cannara

Quebec Grown
Premium Grade Cannabis

MANAGEMENT DISCUSSION & ANALYSIS

For the third quarter and
nine-month periods ended
May 31, 2022

July 26, 2022

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 26, 2022 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, 2022 and 2021. 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, 2021.

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 2022" and "third quarter of 2022" are to Cannara's fiscal quarter ended May 31, 2022. "Q3 2021" and "third quarter of 2021" are to Cannara's fiscal quarter ended May 31, 2021.

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 titled 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 and analysts 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 non-GAAP measure. Management defines Adjusted EBITDA as net income (loss) before net finance expense, tax, depreciation, amortization, impairment, share-based compensation, changes in fair value of inventory sold, unrealized gains and losses on changes in fair value of biological assets, gain on sublease on initial recognition and gains and losses on disposal of property, plant and equipment. The exclusion of net finance expense eliminates the impact on earnings derived from non-operational activities. The exclusion of depreciation, amortization, impairment, share-based compensation, changes in fair value of inventory sold, unrealized gains and losses on changes in fair value of biological assets, gain on sublease on initial recognition and gains and losses on disposal of property, plant and equipment eliminates the non-cash impact of these items.

The Company believes that the use of Adjusted EBITDA allows investors and analysts to understand the results of operations of the Company by excluding the non-operational activities and non-cash items for the period. Although Adjusted EBITDA is frequently used by securities analysts, lenders and others in their evaluation of companies, it has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of the Company's results as reported under IFRS. Adjusted EBITDA should not be considered either as discretionary cash available to invest in the growth of the business or as a measure of cash that will be available to meet the Company's obligations. From time to time, the Company may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring.

COMPANY PROFILE

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's headquarters are located in Montreal, Quebec.

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 premium quality "AAAA" products at disruptive retail pricing. Leveraging the province low electricity costs, Cannara owns and operates two Quebec-based facilities spanning over 1,650,000 square feet. Cannara's first purpose-built, modern indoor cultivation facility is located in Farnham, Quebec, and measures 625,000 square feet, comprising 170,000 square feet of operational licensed cultivation area and 455,000 square feet of leased warehouse space ("Farnham Facility"). The second indoor facility is a former massive purpose-built cannabis hybrid greenhouse that is being redesigned into an indoor facility zone by zone to ensure consistent and premium flower cultivation. The second facility is over a million square feet in size comprised of 24 independent growing zones totaling 600,000 square feet, a 225,000 square feet cannabis 2.0 processing center and a 200,000 square feet rooftop greenhouse located in Valleyfield, Quebec ("Valleyfield Facility"). Cannara operates through its wholly owned subsidiaries, Cannara Biotech (Quebec) Inc. and Cannara Biotech (Valleyfield) Inc., both holding active licenses issued by Health Canada under the Cannabis Act.

COMPANY PROFILE *(continued)*

Cannara is a leading producer of premium "AAAA" quality cannabis. Cannara is transforming the cannabis buying experience by offering consumers what they have been asking for—high quality at great value, rotating genetics, transparent harvest data, unique air-sealed packaging, attention to detail, and community responsiveness, all of which have had a compounded effect on product demand and market penetration.

Cannara promises a better value proposition for consumers, retailers, and investors alike—consumers save money when purchasing premium Cannara cannabis products, retailers experience a higher volume and velocity of sales, and investors benefit from a sustainable operation generating high gross margins. The Cannara platform consists of 2 mega facilities in Quebec, a lean labour force, and a management team dedicated to product innovation, thought leadership, and maintaining a low cost-structure, all designed to allow for the highest quality products at some of the most disruptive prices in retail. Resulting from the Cannara model is a grassroot following in Quebec, significant brand awareness and affinity amongst Ontario retailers and consumers, and additional inquiries for product distribution across all parts of Canada.

The Company officially launched its cannabis products into the retail market in February 2021 and completed its first fiscal year of cannabis retail operations on August 31, 2021, with approximately $14 million in revenues from its cannabis operations. During the first nine months of 2022, the Company generated approximately $21.5 million from its cannabis operations at a 33% gross margin before fair value adjustments, already exceeding its prior fiscal year revenues by $7.5 million or an increase of 54%. The Company acquired the Valleyfield Facility in June 2021 and received its license to begin cultivation in September 2021. Since the beginning of 2022, the Company has increased its staff, incurred start-up costs, and adjusted its production capacity at the Farnham Facility to support the Valleyfield start-up plan, effectively reducing gross margin until products produced from the Valleyfield Facility are sold. The effect of the Valleyfield production on the Company's revenues during the third quarter of 2022 is starting to show and includes only 4 harvests from the Valleyfield Facility from 5 active growing zones operational during the period. Revenues are expected to continue to increase as more growing zones become active and generate additional harvests per quarter. As of June 26, 2022, 6 out of 24 growing zones are now redesigned and operational, 2 months ahead of its initial milestone objective to activate 6 growing zones by end of August 2022.

On May 31, 2022, the Company entered into a new a credit facility agreement with BMO Commercial Banking ("BMO") for a total of $50 million plus a potential accordion facility for up to an additional $10 million of credit availability. The credit facility is comprised of a three-year term loan for $39.3 million, a $5 million line of credit and a $5.7 million for the issuance of a letter of credit.

As of May 31, 2022, Cannara's distribution network services 3 provinces (Quebec, Ontario, Saskatchewan) with an estimated 600 retailers reselling its products. The Company plans to expand its sales and distribution network to leverage the increasing capacity from the Valleyfield Facility during the upcoming months.

Additional information about Cannara may be found at www.cannara.ca.
Investor information may be found at www.investors.cannara.ca.

