Quebec Grown
Premium Grade Cannabis

MANAGEMENT DISCUSSION & ANALYSIS

For the Third Quarter and
Nine-Months Period Ended
May 31, 2021

JULY 27 2021

CANNARA BIOTECH INC.

TSXV: LOVE.V OTCQB: LOVFF FRA: 8CB

This Management Discussion and Analysis ("MD&A") of Cannara Biotech Inc. ("Cannara" or the "Company") has been prepared by management as of July 27, 2021 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, 2021 and 2020. 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 unless indicated otherwise.

All references in this MD&A to "Q3 2021" and "third quarter of 2021" are to Cannara's fiscal quarter ended May 31, 2021. "Q3 2020" and "third quarter of 2020" are to Cannara's fiscal quarter ended May 31, 2020. All references in this MD&A to "YTD 2021" and "YTD 2020" are to Cannara's nine-month period ended May 31, 2021 and May 31, 2020, respectively.

Additional information filed by us with the Canadian Securities Administrators, including quarterly reports, annual reports and other material contracts 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.

NON-GAAP MEASURES

Management has included certain financial performance measures that are not recognized or defined under IFRS ("non-GAAP measures"). There are no standardized methods of calculating these non-GAAP measures, management's methods may differ from those used by others, and accordingly, these measures may not be directly comparable to similarly titles measures used by others. Accordingly, these non-IFRS measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Management employs these measures internally to measure operating and financial performance. Management believes these non-IFRS financial measures, in addition to conventional measures prepared in accordance with IFRS, enable investors to evaluate the Company's operating results, underlying performance and future prospects in a manner similar to management.

The Company has identified Adjusted Earnings (Loss) before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") as a relevant industry performance indicator. Management defines Adjusted EBITDA as net income (loss) before net finance expense, tax, depreciation, amortization, share-based compensation, changes in fair value of inventory sold, unrealized gain on changes in fair value of biological assets, gain on sublease on initial recognition and loss on disposal of property, plant and equipment.

CANNARA BIOTECH INC.

Cannara Biotech Inc. is a vertically integrated producer of premium-grade cannabis and cannabis-derivative products for the Quebec and Canadian markets. The Company's main focus is to deliver craft-quality "AAAA" products at disruptive retail pricing, continuous rotation of rare genetics, community responsiveness and transparency to collectively add to its value proposition. Leveraging the provinces low electricity and labor rates, Cannara owns two mega Quebec-based facilities spanning over 1,650,000 sq. ft., providing up to 125,000kg of annualized cultivation output.

Cannara was incorporated under the laws of British Columbia on October 19, 2017 and is currently listed and publicly traded on the TSX Venture Exchange ("TSXV") under the symbol "LOVE.V", the OTCQB under the symbol "LOVFF" and the Frankfurt Stock Exchange under the symbol "8CB". The Company headquarters are located in Montreal, Quebec and its two mega cannabis cultivation and processing facilities are located in the greater area of Montreal, Quebec. Cannara operates through its wholly-owned subsidiaries, Cannara Biotech (Quebec) Inc. and, newly formed subsequent to quarter-end, Cannara Biotech (Valleyfield) Inc. In the U.S. market, the Company, through ShopCBD.com Inc., 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 Cannara may be found at www.cannara.ca and www.shopcbd.com.
Investor information may be found at www.investors.cannara.ca.

CANNARA FACILITIES

FACILITY	SIZE	CAPACITY	TYPE	ELECTRICITY	FACILITY HIGHLIGHTS
FARNHAM, QUEBEC	Grow: 170 000 sf Site: 625 000 sf Land: 1 430 000 sf	15 000 kg phase 1 capacity	Indoor	Power rate of approx. $0.065/kw	• Phase 1 completed in 2019 • State-of-the-art biomonitoring • 18 independent grow rooms • Automated irrigation, nutrient delivery, lighting, dehumidification, and heating systems • Automated packaging lines
VALLEYFIELD, QUEBEC *Acquired June 22, 2021* *Currently in construction*	Grow: 775 000 sf Site: 1 030 000 sf Land: 3 130 000 sf	110 000 kg at full capacity	Hybrid Greenhouse	Preferential contracted power rate of approx. $0.035/kw	• Built in 2020 • Onsite Hydro Quebec substation • Fully outfitted and automated • 24 independent grow rooms • Blackout & shading systems • Tempered "smart" glass

CANNARA BRAND PORTFOLIO

Our portfolio consists of three flagship brands with distinctive identity and purpose, each filling a white space in Canada's current cannabis market. All three brands offer handcrafted premium-grade cannabis, hang-dried, slow cured and hand-trimmed to preserve the flower's natural properties. Our brand portfolio includes:

