covenant requires the Company to maintain a debt service ratio of not less than 1.25 to 1.0 each year-end related to its Real estate operations.

(3) As at November 30, 2020, the Company had $4,000,000 remaining to withdraw on the credit facilities in monthly tranches of $1,000,000. Repayment of the credit facilities is required within eighteen months of disbursement.

Other contractual obligations

	Less than one year	One to five years	Thereafter	Total
Accounts payable and accrued liabilities	$ 2,196,893	$ -	$ -	$ 2,196,893
Long-term debt	3,239	5,136		8,375
Lease liabilities (2)	304,383	474,098	-	778,481
Mortgages payable, at carrying amount (1)	300,000	8,050,000	3,875,000	12,225,000
Credit facilities payable, at carrying amount	-	1,000,000	-	1,000,000

(1) The contractual obligations relating to the secured mortgage loan 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 March 6, 2022, with the purchase price secured by a first ranking hypothec and bearing 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 November 30, 2020, the outstanding mortgage payable was $6,550,000 (August 31, 2020 - $6,550,000).

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 was also granted an additional credit facility of $4,000,000 to be disbursed in four monthly tranches subject to meeting certain conditions that were met during the first quarter of 2021. Repayment of the credit facilities are required within eighteen months of disbursement. On September 25, 2020, the Company received the initial advance under the credit facilities of $1,000,000. The Company has drawn an additional $2,000,000 on its credit facilities subsequent to quarter-end.

For the three-month period ended November 30, 2020, the Company incurred $236,155 in interest on the mortgage payable and on the credit facilities to a related party (November 30, 2019 – $250,152). As at November 30, 2020, accounts payable, including accrued interest on mortgage payable and on the credit facilities to a related party was $93,849 (August 31, 2020 – $144,638). In addition, the Company incurred $7,743 in operating expense with a related party for the same period compared to $13,141 in the same period of the prior year.

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 November 30, 2020, salaries and benefits paid to key management personnel amounted to $84,000; share-based compensation attributable to key management and directors was $16,184 and director fees were $11,250. As at November 30, 2020, the Company owed nil (August 31, 2020 - $29,808) to key management personnel for accrued salaries and vacation expenses and nil to directors (August 31, 2020 – 12,500).

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. The financial institution providing the Company's credit facility meet these qualifications.

The carrying amount of the accounts receivable in the 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. As at November 30, 2020, none of the lease receivables were past due. The allowance for expected credit loss was nil as at November 30, 2020 (August 31, 2020 - nil). The Company's maximum credit exposure corresponds to the carrying amount of these financial assets.

Liquidity risk

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

As at November 30, 2020, the Company had current assets of $7,229,559 and current liabilities of $2,761,325, for a net working capital balance of $4,468,234. The Company expects that its existing cash as at November 30, 2020, along with the cash received subsequent to the quarter end from its credit facilities as well as cash from operations, 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 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 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 consolidated financial statements and affect the reported amounts of income and expenses during the reporting period.

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

Disclosure of the Company's critical accounting estimates and assumptions is presented in note 3 of the audited consolidated financial statements for the year ended August 31, 2020.

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, 2020 and in note 2 of the condensed interim consolidated financial statements of the Company, as at and for the three-month periods ended November 30, 2020 and 2019.

SUMMARY OF OUTSTANDING SHARE DATA

Summary of Outstanding Share Data as of January 29, 2021:

Authorized:	Unlimited number of voting and participating common shares without par value.
Issued and outstanding:	737,839,535 common shares
	39,389,502 options

Zohar Krivorot
Director, CEO and President