CANNARA FACILITIES

FACILITY	SIZE	CAPACITY	TYPE	ELECTRICITY	FACILITY HIGHLIGHTS
FARNHAM, QUEBEC	Licensed area (phase 1): 170 000 sf Site: 625,000 sf Land: 1,430,000 sf	8,000 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 cultivation systems
VALLEYFIELD, QUEBEC	Licensed area: 600,000 sf Roof top greenhouse: 200,000 sf Processing and cannabis 2.0 processing center: 235,000 sf Site: 1,030,000 sf Land: 3,130,000 sf	117,000 kg at full capacity *Cultivation activities started in November 2021, and will scale up alongside market penetration and profitability*	Indoor	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 • Former purpose-built cannabis greenhouse converted to replicate indoor conditions

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 premium-grade cannabis, hang-dried, slow cured and trimmed perfectly 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 flavour profiles, Tribal offers a continuous rotation of "AAAA" genetic strains at entry level pricing.	• Dried Flower • Pre-Rolls • Live Resin Full Spectrum Extract * • Live Resin Vape Cartridges*	Quebec Ontario Saskatchewan
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 are looking for a price break that aligns with consuming habits.	• Dried Flower • Pre-Rolls • Hash • Rosin	Quebec Ontario Saskatchewan
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 • Oils*	Quebec Ontario Saskatchewan

**New products to be released during 2022.*

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 unique genetics in the retail market include:

GENETIC	BRAND	LAUNCH DATE	THC – CBD	TYPE	AROMAS & FLAVOURS
GELATO MINT Pheno #5	Tribal	Feb 2021	THC 24% CBD 1%	Indica	Gelato Mint is best known for its overwhelming fresh flavours and aromas. As its name suggests, Gelato Mint smells like a fresh mint dessert with pepper and earthy pine undertones.
CUBAN LINX Pheno #1	Tribal	June 2021	THC 25% CBD 1%	Sativa	Cuban Linx packs a rich lemony aroma accentuated by hints of gassy diesel and a touch of spice.
TERPLE Pheno #8	Tribal	Mar 2022	THC 24% CBD 1%	Hybrid - Sativa	Terple's aroma and flavour is complex with elements of sweet oranges, sour citrus, and spicy diesel.
POWER SHERB Pheno #3	Tribal	May 2022	THC 24% CBD 1%	Indica	Power Sherb is silky smooth on the exhale and evokes a truly unique smell and taste of sweet gas and ice cream.
EARLY LEMON BERRY Pheno #92	Nugz	Mar 2021	THC 23% CBD 1%	Sativa	Early Lemon Berry features overwhelming citrus flavours thanks to its higher percentage of myrcene and ocimene terpenes. It smells like a mix of sweet grapefruit, lemons, and berries.
SLAPZ Pheno #25	Nugz	May 2022	THC 22% CBD 1%	Indica	Slapz delivers incredibly sweet sour-gassy aromas with a mix of light earthy flavours
CBD RUNTZ Pheno #7	Orchid CBD	June 2021	THC 8% CBD 15%	Hybrid - Sativa	CBD Runtz is an award-winning CBD strain that offers an abundance of terpenes, a fruity and sweet aroma that delivers a candy-like flavour. A rare combination for a 1:2 CBD flower.

MARKET INSIGHT

Each of Cannara's market launches has demonstrated positive consumer response to its brand strategy, pricing strategy, product offering, and genetic mix across retail outlets in Quebec, Ontario, and Saskatchewan. The Company's premium "AAAA" quality cannabis at disruptive pricing has resulted in demand levels that have exceeded current capacity at the Farnham Facility. 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 customer demand, market penetration and satisfaction.

Cannara's approach to the cannabis market has been driven by its pursuit for customer satisfaction and a commitment to delivering value to the market as a whole, from new entrants to experienced consumer segments. Over the course of the last year, the Company has exemplified thought leadership in bringing disruption and innovation to the Canadian cannabis market.

MARKET INSIGHT *(continued)*

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 products	Cannara continues to innovate with new product launches including its Nugz 4/20 Special 12 x 0.6 gram pre-roll pack, Old School and Ice Water Hash products and soon to launch Live Resin Full Spectrum Extract and Vape Cartridges.
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. Cannara has an extensive genetic bank allowing the Company to release exclusive products into the market.
Continuous improvement	Cannara has taken early feedback from the community and has brought countless changes to 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.

As a result, market response has opened new opportunities for the Company including the acquisition of Valleyfield Facility in the fourth quarter of 2021, one of Quebec's largest cannabis cultivation and manufacturing facilities. This asset will allow the Company to increase its supply of cannabis products in order to grow market share in existing markets while simultaneously expanding into new markets.

The Quebec market continues to show strong growth. For the fiscal year ended March 26, 2022, the provincial distributor of Quebec reported over $600 million in revenue, up from $537 million in fiscal 2021, $311.6 million in fiscal 2020 and $240 million in 2019. Their retail footprint has expanded from 28 stores in fiscal year 2020 to 89 current locations as of the date of this release and has significant room for growth as Quebec has approximately one store per 100,000 people, as compared to Ontario and British Colombia that have approximately one store per 10,000 people. The Société québécoise du cannabis ("SQDC") plans to increase their store count to 90 stores by the end of 2022. To date, the provincial distributor of Quebec has captured 58.5% 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.

The Ontario market is leading recreational cannabis sales nationally. For the fiscal year ended March 31, 2021, the Ontario Cannabis Store reported $840 million in total sales (average quarterly sales of $210 million). For the nine-month period ended December 31, 2021, the latest published fiscal results, the Ontario Cannabis Store posted $1.1 billion in total sales. This achievement is primarily driven by the rapid growth of brick-and-mortar stores which reached over 1,300 retail stores across the province as of December 2021. Increase product supply will enable the Company to penetrate further the Ontario market and gain market share. The Company currently has 8 active SKUs in the Ontario market and 7 new products launching by the end of fiscal 2022 for a total of 15 SKUs.

In addition to further establishing its position in the Quebec and Ontario cannabis markets, Cannara is well positioned for national growth given its production capabilities, brand strategy, 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. The Company is actively working on opening new distributions networks in anticipation of increase supply.

LOOKING AHEAD

Cannara is consistently monitoring growth opportunities that support its commitment to continue to report positive Adjusted EBITDA. The Company expects to allocate resources to existing and new activities over the course of the next fiscal year which include:

FY 2022 Activities

1. Increased Cannabis Supply
2. New Product Offering: Hash, Rosin, Live Resin Full Spectrum Extracts, and Live Resin Vape Cartridges
3. New Genetics Releases
4. Increasing market Penetration in Quebec, Ontario, Saskatchewan, and Expanding into New Territories
5. Continued positive Adjusted EBITDA

Increased Cannabis Supply

Cannara committed to (and has already achieved) the activation of 6 of its 25,000 square foot growing zones at its Valleyfield facility by August 2022 in order to increase supply of dried flower, pre-rolls and derivative products. As of the date of this release, 6 of the 24 independent zones were modified to replicate indoor growing conditions to deliver on its commitment of premium "AAAA" quality cannabis products. Additional cultivation zones are now being planned for redesign and activation.

New Product Offering: Hash, Rosin and Live Resin

Cannara originally launched a line of Hash products, Old School and Ice Water Hash under its Nugz brand in early November 2021 to the Quebec market. The launch of its hash products has been successful and add weekly product revenues, in addition, to fully commercializing all parts of the cannabis plant other than its stems and fan leaves.