BRAND	STORY	PRODUCT MIX	MARKETS
TRIBAL	Tribal delivers uncompromised premium-grade cannabis to consumers who have a deep relationship with cannabis. From pheno-hunting rare genetics to unfolding each strain's lineage and flavor profiles, Tribal offers a continuous rotation of "AAAA" genetic strains at entry level pricing.	• Dried Flower • Pre-Rolls	• Quebec • Ontario expected 08/2021
Nugz	Nugz is a cult-worthy movement committed to abundance, quality and value. Nugz offers an exceptional product at disruptive retail prices specifically designed for long-time cannabis enthusiasts who have a sharp sense for quality but looking for a price break that aligns with consuming habits.	• Dried Flower • Pre-Rolls • Hash in development	• Quebec
ORCHID CBD	Orchid CBD is a wellness brand dedicated to providing premium CBD-dominant cannabis. Orchid CBD offers award winning strains of terpene-rich, trichome covered, oversized dried flowers that deliver softer blissful experiences with no compromise on quality and flavours.	• Dried Flower • Pre-Rolls	• Quebec • Ontario expected 08/2021

CANNARA GENETIC PORTFOLIO

Cannara has established an extensive bank of genetics which includes some of the rarest strains available in Canada. By undergoing pheno-hunting selection methods, Cannara has the ability to further broaden the product mix for each one of its brands by providing users with dedicated cannabis experiences from carefully selected cultivars for years to come. Our current genetics in the retail market include:

GENETIC	LAUNCH DATE	THC – CBD	TYPE	AROMAS & FLAVORS
GELATO MINT	February 2021	THC 24% CBD 1%	Indica	Gelato Mint is best known for its overwhelming fresh flavors and aromas. As its name suggests, Gelato Mint smells like a fresh mint dessert with pepper and earthy pine undertones.
CRITICAL MASS CBD	February 2021	THC 4% CBD 8%	Indica	Critical Mass CBD's aromas are sweet and floral offering a soothing and relaxing sensation, however its unique bubblegum-like taste that makes this strain incredible.
EARLY LEMON BERRY	March 2021	THC 24% CBD 1%	Sativa	True to its name, Early Lemon Berry features overwhelming lemon flavors thanks to its higher percentage of limonene and myrcene terpenes. It smells like a mix of sweet lemons but the taste of the exhale is what earned its reputation.
CUBAN LINX	June 2021	THC 25% CBD 1%	Hybrid - Sativa	Cuban Linx packs a rich lemony aroma accentuated by hints of gassy diesel and a touch of spice. A truly refreshing strain, its flavors and smells are as exciting as the high it provides.
DO-SI-DOS	June 2021	THC 26% CBD 1%	Hybrid - Indica	Do-Si-Dos delivers floral flavors followed by earthy and woody notes. The diversity and richness of this strain's terpene profile will result in diverse fragrances and flavors.
CBD RUNTZ	June 2021	THC 10% CBD 18%	Hybrid - Sativa	The abundance of terpenes found in this genetic give it a fruity, incredibly sweet aroma, delivering a saccharine smell and candy-like flavor.

COMPANY & MARKET INSIGHT

Cannara's first quarter in market has demonstrated positive consumer response to its brand strategy, pricing strategy, and genetic mix across the retail outlets in Quebec. The company's "AAAA" quality cannabis and disruptive pricing have resulted in demand levels that superseded available supply. Additionally, Cannara's attention to detail, transparency, unique packaging, and community responsiveness have collectively added to its value proposition, which in turn has had a compounded effect on growth and market penetration.

Cannara's approach to market has been driven by its pursuit for customer satisfaction and its commitment to delivering value to the market. Over the course of the last three months, the Company has expressed out-of-the box thinking bringing innovation and thought leadership. Notable examples include:

Innovation in packaging	Cannara delivered best-in-class packaging for its 3.5g product lines, offering air-sealed tuna style cans preserving humidity and product integrity in an ecofriendly format.
Innovation in labeling	Cannara demonstrated innovation through transparency across all product labels by providing consumers with harvest dates, terpene percentages, and strain phenotypes for each lot.
Innovation in formats	Cannara introduced the largest pre-roll "bulk" format in market containing 14 x 0.6g pre-rolls per pack, which resulted in the Company's second highest revenue SKU.
Innovation in genetics	Cannara's diligence in its phenotyping process allowed the Company to identify unique THC and CBD cultivars in order to fill whitespaces in the current market resulting in the release of its CBD Runtz product line in a segment previously neglected.
Continuous improvement	Cannara has taken early feedback from the community and has brought countless changes to the its products and packaging methods within days of market feedback including the grind density of its pre-rolls, and the humidity levels of its product.

COMPANY & MARKET INSIGHT *(continued)*

Market response has opened new opportunities for the Company including the acquisition of TGOD's Valleyfield facility, one of Quebec's largest cannabis cultivation and manufacturing facilities. This asset is expected to allow the company to increase its supply to further increase its reach in Quebec and to begin expanding throughout the rest of Canada.