Building on this success in the Quebec concentrates market, in May 2022, the Company launched its higher potency Fresh Frozen Hash Rosin under the Nugz brand in Ontario and will be launching its Live Resin Vape Cartridge under the Tribal brand in August to the Ontario market. Tribal Live Resin Full Spectrum Extracts will also be launched in Ontario by late Fall 2022.

New Genetics Releases

Canadian cannabis consumers continue to resonate towards new genetic cultivars of cannabis. Cannara delivered 3 new genetics to its brand portfolios during fiscal year 2022: Terple and Power Sherb under Tribal and Slapz under Nugz. This was accomplished by the Company maintaining a rigorous pheno-hunting program that involves hand selecting only a few winning plants out of hundreds of different varieties of cannabis strains. Strain selection is based on cultivar-brand fit, potency of cannabinoids and terpenes, bud structure, yield and anticipated market appeal. The first new genetic Terple was released into the Quebec market in April 2022, followed by Power Sherb in May 2022, both with immediate positive consumer feedback. These two genetics will be released in Ontario as of August 2022. Nugz also received a new addition to its Quebec portfolio in May 2022 - Slapz, an indica strain offered in a bulk 28g format to compliment the sativa Early Lemon Berry 28g that was launched in Quebec early 2021.

Increasing market Penetration in Quebec, Ontario, Saskatchewan, and Expanding into New Provinces

In the past, the largest constraint for the Company not increasing supply with existing markets and expanding into new markets was the limited cannabis supplied from the Farnham Facility. With the acquisition of the Valleyfield Facility, Cannara will now have access to increased cannabis supply. The Company is focused during fiscal year 2022 in increasing its market share in existing markets and entering a new market by August 2022. The Company is in active discussions with other provinces in order to open new distribution channels.

Continued Positive Adjusted EBITDA

Cannara expects to continue to report positive quarterly Adjusted EBITDA throughout FY 2022 resulting from the Company's focus on premium-grade cannabis products at disruptive retail pricing, its lean operational model and its two mega facilities benefiting from Quebec's low electricity cost and competitive labour rates. Additionally, the development of a hash lab and butane hash oil ("BHO") extraction lab delivers a whole plant capability making full use of all cannabis raw inputs. Furthermore, the Company's agility and commitment to profitability will drive the Company to pursuing the development of high demand SKUs that will generate healthy gross margins. During the third quarter of 2022, the Company generated a positive Adjusted EBITDA of $1.8 million, marking its fifth consecutive quarter of positive Adjusted EBITDA. For the nine-month period May 31, 2022, the Company delivered an Adjusted EBITDA of $2.8 million.

Q3 2022 YEAR-TO-DATE AND SUBSEQUENT EVENT HIGHLIGHTS

OPERATIONAL

September 2021 – License to sell cannabis derivate products and license to cultivate and process in the Valleyfield Facility
In September 2021, the Company obtained from Health Canada the license necessary to be able to sell cannabis derivative products to retail in addition to receiving its processing and cultivation license at its recently acquired Valleyfield Facility.

October 2021 – Expansion to Ontario market
During the month of October 2021, the Company started to deliver a selection of products to the Ontario market on a weekly basis and now has five SKUs listed at the Ontario Cannabis Store and more to come in and after fiscal year 2022.

November 2021 – First 25,000 square foot growing zone activated in Valleyfield and launch of hash products
In November 2021, the Company propagated its first zone with 9,600 plants which has been redesigned to replicate indoor growing conditions without utilizing the sun.

In addition, the Company launched at the beginning of November its first two hash products in Quebec retails stores: Old School Hash and Ice Water Hash, under the Nugz brand.

January 2022 – Second growing zone activated in Valleyfield
On January 12, 2022, the Company completed the propagation of its second zone with 9,600 plants.

February/March 2022 – Completion of two harvests at Valleyfield and third growing zone activated
The Company has successfully harvested its two first lots in the newly redesigned Valleyfield Facility during February and March 2022 respectively. Most of the product will be destined to fulfill current market demand in addition to being prepared for new derivative products that are in the pipeline.

April 2022 – OCS 420 event, Introduction of new genetics in Quebec and fourth growing zone activated
The Company was selected as one of the three products by the Ontario Cannabis Store ("OCS") to have a headlining product for the 420 event. 2022 marks 50 years since 4:20 was established as a time to meet and enjoy cannabis, and the OCS prepared a special event to mark it. To support this, the Company created a special edition of its Early Lemon Berry pre-rolls, offering a 12 x 0.6 g joint format.

In April, the Company introduced two new strains under the brand Tribal to the Quebec market: Terple and Power Sherb. The products are available in a 3.5-gram can and in 2.5-gram pre-rolls. Its distribution to the other provinces will be done in the next months.

The Company successfully redesigned and propagated its fourth growing zone in Valleyfield.

May 2022 – Introduction of New Genetic, introduction of Fresh Frozen Hash Rosin and fifth growing zone activated
In May 2022, Slapz was introduced under the brand Nugz to the Quebec market as a 28-gram offering and was accepted at the OCS in 3.5-gram form.

The Company launched its higher potency Fresh Frozen Hash Rosin under the Nugz brand in Ontario.

The Company redesigned and propagated it's fifth growing zone in Valleyfield.

July 2022 – Approval from British Columbia Cannabis Store ("BCBS") to become a licensed vendor
The Company obtained the approbation from the BCBS to become a licensed vendor in British Colombia. A total of 7 SKUs have been accepted and will be launched in the upcoming months.

Q3 2022 YEAR-TO-DATE AND SUBSEQUENT EVENT HIGHLIGHTS *(continued)*

OPERATIONAL *(continued)*

July 2022 – Ontario KIND event, launch of Nugz Old School Hash and Tribal pre-rolls in Ontario, start up of in-house BHO lab, sixth growing zone activated

To build upon the growing brand awareness and affinity within its second largest market, Ontario, the Company exhibited at the KIND Cannabis Week in July 2022, Canada's first ever legal sampling event. This event was attended by over 1,150 budtenders and over 4,000 attendees and provided the Company with an opportunity to present all three brands in the most unique activation at the event.

The Company launched its Nugz Old School Hash in 2-gram form containing between 40%-50% THC in Ontario, in addition to its first Tribal pre-roll pack, Gelato Mint 5 x 0.5g pre-rolls.

The Company has also successfully commenced extraction at its in-house BHO lab. The first product produced will be Tribal's G Mint Live Resin Vape Cartridge, which will be released in Ontario in August 2022.

As of July 2022, 6 of the 24 growing zones, measuring 25,000 square feet each have already been fully redesigned and operationalized; each zone can grow 9,600 plants that can be harvested four times per year.

FINANCIAL TRANSACTIONS

April 2022 – Settlement of SWAP agreement resulting in a $560,000 cash gain

In April 2022, Management decided to close an interest rate swap it had previously entered into as a result of a significant short term accrued gain from the swap netting the Company a net cash return of $560,000.

May/June 2022 – Closes $50 Million Credit Facility Led by BMO Commercial Banking

On May 31, 2022, the Company entered into a new a credit facility agreement with BMO Commercial Banking ("BMO") for a total of $50 million plus a potential accordion facility for up to an additional $10 million of credit availability. The credit facility is comprised of a three-year term loan for $39.3 million, a $5 million line of credit and $5.7 million for the issuance of a letter of credit. Favorable terms attached to the credit facility include a declining interest rate over time as the Company hits certain covenant thresholds and the ability to repay the facility without penalty at any time. Under the terms of this new credit facility, the Company will not make any principal payments for the first six months.

In June, the Company received $39.3 million from its term loan, which was used, in part, to repay the existing $21.8 million loan with CIBC, and $5.7 million to provide a letter of credit to cover certain deposit requirements with a provincial supplier that was previously covered by a related party. The remaining proceeds of $17.5 million were added to cash and will be used for capital expenditures at its two Facilities to support the growth of the Company as well as to provide the Company with a cash reserve. The term loan bears a variable interest rate based on prime and/or banker acceptance rates. The term loan is reimbursable quarterly based on an amortization schedule of 80 quarters, beginning November 2022. The credit facility is secured by a first ranking mortgage against the Farnham and Valleyfield Facility and is guaranteed with limited recourse, in part, by a related party.

CAPITAL TRANSACTIONS

During the second quarter of 2022, the Company granted a total of 7,710,000 stock options to employees and 225,000 to board members at an exercise price of $0.18, subject to certain vesting conditions in accordance with the employee share option plan.

During the third quarter of 2022, the Company granted a total of 600,000 stock options to employees and 613,333 stock options to consultants at an exercise price of $0.18, subject to certain vesting conditions in accordance with the employee share option plan.

Subsequent to quarter-end, the Company granted a total of 1,200,000 stock options to employees at an exercise price of $0.18, subject to certain vesting conditions in accordance with the employee share option plan.

SELECTED FINANCIAL INFORMATION

Selected Financial Highlights	Three-month periods ended May 31, 2022	Three-month periods ended May 31, 2021	Nine-month periods ended May 31, 2022	Nine-month periods ended May 31, 2021
Gross revenue[1]	$ 9,988,905	$ 6,716,598	$ 23,588,299	$ 10,020,039
Other income	74,811	442,733	462,347	765,227
	10,063,716	7,159,331	24,050,646	10,785,266
Gross profit, before fair value adjustments	3,735,420	3,506,278	9,385,052	5,300,685
%[2]	37%	49%	39%	49%
Gross profit	4,748,643	4,419,124	10,384,262	6,016,973
%[3]	47%	62%	43%	56%
Operating expenses	3,214,557	2,159,809	9,206,248	7,326,384
Net finance expense	105,789	561,513	1,426,039	1,350,575
Net income (loss)	$ 1,428,297	$ 1,697,802	(248,025)	(2,659,986)
%[4]	14%	24%	-1%	-25%
Adjusted EBITDA[5]	$ 1,819,450	$ 1,682,284	2,827,769	139,206
%[5]	18%	23%	12%	1%
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, 2022	August 31, 2021
Cash	$ 3,877,756	$ 8,159,305
Accounts receivable	5,371,033	2,847,725
Biological assets	2,930,808	1,902,206
Inventory	10,459,449	5,508,258
Working capital[6]	13,002,933	12,412,935
Total assets	106,829,105	92,022,613
Total current liabilities	11,489,526	6,833,798
Total non-current liabilities	31,162,576	21,073,003
Net assets	64,177,003	64,115,812

[1] Gross revenue included revenue from sale of goods, net of excise taxes, services revenues and lease revenues.
[2] Gross profit before fair value adjustments % is determined as Gross profit before fair value adjustments divided by Total revenues.
[3] Gross profit % is determined as Gross profit divided by Total revenues.
[4] Net loss % is determined as Net loss divided by Total revenues.
[5] Adjusted EBITDA and working capital are non-GAAP financial performance measures with no standard definition under IFRS.
A reconciliation of these measures is presented elsewhere in this MD&A.
Adjusted EBITDA % a non-GAAP financial ratio and is determined as Adjusted EBITDA divided by total revenues.
[6] Working capital is determined as total current assets minus total current liabilities.

SELECTED FINANCIAL INFORMATION *(continued)*

Adjusted EBITDA	Three-month periods ended May 31, 2022	Three-month periods ended May 31, 2021	Nine-month periods ended May 31, 2022	Nine-month periods ended May 31, 2021
Net income (loss)	$ 1,428,297	$ 1,697,802	$ (248,025)	$ (2,659,986)
Adjustments:				
Changes in fair value of inventory sold	2,267,056	1,526,050	5,403,215	2,177,245
Unrealized gain on changes in fair value of biological assets	(3,280,279)	(2,438,896)	(6,402,425)	(2,893,533)
Amortization, including amortization in cost of good sold	1,142,886	236,709	2,364,472	1,855,550
Loss on disposal of property, plant and equipment	8,480	-	39,586	54,224
Gain on sublease	-	-	(12,876)	-
Share-based compensation, including share-based compensation in cost of good sold	147,221	99,106	257,783	255,131
Net finance expense	105,789	561,513	1,426,039	1,350,575
Adjusted EBITDA[1]	$ 1,819,450	$ 1,682,284	$ 2,827,769	$ 139,206

[1] Adjusted EBITDA is a non-GAAP financial performance measure with no standard definition under IFRS.

For the third quarter of 2022, total revenues and gross profit before fair value adjustments amounted to $10.1 million and $3.7 million, generating a gross margin of 37%, compared to $7.1 million and $3.5 million, a gross margin of 49%, in the same period of prior year. Increase in revenues of $3 million are attributable to increased cannabis retail sales and service revenue generated from its Valleyfield Facility. Adjusted EBITDA amounted to $1.8 million, compared to $1.7 million in the same period of the prior year, an increase of $0.1 million or 6%. The third quarter of 2021 marked the Company first full quarter of retail sales following issuance of its sales license and was able to sell a significant accumulated volume of R&D inventory harvested prior to sales license issuance through its wholesale distribution channel, for which had no inventory cost, resulting in higher gross margins in the same period of prior year. In addition, in prior year, the Company had a higher proportion of revenues generated from its real estate operations which earns a higher gross margin. Net income amounted to $1.4 million, compared to $1.7 million in the same period of the prior year, a decrease of $0.3 million or 18%, as a result of increased general and administrative expenses related to the overhead costs of the Valleyfield Facility for areas which are currently not used for production as the Company focuses on slowly scaling up to ensure consistency and quality in its final product.