The market in Quebec is showing signs of accelerated growth. In fiscal 2021, the provincial distributor of Quebec reported over $537 million in revenues, up from $311.6 million in fiscal 2020 and $240 million in 2019. Their retail footprint has expanded from 28 stores in fiscal year 2020 to 72 current locations as of the date of this release. They plan to further increase their store count to 90 stores by the end of 2022. To date, the provincial distributor of Quebec has captured 53% of the illicit market, a trend which is expected to continue to rise as consumers migrate from the illicit trade to experience quality traceable products, competitive pricing, and an improved in-store buying experience. As a result, the Company expects to increase its revenue figures as the market continues to expand in Quebec.[1]

In addition to expansion for the Quebec cannabis market, Cannara is well positioned for national growth given its newly acquired facility, superior cannabis products and lower operating costs. Cannara has a significant cost advantage when compared to producers in other parts of the country as Quebec offers some of the lowest electricity and labor rates across Canada; the two largest cost inputs in cannabis cultivation. Growing demand and competitive production costs will enable Cannara and its brands to increase market share by focusing on offering premium-grade cannabis products at competitive prices to the market.

2021 THIRD QUARTER AND SUBSEQUENT EVENT HIGHLIGHTS

Operational

March 2, 2021 – Launch of Nugz brand
Cannara introduced its third brand, Nugz, to the Quebec retail market with a value-size bag of 28 grams.

March 10, 2021 – Launch of pre-roll products
Cannara continues its products launch with its pre-roll formats, available in all three brands, Tribal, Nugz and Orchid, offering customers a ready-to-go THC or CBD product.

April 2021 – Cannara achieved 100,000 units sold in Quebec market after less than 2 months on the market
Before end of April, after less than two months on the retail market, the 100,000th unit of cannabis products weresold in of the Province of Quebec, representing over $2 million in revenues, net of excise taxes. Our strategy to offer a high-quality product at a competitive price has resonated with the Quebec consumers.

April 8, 2021 – Listed on Toronto Stock Exchange Venture ("TSXV")
Cannara announced its common shares will be listed on the TSXV resulting in increased investor awareness, and exposure to a larger mix of industry analysts.

April 9, 2021 – Signed significant one-time wholesale agreement for sale of cannabis inventory
The Company entered into additional wholesale agreements to sell approximately 1,400 kg of cannabis it had in inventory from previous harvests for a total value of $1,265,000. The products were sold during the third quarter of 2021.

June 22, 2021 – Acquisition of a mega facility in Valleyfield from The Green Organic Dutchman Holdings Ltd. ("TGOD")
The Company acquired a one million square foot licensed cultivation and manufacturing facility in Valleyfield, Quebec ("Valleyfield Facility") from Medican Organic Inc., a wholly-owned subsidiary of TGOD through an all-cash offer of $27 million plus the funding of certain deposit requirements of approximately $5.7 million. The funding of the deposit was made by a related party.

June 2021 – Introduction of new genetics available in Quebec
As part of its mission to provide a rotation of new genetics to the customers, the Company introduced three new strains in 3.5 gram dry flower and 2.5 gram pre-roll formats: Cuban Linx and Do-Si-Dos (Tribal brand) and CBD Runtz (Orchid brand).

[1] Provincial distributor of Quebec – Strategic Plan 2021-2023
Provincial distributor of Quebec – Annual Report 2021

THIRD QUARTER AND SUBSEQUENT EVENT HIGHLIGHTS *(continued)*

Capital transactions

Stock options exercised
During March and April 2021, a total of 3,625,000 stock options were exercised at an exercise price of $0.10 for a total consideration of $362,500.

Stock options granted
During the third quarter of 2021, the Company granted a total of 110,000 stock options to employees at an exercise price of $0.18, subject to certain vesting conditions. Subsequent to quarter-end, the Company granted a total of 425,000 stock options to employees at an exercise price of $0.18, subject to certain vesting conditions.

Financial

March 2 and May 25, 2021 – Modification to mortgage and credit facilities terms
On March 2, 2021, the Company obtained a letter to extend the maturity date of the mortgage with a related party from March 6, 2022 to March 6, 2023.

On May 25, 2021, the Company obtained a letter to extend the maturity date of the credit facilities from March 25, 2022 to March 25, 2023.

June 16, 2021 – Credit facility usage for investing purpose at Valleyfield Facility
The Company drew $1,000,000 on the credit facilities for the purpose of the Valleyfield facility acquisition.

June 22, 2021 – Completion of a non-brokered private placement of $19.3 million and $5.7 million convertible debenture
To finance the Valleyfield Facility acquisition, the Company secured non-brokered private placements of (i) $19.3 million resulting in the issuance of 107,222,222 new common shares at a price of $0.18 per share and (ii) $5.7 million in the form of an unsecured convertible debenture bearing interest at 4% per annum. The sole subscriber to the private placement and convertible debenture is a company owned/controlled by a current member of the board of directors. Subject to certain conditions being met, the holder can convert the debenture at any time into common shares at a price of $0.18 per share.

July 12, 2021 – Conversion of the credit facilities into a convertible debenture
The Company renegotiated the terms of its credit facilities totalling $5 million in exchange for an unsecured convertible debenture bearing interest at 4% per annum, with a term of 3 years. Subject to certain conditions being met, the holder can convert the debenture at a price of $0.18 per share.