For the nine-month period of 2022, total revenues and gross profit before fair value adjustments amounted to $24.1 million and $9.4 million, generating a gross margin of 39%, compared to $10.8 million and $5.3 million, a gross margin of 49%, in the same period of prior year, increasing revenues by $13.3 million or 123%. Adjusted EBITDA amounted to $2.8 million, compared to $0.1 million in the same period of the prior year, an increase of $2.7 million or 2700%. Net loss amounted to $0.3 million, compared to $2.7 million in the same period of the prior year, a decrease of $2.4 million or 89%.

SELECTED SEGMENT RESULTS OF OPERATIONS

The Company operates in two segments: (1) Cannabis operations which encompasses the cultivation, processing and sale of dried cannabis and cannabis derivatives for the Canadian market and other cannabis services ("Cannabis operations") and (2) Real estate operations related to the Farnham and Valleyfield 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, impairment, 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 period ended May 31, 2022				Three-month period ended May 31, 2021
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Gross revenue[1]	$ 9,161,718	$ 827,187	$ -	$ 9,988,905	$ 5,883,363	$ 809,913	$ 23,322	$ 6,716,598
Other income	74,811	-	-	74,811	442,733	-	-	442,733
	9,236,529	827,187	-	10,063,716	6,326,096	809,913	23,322	7,159,331
Gross profit (loss), before fair value adjustments	3,059,465	747,072	(71,117)	3,735,420	2,782,087	719,599	4,592	3,506,278
%[2]	33%	90%	-100%	37%	44%	89%	20%	49%
Gross profit (loss)	4,072,688	747,072	(71,117)	4,748,643	3,694,933	719,599	4,592	4,419,124
%[3]	44%	90%	-100%	47%	58%	89%	20%	62%
Operating expenses	2,692,873	-	15,315	2,708,188	1,795,849	-	38,455	1,834,304
Segment operating income (loss)	1,379,815	747,072	(86,432)	2,040,455	1,899,084	719,599	(33,863)	2,584,820
%[4]	15%	90%	-100%	20%	30%	89%	-145%	36%
Net finance expense	-	-	105,789	105,789	-	-	561,513	561,513
Other	-	-	506,369	506,369	-	-	325,505	325,505

Selected Segment Financial Highlights				Nine-month period ended May 31, 2022				Nine-month period ended May 31, 2021
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Gross revenue[1]	$ 21,017,323	$ 2,553,378	$ 17,598	$ 23,588,299	$ 7,743,288	$ 2,119,302	$ 157,449	$ 10,020,039
Other income	462,347	-	-	462,347	765,227	-	-	765,227
	21,479,670	2,553,378	17,598	24,050,646	8,508,515	2,119,302	157,449	10,785,266
Gross profit, before fair value adjustments	7,126,781	2,326,971	(68,700)	9,385,052	3,538,122	1,736,496	26,067	5,300,685
%[2]	33%	91%	-390%	39%	42%	82%	17%	49%
Gross profit	8,125,991	2,326,971	(68,700)	10,384,262	4,254,410	1,736,496	26,067	6,016,973
%[3]	38%	91%	-390%	43%	50%	82%	17%	56%
Operating expenses	7,959,985	-	67,656	8,027,641	5,882,549	-	384,443	6,266,992
Segment operating income (loss)	166,006	2,326,971	(136,356)	2,356,621	(1,628,139)	1,736,496	(358,376)	(250,019)
%[4]	1%	91%	-775%	10%	-19%	82%	-228%	-2%
Net finance expense	-	-	1,426,039	1,426,039	-	-	1,350,575	1,350,575
Other	-	-	1,178,607	1,178,607	-	-	1,059,392	1,059,392

[1] Gross revenue included revenue from sale of goods, net of excise taxes, services revenues and lease revenues.
[2] Gross profit (loss), before fair value adjustments, % is determined as Gross profit (loss), before fair value adjustments, divided by Total revenues.
[3] Gross profit (loss) % is determined as Gross profit (loss) divided by Total revenues.
[4] Segment operating income (loss) % is determined as Segment operaring income (loss) divided by Total revenues.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Cannabis operations

For the three and nine-month periods ended May 31, 2022, the segment generated $8.2 million and $18.8 million in cannabis-related revenues, net of excise taxes, compared to $5.9 million and $7.7 million for the same periods of the prior year, an increase of $2.3 million and $11.1 million respectively.

Revenues, net of excise taxes, from the retail market represented $7.7 million and $18 million for the three and nine-month periods ended May 31, 2022, compared to $3.4 million and $3.4 million for the same periods of the prior year. Revenues from the wholesale market represented $0.4 million and $0.8 million for the three and nine-month periods ended May 31, 2022 compared to $2.5 million and $4.3 million for the same periods of the prior year. The decrease is primarily attributable to the fact that the Company focused most of its sales towards the retail market starting February 2021 as it has received all the necessary sale licenses. In the prior year, the Company utilized its wholesale distribution network as leverage to generate revenues on accumulated inventory while the Company was waiting to obtain the sale license.

Highlights of the third quarter and nine-month period of 2022 are as follows:

- Successful start-up of its Valleyfield Facility operation: 5 of 24 growing zones of 25,000 square feet were propagated since November 2021 and four successful harvests were done by the end of the third quarter;
- Introduction of 3 new genetics in the Quebec market during the second and third quarter of 2022;
- Launch of 2 Nugz hash products in the Quebec market during the first quarter of 2022;
- Launch of 1 other Nugz hash products in the Ontario market during the third quarter of 2022;
- Introduction of Tribal's pre-roll SKUs during the third quarter of 2022;
- Expansion to weekly reorders on several SKUs in the Ontario market;
- Approximately 2,040 kg of cannabis or 564,000 units sold across 3 flagship brands during the third quarter of 2022, an increase of 60% in kg sold compared to the second quarter of 2022, resulting from the increase in production from the Valleyfield Facility; and
- Approximately 4,800 kg of cannabis or 1,286,000 units sold across 3 flagship brands during the nine-month period of 2022, an increase of over 1 million of units sold compared to the same period of the prior year.

For the three and nine-month periods ended May 31, 2022, the Company generated $1 million and $2.2 million as service revenues for cannabis manufacturing services rendered to another licensed producer, compared to nil in the prior period.

For the three and nine-month periods ended May 31, 2022, the Company generated $0.1 million and $0.5 million as other income related to government incentives, various tax credits granted, and other ancillary revenue compared to $0.4 million $0.8 million for same periods of the prior year.

For the three and nine-month periods ended May 31, 2022, the Company incurred $5.4 million and $12.6 million in costs of goods sold, compared to $3.5 million and $5 million for the same periods of the prior year as a result of increased revenues. For the three and nine-month periods ended May 31, 2022, the Company incurred $0.8 million and $1.7 million in management services cost related to a manufacturing services agreement signed in the second quarter of 2022, compared to nil in the prior period. The segment generated a gross profit before fair value adjustments of $3.1 million or 33% and $7.1 million or 33% for the three and nine-month periods compared to $2.8 million or 44% and $3.5 million or 42% 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, 2022 amounted to $2.3 million and $5.4 million compared to $1.5 million and $2.2 million for the same periods of the prior year.

For the three and nine-month periods ended May 31, 2022, the Company has recognized an unrealized gain on changes in fair value of biological assets of $3.3 million and $6.4 million on the lots in the cultivation cycle that have not yet been harvested compared to $2.4 million and $2.9 million for the same periods of the prior year. The increase in fair value of biological assets is the direct result of Valleyfield Facility increased plant count currently in cultivation.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Cannabis operations (continued)

The segment generated $4.1 million and $8.1 million in gross profit for the three and nine-month periods ended May 31, 2022, compared to $3.7 million and $4.3 million in the same periods of the prior year, representing a favorable increase of $0.4 million or 11% and $3.8 million or 88%. The increase results primarily from gross profit generated from its retail and wholesale cannabis sales and unrealized gains in the fair value of biological assets as previously explained above.

For the three and nine-month periods ended May 31, 2022, the segment incurred $2.7 million and $8 million in operating expenses compared to $1.8 million and $5.9 million in the same periods of the prior year resulting in an increase of $0.9 million or 50% and $2.1 million or 36%**,** respectively.

For the third quarter and nine-month period of 2022, the increase in operating expenses is mainly attributable to:

- An increase of $1 million and $2.7 million in general and administrative expenses during the third quarter and nine-month period of 2022, which is mainly attributable to the increase in salaries expenses to support both Facilities as well as the start-up cost of $0.7 million incurred during the second quarter of 2022 and other overhead expenses incurred mainly for the Valleyfield Facility during the nine-month periods of 2022;
- An increase of $70,000 and $0.3 million in selling, marketing, and promotion during the third quarter and nine-month period of 2022, which is aligned with the increase in revenues generated; offset by
- A decrease of $74,000 and $0.7 million in research and development during the third quarter and nine-month period of 2022 due to the reduction of testing performed on different genetics. In the prior year, the Company performed additional research and development activities in anticipation of the launch of the first brands to the retail market, for which it had assigned a zero cost. In 2022, it is a continuous investment in research and development with less waste and with the ability to monetize experiments as cannabis derivative products; and
- A decrease of $56,000 and $0.3 million in professional fees legal fees during the third quarter and nine-month period of 2022 due to non-recurring fees incurred in the prior year and reduction of certain professional fees.

Overall, the segment generated operating income of $1.4 million and $0.2 million for the third quarter and nine-month period of 2022, compared to $1.9 million and ($1.6 million) in the same periods of the prior year, representing a favorable increase in operating income of $1.8 million over the nine-month period.

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, 2022, the Company generated lease revenues of $0.8 million and $2.6 million compared to $0.8 million $2.1 million in the same periods of the prior year. This represents a favorable increase of $0.5 million or 24% over the nine-month period due to the additional space lease out and a higher rate per square foot charged compared to same period of the prior year. To realize these lease revenues during the three and nine-month periods ended May 31, 2022, the Company incurred $80,000 and $226,000 in lease operating costs compared to $90,000 and $383,000 in the same periods of the prior year. The lease operating expenses incurred in the third quarter of 2022 are similar to the same period of the prior year but where higher in the prior nine-month period due to costs incurred to accommodate a new tenant.

For the three and nine-month periods ended May 31, 2022, the segment generated operating income of $0.8 million and $2.3 million compared to $0.7 million and $1.7 million for the same periods of the prior year.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Other

During the third quarter of 2022, the Company has decided to cease its U.S. online activities for the sale of CBD products since there has been no evolution in the regulation and operational uncertainties within the hemp-derived CBD industry in the U.S. Management has decided to concentrate its effort on its main business which is the sales of cannabis and derivates products in Canada. As a result, an impairment on the remaining inventory on hand was recorded for an amount of $71,000. For the nine-month period ended May 31, 2022, the Company generated hemp-based CBD product revenues of $18,000 compared to $134,000 in the same period of the prior year and incurred $86,000 in costs of goods sold compared to $113,000 in the same period of the prior year, resulting in a loss of $69,000. In the third quarter and nine-month period of 2022, the U.S. online activities for the sale of CBD products incurred $15,000 and $68,000 in operating expenses compared to $38,000 and $384,000 in the same periods of the prior year resulting in a decrease in operating expenses of $48,000 and $316,000. For the third quarter and nine-month period of 2022, these activities generated an operating loss of $86,000 and $136,000 compared to $34,000 and $358,000 for the same periods of the prior year.

For the third quarter of 2022, the segment incurred $0.1 million in net finance and $0.5 million in other expenses, compared to $0.6 million and $0.3 million for the same period of the prior year. The decrease in net finance expense is explained by the fair value adjustment of $0.7 million on the swap agreement, offset by an increase in accretion and amortization of deferred financing costs on the convertible debentures. The increase in other expenses is attributable to the increase in depreciation expense related to the Valleyfield Facility.

For the nine-month period of 2022, the segment incurred $1.4 million in net finance and $1.2 million in other expenses, compared to $1.4 million and $1.1 million for the same period of the prior year. Despite the Company carrying more debt in 2022, through a $0.6 million gain on closing a interest rate swap and renegotiations of various debt instruments resulting in lower interest rates, the net finance were similar in the current period in comparison to prior period.