July 9, 2021 – Completion of an additional non-secured private placement of $5 million
As part of the previously announced non-brokered private placement to finance the Valleyfield acquisition, the Company secured an additional $5 million at an issue price per share of $0.18 with an existing shareholder, resulting in the issuance of 27,777,778 new common shares.

SELECTED FINANCIAL INFORMATION

Selected Financial Highlights	Three-month periods ended May 31, 2021	Three-month periods ended May 31, 2020	Nine-month periods ended May 31, 2021	Nine-month periods ended May 31, 2020
Gross revenue[1]	$ 6,716,598	$ 751,509	$ 10,020,039	$ 1,933,592
Other income	442,733	12,397	765,227	31,996
	7,159,331	763,906	10,785,266	1,965,588
Gross profit, before fair value adjustments	3,506,278	646,628	5,300,685	1,616,456
%	49%	85%	49%	82%
Gross profit	4,419,124	715,741	6,016,973	1,685,569
%	62%	94%	56%	86%
Operating expenses	2,159,809	2,974,501	7,326,384	10,152,617
Net finance expense	561,513	248,343	1,350,575	718,127
Net income (loss)	$ 1,697,802	$ (2,507,103)	$ (2,659,986)	$ (9,185,175)
%	24%	-328%	-25%	-467%
Adjusted EBITDA	$ 1,671,974	$ (2,215,049)	$ (966,307)	$ (6,891,027)
%	23%	-290%	-9%	-351%
Basic earnings (loss) per share	$ 0.01	$ (0.01)	$ (0.01)	$ (0.01)
Diluted earnings (loss) per share	$ 0.01	$ (0.01)	$ (0.01)	$ (0.01)

	May 31, 2021	August 31, 2020
Cash	$ 5,563,680	$ 7,771,177
Accounts receivable	2,394,169	26,370
Biological assets	2,187,590	1,313,370
Inventory	3,368,714	928,351
Working capital	9,165,402	7,052,904
Total assets	57,925,722	54,850,428
Total current liabilities	4,697,602	3,476,952
Total non-current liabilities	16,732,890	13,008,615

[1] Gross revenue included revenue from sale of goods, net of excise taxes, and lease revenues.

For the three-month period ended May 31, 2021, net income amounted to $1.7 million, compared to $(2.5 million) in the same period of the prior year, an increase of $4.2 million or 168%. Overall results for the third quarter of 2021 are the result of the retail activities being in full operations, combined with wholesale revenues and constant lease revenues from Real estate operations.

For the nine-month period ended May 31, 2021, net loss amounted to $2.7 million, compared to $9.2 million, a decrease of $6.5 million or 71%. Ramp up in operations following the grant of the cultivation and sale licenses marked the debut of the Company's main cannabis operations in the second half of 2021.

ADJUSTED EBITDA

Adjusted EBITDA	Three-month periods ended May 31, 2021	Three-month periods ended May 31, 2020	Nine-month periods ended May 31, 2021	Nine-month periods ended May 31, 2020
Net income (loss)	$ 1,697,802	$ (2,507,103)	$ (2,659,986)	$ (9,185,175)
Adjustments:				
Changes in fair value of inventory sold	(1,526,050)	-	(2,177,245)	-
Unrealized gain on changes in fair value of biological assets	2,438,896	69,113	2,893,533	69,113
Amortization	236,709	113,654	762,832	1,367,156
Loss on disposal of fixed asset	-	(25,894)	-	(25,894)
Gain on sublease	-	-	54,224	-
Share-based compensation	88,796	25,064	242,336	303,872
Net finance expense	561,513	248,343	1,350,575	718,127
Adjusted EBITDA	$ 1,671,974	$ (2,215,049)	$ (966,307)	$ (6,891,027)

For the three-month period ended May 31, 2021, adjusted EBITDA amounted to $1.7 million, compared to $(2.2 million) in the same period of the prior year, an increase of $3.9 million or 177%. The increase is the result of the launch of the retail activities in Quebec combined with significant wholesale revenues generated during the third quarter of 2021.

For the nine-month period ended May 31, 2021, adjusted EBITDA amounted to $(1 million) compared to $(6.9 million) in the same period of the prior year, a decrease of $5.9 million or -86%. 2021 marked the debut of the Company on the retail and wholesale market following the receipt its sales licence in January 2021, while 2020 was focused on developing the cultivation operation for commercialization.

SELECTED SEGMENT 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 operating income (loss) before share-based compensation, amortization, net finance expense, gain on sublease on initial recognition, loss on disposal of property, plant and equipment and income tax. Categorized as Other are items related to U.S. hemp-based CBD products revenues and related operating costs.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Selected Segment Financial Highlights	Three-month periods ended May 31, 2021				Three-month periods ended May 31, 2020			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Gross revenue[1]	$ 5,883,363	$ 809,913	$ 23,322	$ 6,716,598	$ -	$ 710,272	$ 41,237	$ 751,509
Other income	442,733	-	-	442,733	12,397	-	-	12,397
	6,326,096	809,913	23,322	7,159,331	12,397	710,272	41,237	763,906
Gross profit, before fair value adjustments	2,782,087	719,599	4,592	3,506,278	12,397	622,601	11,630	646,628
%	44%	89%	20%	49%	100%	88%	28%	85%
Gross profit	3,694,933	719,599	4,592	4,419,124	81,510	622,601	11,630	715,741
%	58%	89%	20%	62%	657%	88%	28%	94%
Operating expenses	1,549,818	-	284,486	1,834,304	2,260,708	-	600,969	2,861,677
Segment operating income (loss)	2,145,115	719,599	(279,894)	2,584,820	(2,179,198)	622,601	(589,339)	(2,145,936)
%	34%	89%	-1200%	36%	-17578%	88%	-1429%	-281%
Net finance expense	-	-	561,513	561,513	-	-	248,343	248,343
Other[2]	-	-	325,505	325,505	-	-	112,824	112,824

Selected Segment Financial Highlights	Nine-month periods ended May 31, 2021				Nine-month periods ended May 31, 2020			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Gross revenue[1]	$ 7,743,288	$ 2,119,302	$ 157,449	$ 10,020,039	$ -	$ 1,879,280	$ 54,312	$ 1,933,592
Other income	765,227	-	-	765,227	31,996	-	-	31,996
	8,508,515	2,119,302	157,449	10,785,266	31,996	1,879,280	54,312	1,965,588
Gross profit, before fair value adjustments	3,538,122	1,736,496	26,067	5,300,685	31,996	1,571,625	12,835	1,616,456
%	42%	82%	17%	49%	100%	84%	24%	82%
Gross profit	4,254,410	1,736,496	26,067	6,016,973	101,109	1,571,625	12,835	1,685,569
%	50%	82%	17%	56%	316%	84%	24%	86%
Operating expenses	5,882,549	-	384,443	6,266,992	6,989,199	-	1,518,284	8,507,483
Segment operating income (loss)	(1,628,139)	1,736,496	(358,376)	(250,019)	(6,888,090)	1,571,625	(1,505,449)	(6,821,914)
%	-19%	82%	-228%	-2%	-21528%	84%	-2772%	-347%
Net finance expense	-	-	1,350,575	1,350,575	-	-	718,127	718,127
Other[2]	-	-	1,059,392	1,059,392	-	-	1,645,134	1,645,134

[1] Gross revenue included revenue from sale of goods, net of excise taxes, and lease revenues.
[2] Other included share-based compensation, amortization and other non-cash items.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Cannabis operations

For the three and nine-month periods ended May 31, 2021, the segment generated $5.9 million and $7.74 million in cannabis-related revenues, net of excise taxes, compared to nil for the same periods of the prior year.

Revenues, net of excise taxes, from the retail market represented $3.35 million and $3.44 million for the three and nine-month periods ended May 31, 2021, compared to nil for the same periods of the prior year. The increase is primarily attributable to:

- Third quarter of 2021 is the first full quarter of sales via the Company's retail channel;
- Launch of the Company's third brand, Nugz – a value-size format at the beginning of March;
- Launch of pre-roll products for all 3 genetics in addition to dry flower format;
- Fast sell-out of the Company's products due to high demand of the products; most skus are sold out in few days following weekly deliveries, and
- Approximately 1,170 kg of cannabis or over 200,000 units sold across 3 flagship brands, mainly during the third quarter of 2021.

Revenues from the wholesale market represented $2.5 million and $4.3 million for the three and nine-month periods ended May 31, 2021, compared to nil for the same periods of the prior year. The increase is primarily attributable to:

- Long-term wholesale supply agreement signed with a licensed producer; and
- One time wholesale agreements signed with licensed producers for the sale of approximately 1,400kg of dry flower.

The Company generated ancillary cannabis revenues of $0.37 million and $0.6 million for the three and nine-month periods ended May 31, 2021 from the sale of cannabis lots that were grown during a period where the Company was only performing research and development activities on its cultivation process. The Company continues to test new genetics, including pheno-hunting to select the best phenotype of a genetic, and related cultivation methodologies and techniques that are expected to generate increased yield and quality. These costs are presented as research and development.

For the three and nine-month periods ended May 31, 2021, the Company recognized $72,000 and $162,000 as other income for government incentives granted compared to nil for same periods of the prior year. The Company has been awarded various grants in the prior year as well and in the third quarter of 2021. The amount has been recognized as deferred income and will be recognized as other income based on the useful life of the related assets or recognized directly to income based on type of grant received.

For the three and nine-month periods ended May 31, 2021, the Company incurred $3.5 million and $5 million in costs of goods sold, compared to nil for the same periods of the prior year. The segment generated a gross profit before fair value adjustments of $2.8 million or 44% and $3.5 million or 42% for the three and nine-month periods compared to nil for the same periods of the prior year.

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 three and nine-month periods ended May 31, 2021 amounted to $1.5 million and $2.2 million compared to nil for the same periods of the prior year.

The Company has recognized an unrealized gain on changes in fair value of biological assets of $2.4 million and $2.9 million for the three and nine-month periods ended May 31, 2021 related to lots currently in the cultivation cycle that have not yet been harvested compared to nil for the same periods of the prior year.