QUARTERLY FINANCIAL POSITION AND RESULTS

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

	May 31, 2022	February 28, 2022	November 30, 2021	August 31, 2021	May 31, 2021	February 28, 2021	November 30, 2020	August 31, 2020
Current assets	$ 24,492,459	$ 22,655,663	$ 26,801,623	$ 19,246,733	$ 13,863,004	$ 10,524,748	$ 7,229,559	$ 10,529,856
Non-current assets	82,336,646	79,035,367	75,338,952	72,775,880	44,062,718	43,679,577	44,335,430	44,320,572
Total assets	106,829,105	101,691,030	102,140,575	92,022,613	57,925,722	54,204,325	51,564,989	54,850,428
Current liabilities	11,489,526	7,910,429	8,100,090	6,833,798	4,697,602	3,101,290	2,761,325	3,476,952
Non-current liabilities	31,162,576	31,237,792	30,518,676	21,073,003	16,732,890	16,868,088	13,774,253	13,008,615
Total liabilities	42,652,102	39,148,221	38,618,766	27,906,801	21,430,492	19,969,378	16,535,578	16,485,567
Net assets	$ 64,177,003	$ 62,542,809	$ 63,521,809	$ 64,115,812	$ 36,495,230	$ 34,234,947	$ 35,029,411	$ 38,364,861

	May 31, 2022	February 28, 2022	November 30, 2021	August 31, 2021	May 31, 2021	February 28, 2021	November 30, 2020	August 31, 2020
Total revenues	$ 10,063,716	$ 7,422,354	$ 6,564,576	$ 6,481,739	$ 7,159,331	$ 2,257,754	$ 1,368,181	$ 613,355
Gross profit before fair value adjustments	3,735,420	2,635,607	3,014,025	3,440,799	3,506,278	1,298,261	496,145	49,368
%[2]	37%	36%	46%	53%	49%	58%	36%	8%
Gross profit (loss)	4,748,643	3,015,577	2,620,042	4,526,126	4,419,124	2,095,208	(497,360)	(433,060)
Net income (loss) attributable to Shareholders of the Company	1,428,297	(1,145,823)	(530,499)	1,131,843	1,697,802	(862,756)	(3,495,032)	(3,859,502)
Basic and diluted income (loss) per share	$ 0.01	$ (0.01)	$ (0.01)	$ 0.01	$ 0.01	$ (0.01)	$ (0.01)	$ (0.01)
Adjusted EBITDA[1]	1,819,450	33,998	974,320	1,364,415	2,562,835	(716,750)	(1,706,881)	(1,426,734)
Cash from (used) in operating activities	(1,709,746)	(1,325,035)	113,460	1,394,724	1,508,662	(1,504,916)	(3,491,377)	(2,463,405)

[1] Adjusted EBITDA is a non-GAAP financial performance measure with no standard definition under IFRS. A reconciliation of this amount for the applicable period is presented in the table below.
[2] Gross profit before fair value adjustments % is determined as Gross profit before fair value adjustments divided by Total revenues.

QUARTERLY FINANCIAL POSITION AND RESULTS *(continued)*

Adjusted EBITDA	Three-month periods ended May 31, 2022	February 28, 2022	November 30, 2021	August 31, 2021	May 31, 2021	February 28, 2021	November 30, 2020	August 31, 2020
Net income (loss)	$ 1,428,297	$ (1,145,823)	$ (530,499)	$ 1,131,843	$ 1,697,802	$ (862,756)	$ (3,495,033)	$ (3,909,180)
Adjustments:								
Changes in fair value of inventory sold	2,267,056	1,269,679	1,866,480	2,036,305	1,526,050	447,885	203,310	-
Unrealized (gain) loss on changes in fair value of biological assets	(3,280,279)	(1,649,649)	(1,472,497)	(3,121,632)	(2,438,896)	(1,244,832)	790,195	482,428
Amortization, including amortization in cost of good sold	1,142,886	629,027	592,559	807,266	1,117,260	385,393	352,897	1,053,956
Impairment	-	-	-	-	-	-	-	35,194
Loss on disposal of property, plant and equipment	8,480	6,444	24,662	12,136	-	54,224	-	13,791
Gain on sublease	-	-	(12,876)	(24,442)	-	-	-	-
Share-based compensation, including share-based compensation in cost of good sold	147,221	151,324	(40,763)	88,088	99,106	51,385	104,639	473,179
Net finance expense	105,789	772,996	547,254	434,851	561,513	451,951	337,111	423,898
Adjusted EBITDA	$ 1,819,450	$ 33,998	$ 974,320	$ 1,364,415	$ 2,562,835	$ (716,750)	$ (1,706,881)	$ (1,426,734)

CASH FLOW ANALYSIS

	Three-month periods ended May 31, 2022	May 31, 2021	Nine-month periods ended May 31, 2022	May 31, 2021
Cash from (used) in operating activities	$ (1,709,746)	$ 1,508,662	$ (2,921,321)	$ (3,487,631)
Cash from (used) in financing activities	138,039	(192,800)	9,230,982	2,919,822
Cash used in investing activities	(2,817,219)	(585,770)	(10,586,005)	(1,797,853)

Operating activities

For the three and nine-month periods of 2022, cash from (used in) operating activities was $(1.7 million) and $(2.9 million). With the operations at Valleyfield ramping up, the Company is producing more cannabis and investing cash in its biological assets and inventory on hand for products available for sale in subsequent quarter.

Financing activities

For the third quarter of 2022, cash flow used in financing activities was $0.1 million which was mainly attributable to the payment of interest on the mortgage for $166,000, $230,000 in other interest-related payments and $79,000 in lease-related payments, offset by the settlement of the swap agreement for $560,000 and the cash received from the exercise of stock options for total of $50,000.

For the nine-month period of 2022, cash from financing activities was $9.2 million which was mainly attributable to the proceeds received from the upsized mortgage loan agreement to $22 million from its initial $12 million loan, net of transaction costs of $98,000. In addition, the Company made $788,000 in interest-related payments, $220,000 in other lease-related payments and $50,000 in transaction costs-related payment for prior year financings. The Company also receive $560,000 from the settlement of the swap agreement and $50,000 for the exercise of stock options.

Investing activities

For the three and nine-month periods of 2022, cash used in investing activities was $2.8 million and $10.6 million which was mainly attributable to the redesign of Valleyfield's 6 of 24 growing zones, construction of part of the warehouse building at Valleyfield Facility for office and warehouse space in addition to capital expenditures incurred resulting from the expected increased post-harvest requirements. Interest received relating to interest earned on cash balances held at a Canadian financial institution amounted to $17,000 and $40,000 for the three and nine-month periods of 2022. 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 operations were financed primarily through cash generated from the sales of cannabis products, funds raised in equity financings secured in previous quarters, debt raised against immoveable assets subsequent to quarter-end, government grants and recurrent lease revenues which continue to support the Company's cash flow. 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 $13 million as at May 31, 2022 (August 31, 2021 - $12.4 million). The Company has been able to maintain its working capital compared to prior year due to the liquidities generated through the sale of its cannabis products and the financing closed during the prior quarter.