Overall, the segment generated $3.7 million and $4.3 million in gross profit for the three and nine-month periods ended May 31, 2021, compared to $82,000 and $101,000 in the same periods of the prior year, representing a favorable increase of $3.6 million and $4.2 million. The increase results primarily from gross profit from its retail and wholesale cannabis sales and unrealized gains in the fair value of biological assets of $2.4 million as previously explained.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Cannabis operations *(continued)*

For the three and nine-month periods ended May 31, 2021, the segment incurred $1.5 million and $5.9 million in operating expenses compared to $2.3 million and $7 million in the same periods of the prior year resulting in a favorable decrease of $0.8 million or -34% and $1.1 million or -16%, respectively.

The decrease in operating expenses is mainly attributable to:

- A decrease of $1 million in general and administrative expenses for the nine-month periods ended May 31, 2021. General and administrative expenses for the three-month period were similar to same period of the prior year. In 2020, those expenses included the costs to prepare the Farnham facility for the start of the cultivation activities that were officially launched on February 1, 2020. Compared to 2020, there has been cost reduction in administrative expense in order to keep a lean cost structure;
- A decrease of $0.2 million in professional fees for the nine-month periods ended May 31, 2021. Professional fees for the three-month period were similar to same period of the prior year. At the beginning of 2021, the Company reduced all professional fees to a minimum until revenues were generated from its main cannabis operations and has continued to maintain these cost reductions;
- A decrease of $0.9 million and $0.3 million in research and development for the three and nine-month periods ended May 31, 2021. While the Company continues to invest in research and development methodologies to support the commercialization of a premium cannabis product, including pheno-hunting to find the best genetics of a strain, expenses incurred in the prior year were significantly higher due to first tests performed prior to the launch of commercial cultivation activities; offset by
- An increase of $0.2 million and $0.4 million in selling and marketing expenses for the three and nine-month periods ended May 31, 2021. The increase in selling and marketing expenses is mainly due to the reallocation of ShopCBD.com marketing employees to Cannara activities to prepare the launch of the cannabis activities in Quebec as well as selling costs related to wholesale and retail sales.

Real estate operations

As part of the Company's capital management strategy, the Company has leased out all currently unoccupied space in the Farnham facility. The Company leased 425,480 square feet of the total 625,000 available square feet currently to two tenants.

For the three and nine-month periods ended May 31, 2021, the Company generated lease revenues of $0.8 million and $2.1 million compared to $0.7 million and $1.9 million in the same periods of the prior year. This represents a favorable increase of $0.1 million or 14% and $0.2 million or 13% due the additional space lease out and the higher rate per square foot charge compared to same periods of the prior year. To realize these lease revenues during the three and nine-month periods ended May 31, 2021, the Company incurred $90,000 and $0.4 million in lease operating costs compared to $87,000 and $0.3 million in the same periods of the prior year. The increase in lease operating expenses for the nine-month period is attributable to expenses incurred in the first quarter of 2021 to accommodate the new tenant. The lease operating expenses for the three-month period are similar to the same period of the prior year. For the three and nine-month periods ended May 31, 2021, the segment generated a gross profit of $0.7 million or 89% and $1.7 million or 82% compared to $0.6 million or 88% and $1.6 million or 84% for the same periods of the prior year.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Other

For the three and nine-month periods ended May 31, 2021, the Company generated hemp-based CBD product revenues of $23,322 and $157,449 compared to $41,237 and $54,312 in the same periods of the prior year and incurred $18,730 and $131,382 in costs of goods sold compared to $29,607 and $41,477 in the same periods of the prior year, resulting in a gross profit of $4,592 or 20% and $26,067 or 17% compared to $11,630 or 28% and $12,835 or 24% for the same periods of the prior year.

For the three and nine-month periods ended May 31, 2021, the segment incurred $0.3 million and $0.4 million in operating expenses compared to $0.6 million and $1.5 million in the same periods of the prior year resulting in a decrease in operating expenses of $0.3 million and $1.1 million. Since there has been no evolution on the regulation and operational uncertainties within the hemp-derived CBD industry in the U.S. in the last year, the Company has reassigned the marketing employees of ShopCBD.com to the cannabis operations to develop the brand portfolio and to support the launch of the products in the retail market, effectively significantly reducing the expenses incurred regarding the operations of ShopCBD.com, which resulted in a decrease of the operating costs for this segment.

For the three and nine-month periods ended May 31, 2021, the segment incurred $0.9 million and $2.4 million in net finance expense and other compared to $0.4 million and $2.4 million in the same period of the prior year, resulting in an increase of $0.5 million and nil.

For the three-month period ended May 31, 2021, the increase is mainly attributable to the following items:

- An increase of $0.1 million in amortization due to additional amortization expense for lease commission on the new tenant and, in prior year, there was the one-time impact of the sublease agreement that resulted in the derecognition of the cumulative depreciation on the portion subleased which reduced prior year expense; and
- An increase of $0.3 million in net finance expense due to the new credit facilities received during 2021. In addition, the lower interest rate offered by the bank on cash balances held with a Canadian financial institution resulted in a decrease on interest income earned during 2021.