As at May 31, 2022, the Company's working capital was composed of:

- cash on hand of $3.9 million (August 31, 2021 - $8.2 million); and
- accounts receivable, lease receivable, biological assets, inventory and prepaid expenses and other assets of $20.6 million (August 31, 2021 - $11.1 million); less
- accounts payable and accrued liabilities, sales tax payable, deferred revenue, deferred lease revenue and deferred grant income of $10.6 million (August 31, 2021 - $6.3 million); and
- current portion of long-term debt, lease liabilities and mortgage payable of $0.9 million (August 31, 2021 - $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.

The Company expects that its existing cash resources of $3.9 million as at May 31, 2022, along with the $50 million debt refinancing completed subsequent to quarter end and its forecasted cashflows, will be able to fund its planned operating expenses for at least the next twelve months from May 31, 2022.

Financing

Type of loan	Interest Rate	Maturity		Balance as at May 31, 2022		Balance as at August 31, 2021
Secured mortgage loan (1)	5.02%	November 30, 2024 (2)	$	21,690,728	$	-
Secured mortgage loan (2)	13%	-		-		6,550,000
Secured mortgage loan (2)	3.91%	-		-		5,750,000
Convertible debenture A	4%	June 21, 2024		4,965,794		-
Convertible debenture B	4%	July 12, 2024		4,327,564		-

(1) The base term of the loan is 3 years ending November 30, 2024, renewable for additional 3-year terms at the option of the lender. 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 at each year-end, relating to its Real estate segment. The interest rate of the mortgage is a variable rate and in order to mitigate the fluctuation of interests, the Company entered into a 5-year interest swap agreement to lock the interest rate to 4.8% in the first year and to 6% afterwards, which was settle during the third quarter of 2022 for a cash gain of $560,000. Subsequent to quarter-end, this mortgage was reimbursed as part of the new $50 million credit facility received by BMO.

(2) As part of the upsized secured mortgage loan closed in November 2021, the Company used the proceeds to reimburse the two other secured mortgage loans totaling $12 million at the date of the reimbursement.

LIQUIDITY AND CAPITAL RESOURCES *(continued)*

Other contractual obligations

		Carrying amount		Less than one year		One to five years		Thereafter		Total contractual amount
Accounts payable and accrued liabilities	$	10,154,072	$	10,154,072	$	-	$	-	$	10,154,072
Long-term debt [(2)]		3,757		3,841		-		-		3,841
Lease liabilities [(2)]		300,509		306,123		26,714		-		332,837
Mortgage payable [(1)]		21,690,728		657,077		21,122,522		-		21,779,599
Convertible debentures [(2)]		9,293,358		-		10,700,000		-		10,700,000

(1) The contractual obligations relating to the secured mortgage loan has been presented based on the contractual repayment term of 3 years since the renewal options are at the option of the lender.

(2) The Company is committed to future minimum annual lease, convertible debentures payments 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, other than a letter of credit of $5.7 million that was issued to cover certain deposit requirements with a provincial supplier, which was replaced by a letter of credit issued by the Company's bank subsequent to quarter-end.

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.

Financing with a related party

For the three and nine-month periods of 2022, the Company recognized $0.3 and $0.8 million as interest expense and other related expenses on the mortgage, the convertible debentures and other financing expenses compared to $0.4 and $0.9 million in the same periods of the prior year. As at May 31, 2022, accrued interest on the convertible debentures of $0.7 were included in accounts payable and accrued liabilities (as at August 31, 2021 - $72,000) and total convertible debentures amounted to $10.7 million (as at August 31, 2021 – mortgage payable amounted to $6.55 million and convertible debentures amounted to $10.7 million). The mortgage payable of $6.55 million along with accrued interest of $74,000 were reimbursed in November 2021 as part of the revised loan agreement with the Company's existing creditor.

Along with the Valleyfield Facility acquisition in June 2021, another related party funded certain deposit requirements by a provincial service provider of approximately $5.7 million by the issuance of a letter of credit. Subsequent to quarter-end, with the debt refinancing, the Company's bank now placed the letter of credit.

Other

For the third quarter of 2022, the Company incurred $900 in expense with a related party. For the nine-month period of 2022, no expense was incurred with a related party (2021 – incurred expenses of $2,000 and $35,000). The Company also incurred construction expenses of $40,000 in the second quarter of 2022 that were capitalized in property, plant and equipment. 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.

Key management personnel compensation

For the third quarter and nine-month period of 2022, salaries and benefits incurred for key management personnel amounted to $107,500 and $322,500 (2021 - $86,000 and $220,000); share-based compensation attributable to key management and directors was $49,000 and $145,000 (2021 - $42,000 and $90,000) and director fees were $17,500 and $52,500 (2021 - $17,500 and $46,000). As at May 31, 2022, the Company owed $31,000 (August 31, 2021 - $28,000) to key management personnel for accrued salaries and vacation expenses and $15,000 to directors (August 31, 2021 – $15,000).

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 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, 2022, none of the receivables were past due. The allowance for expected credit loss was nil as at May 31, 2022. 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, 2022, the Company had current assets of $24.5 million and current liabilities of $11.5 million, for a working capital balance of $13 million. The Company expects that its existing cash resources of $3.9 million as at May 31, 2022, along with the $50 million debt refinancing completed subsequent to quarter end and its forecasted cashflows, will be to fund its planned operating expenses for at least the next twelve months from May 31, 2022.

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 uses derivative financial instruments to manage risks related to interest rate exposures. The Company does not utilize derivative financial instrument for speculative or trading purpose. In January 2022, the Company entered into an off-balance sheet interest rate swap with a notional amount of $22,000,000 to pay fixed rate of 4.8% for the first year and 6% for the four subsequent years and receive an amount based on the variable interest rate as defined in the swap contract. The interest rate swap and matured on April 21, 2025. The notional amount is reduced monthly based on the balance of the mortgage debt. During the third quarter of 2022, a gain of $690,000 related to the change in fair value of the derivative financial instrument was recognized within net finance expenses and management decided to settle the swap which resulted in a cash gain of $560,000.

Concentration risk

The Company has a significant concentration of its revenues generated from two 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, 2021.

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, 2021 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, 2022 and 2021.

SUMMARY OF OUTSTANDING SHARE DATA

Summary of Outstanding Share Data as of July 26, 2022:

Authorized:	Unlimited number of voting and participating common shares without par value.
Issued and outstanding:	876,981,321 common shares
	41,110,790 stock options
	59,444,444 contingently issuable common shares upon conversion of convertible debentures

cannara

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

MADE WITH LOVE