For the nine-month period ended May 31, 2021, the similar results are mainly attributable to:

- A decrease of $0.6 million in amortization. The Company began its cannabis operations at the end of the second quarter of 2020 and, as a result, most of the depreciation related to the property, plant and equipment are now encapsulated in the calculation of the biological assets and cannabis inventory; offset by
- An increase of $0.6 million in net finance expense due to higher interest charged on one of the mortgages and the new credit facilities received during 2021. In addition, the lower interest rate offered by the bank on cash balances held with a Canadian financial institution resulted in a decrease on interest income earned during 2021.

PRIOR QUARTER FINANCIAL POSITION AND RESULTS

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

	May 31, 2021	February 28, 2021	November 30, 2020	August 31, 2020	May 31, 2020	February 29, 2020	November 30, 2019	August 31, 2019
Current assets	$ 13,863,004	$ 10,524,748	$ 7,229,559	$ 10,529,856	$ 13,358,400	$ 15,743,534	$ 18,907,512	$ 27,828,255
Non-current assets	44,062,718	43,679,577	44,335,430	44,320,572	44,509,845	43,476,215	42,968,691	40,274,883
Total assets	57,925,722	54,204,325	51,564,989	54,850,428	57,868,245	59,219,749	61,876,203	68,103,138
Current liabilities	4,697,602	3,101,290	2,761,325	3,476,952	9,747,671	8,310,185	7,548,974	5,090,627
Non-current liabilities	16,732,890	16,868,088	13,774,253	13,008,615	6,519,482	7,075,879	7,090,591	13,083,995
Total liabilities	21,430,492	19,969,378	16,535,578	16,485,567	16,267,153	15,386,064	14,639,565	18,174,622
Net assets	$ 36,495,230	$ 34,234,947	$ 35,029,411	$ 38,364,861	$ 41,601,092	$ 43,833,685	$ 47,236,638	$ 49,928,516

	Total revenues	Net income (loss) attributable to Shareholders of the Company	Basic and diluted income (loss) per share
	Total	Total	Total
May 31, 2021	$ 7,159,331	$ 1,697,802	$ 0.01
February 28, 2021	2,257,754	(862,756)	(0.01)
November 30, 2020	1,368,181	(3,495,033)	(0.01)
August 31, 2020	613,355	(3,859,502)	(0.01)
May 31, 2020	763,906	(2,374,841)	(0.01)
February 29, 2020	668,433	(3,529,035)	(0.01)
November 30, 2019	533,249	(2,719,232)	(0.01)
August 31, 2019	553,308	(3,577,190)	(0.01)

CASH FLOW ANALYSIS

	Three-month periods ended		Nine-month periods ended	
	May 31, 2021	May 31, 2020	May 31, 2021	May 31, 2020
Cash from (used) in operating activities	$ 1,508,662	$ (2,051,183)	$ (3,487,631)	$ (6,861,245)
Cash from (used) in financing activities	(192,800)	(277,098)	2,919,822	(694,377)
Cash used in investing activities	(585,770)	(1,080,308)	(1,797,853)	(7,779,417)

Operating activities

For the three and nine-month periods ended May 31, 2021, cash from (used in) operating activities was $1.5 million and $(3.5 million). In the third quarter of 2021, with cannabis operations in full operations and related sales generated from the retail and wholesale market, the Company generated its first positive cash flows from operating activities. The cash 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 May 31, 2021, cash used in financing activities was $0.2 million which was mainly attributable to the principal repayment on the mortgage of $0.08 million plus interest paid of $0.4 million, and $0.08 million of lease-related payments offset by cash received from the exercise of stock options.

For the nine-month period ended May 31, 2021, cash from financing activities was $2.9 million which was mainly attributable to cash received from the new credit facilities of $4 million offset by the principal repayment on the mortgage of $0.2 million plus interest paid of $0.9 million and $0.2 million of lease-related payments.

CASH FLOW ANALYSIS (continued)

Investing activities

For the three and nine-month period ended May 31, 2021, cash used in investing activities was $0.6 million and $1.8 million which was mainly attributable to acquisitions and deposit on production equipment for $0.6 million and $2 million for the production area of the Farnham Facility offset by the cash received from the sale of property, plant and equipment of $0.2 million in the second quarter of 2021. Interest received relating to interest earned on cash balances held at a Canadian financial institution amounted to $0.01 million and $0.04 million for the three and nine-month period. 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, subsequent to quarter-end, the Company secured additional equity and debt financing amounting to $30,000,000 and exchanged its credit facilities into a convertible debenture, providing the Company the necessary cash to complete the acquisition of the Valleyfield Facility and proceed with capital expenditures required at the Farnham Facility in order to create operational synergies between both assets. The acquisition of the Valleyfield Facility was driven by the current demand for its products, which is greater than its current operational capacity, resulting in a quick turnover of products on the shelves of Quebec's retail stores. Recurrent lease revenues are generated which continue to support the Company's cash flow until cannabis revenues reach its maximum potential. 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 $9.2 million as at May 31, 2021 (August 31, 2020 - $7.1 million). The Company has been able to increase its working capital ratio compared to prior year due to the liquidities generated through the sales of cannabis in conjunction with the access to the credit facilities to support the Company's cash flow in its launch of its products in the retail market.

As at May 31, 2021, the Company's working capital was composed of:

- cash on hand of $5.6 million (August 31, 2020 - $7.8 million); and
- lease receivable, accounts receivable, biological assets, inventory and prepaid expenses and other assets of $8.3 million (August 31, 2020 - $2.8 million); and
- accounts payable and accrued liabilities, sales tax payable, deferred lease revenue and deferred grant income of $4.2 million (August 31, 2020 - $3 million); and
- current portion of long-term debt, lease liabilities and mortgages payable of $0.5 million (August 31, 2020 - $0.5 million).

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 of $5.6 million as at May 31, 2021, along with the forecasted cashflows and financing that occurred subsequent to quarter-end, will enable it to fund its planned operating expenses for at least the next twelve months from May 31, 2021.

LIQUIDITY AND CAPITAL RESOURCES *(continued)*

Mortgage loans and credit facilities

Type of loan	Interest Rate	Maturity	Balance as at May 31, 2021	Balance as at August 31, 2020
Secured mortgage loan	13%	March 6, 2023	$ 6,550,000	$ 6,550,000
Secured mortgage loan (1)	3.91%	October 9, 2039 (2)	5,600,000	5,750,000
Credit facility A (2)	13%	March 25, 2023	1,000,000	-
Credit facility B (2)	13%	March 25, 2023	3,000,000	-

(1) The mortgage has a repayment term of 20 years. In the event of default of the covenant, related to the real estate operations, 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. The Company was in compliance with the ratio at the last measurement date.

(2) Repayment of the credit facilities is due on March 25, 2023. Subsequent to quarter-end, a further $1,000,000 was drawn and all credit facilities were then exchanged for a convertible debenture.

Other contractual obligations

	Less than one year	One to five years	Thereafter	Total
Accounts payable and accrued liabilities	$ 3,930,181	$ -	$ -	$ 3,930,181
Long-term debt (2)	3,546	3,545	-	7,091
Lease liabilities (2)	287,415	306,334	-	593,749
Mortgages payable, at carrying amount (1)	300,000	8,050,000	3,800,000	12,150,000
Credit facilities payable, at carrying amount	-	4,000,000	-	4,000,000

(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 and debt 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, with the purchase price secured by a first ranking hypothec and bearing interest at an annual rate of 13%, calculated and payable monthly. As at May 31, 2021, the outstanding mortgage payable was $6.55 million (August 31, 2020 - $6.55 million).

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 million to be used for working capital purposes bearing an interest of 13%. The Company was also granted an additional credit facility of $4 million 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 on March 25, 2023. Subsequent to quarter-end, the Company withdrew the last $1 million available on its credit facilities.

TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

For the three and nine-month periods ended May 31, 2021, the Company incurred $0.3 million and $0.9 million in interest on the mortgage payable and on the credit facilities to a related party (2020 – $0.2 million and $0.7 million). In addition, for the three and nine-month periods ended May 31, 2021, the Company incurred nil and $10,000 in operating expenses with a related party compared to $5,000 and $40,000 in the same periods of the prior year. As at May 31, 2021, accounts payable, including accrued interest on mortgage payable and on the credit facilities to a related party was $0.1 million (August 31, 2020 – $0.1 million).

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 and nine-month periods ended May 31, 2021, salaries and benefits incurred for key management personnel amounted to $86,000 and $0.2 million (2020 - $0.1 million and $0.5 million); share-based compensation attributable to key management and directors was $42,000 and $90,000 (2020 - $44,000 and $186,000) and director fees were $18,000 and $46,000 respectively (2020 - $21,000 and $65,000). As at May 31, 2021, the Company owed $15,000 (August 31, 2020 - $30,000) to key management personnel for accrued salaries and vacation expenses and $15,000 to directors (August 31, 2020 – $13,000).

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 condensed 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 May 31, 2021, none of the receivables were past due. The allowance for expected credit loss was nil as at May 31, 2021 (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 May 31, 2021, the Company had current assets of $13.9 million and current liabilities of $4.7 million, for a net working capital balance of $9.2 million. The Company expects that its existing cash as at May 31, 2021, along with the forecasted cashflows and financing that occurred subsequent to quarter-end, will enable it to fund its planned operating expenses for at least the next 12 months.

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.

Concentration risk

The Company has a significant concentration of its revenues generated from a few customers that, if eliminated, would have a significant impact on the Company's operations.

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 and nine-month periods ended May 31, 2021 and 2020.

SUMMARY OF OUTSTANDING SHARE DATA

Summary of Outstanding Share Data as of July 27, 2021:

Authorized:	Unlimited number of voting and participating common shares without par value.
Issued and outstanding:	876,481,321 common shares
	36,831,001 stock options

cannara

TSXV: LOVE.V OTCBQ: LOVFF FRA: 8CB

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