

Cannara Biotech Inc. Reports Q2 2020 Financial Results

Company well-financed with ample resources to reach commercial milestones in H2 2020

VANCOUVER, April 16, 2020 /CNW/ - Cannara Biotech Inc. ("Cannara" or the "Company") (CSE: LOVE) (OTCQB: LOVFF) (FRA: 8CB), an emerging vertically integrated cannabis company focused on indoor cultivation, processing and sale of premium dried cannabis and cannabis-derivative products, today announced financial results for the three and six-month periods ended February 29, 2020. Unless otherwise noted, all dollar amounts are expressed in Canadian dollars.



OPERATIONAL HIGHLIGHTS

- On January 31, 2020, the Company, via its subsidiary, Cannara Biotech (Quebec) Inc. ("Cannara QC"), received its licence from Health Canada for Phase 1 of the Farnham Facility, and as a result, the cultivation operations were officially launched on February 3, 2020.
- The Company expects its first harvest on April 20 and under the current schedule is targeting two harvests per week thereafter. The multipurpose 170,000 sq. ft. of licenced area, which includes state-of-the-art processing capabilities, has an annual cultivation capacity estimated at up to 20,000 kg per year.

"From a cultivation perspective, the first 10 weeks could not have gone any better than they have, with the plants responding very positively to the environmental conditions at Farnham. We are currently cultivating 16 carefully selected premium genetics with a bank of over 200 additional strains," said Barry Laxer, COO of Cannara Biotech (Quebec) Inc.

With respect to the ongoing Covid-19 concerns, the Farnham facility is essentially unaffected. Having been designed and operated as a pharma-grade operation, full gowning protocols and comprehensive sanitation practices and equipment are all in place precisely to prevent viral contaminations and other foreign contagions from entering the facility. All employees have been instructed on and encouraged to practice best social distancing behaviours. Otherwise, the facility is operating under normal protocol, albeit under a heightened sense of observation and cautiousness. Over fifty employees are currently employed at the Farnham facility and hiring continues as operations ramp up.

"Fiscally, Cannara is well fortified with more than \$14 million of cash on hand as of the end of February, providing sufficient funds for the Company to execute its business plan and reach commercial milestones in the second half of 2020 and beyond," commented Lennie Ryer, Cannara's CFO.

RESULTS OF OPERATIONS

The Company operates in two segments: 1) Indoor cannabis operations which encompasses the cultivation, processing and sale of premium dried cannabis and cannabis-infused products exclusively for the Canadian market (Canadian operations) and 2) E-commerce retailer of curated selection of top tier U.S. hemp-based CBD products exclusively for the U.S. market. (U.S.

operations).

Canadian Operations

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

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

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

The increase in operating expenses is mainly attributable to:

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

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

U.S. Operations

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

of \$63,602.

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

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

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

Other

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

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

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

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

Overall results

For the three-month period ended February 29, 2020, the Company reported a total consolidated comprehensive loss of \$3.7 million or a loss per share of \$0.01 compared to \$4.0 million or a loss per share of \$0.01 in the same period of prior year.

For the six-month period ended February 29, 2020, the Company reported a total consolidated comprehensive loss of \$6.7 million or a loss per share of \$0.01 compared to \$6.3 million or a loss per share of \$0.01 in the same period of prior year.

LIQUIDITY AND CAPITAL RESOURCES

The Company reported a net working capital amount of \$7,433,349 as at February 29, 2020 (August 31, 2019 - \$22,737,628). The decrease in net working capital is mainly attributable to the classification of the new mortgage which has been classified as current on the condensed interim consolidated statement of financial position as the agreement includes a condition that the mortgage is repayable on demand. As at February 29, 2020, the Company's cash on hand was \$14,559,795 (August 31, 2019 - \$26,505,992). Of the balance of cash on hand, \$9,048,838 (August 31, 2019 - \$18,905,198) is held by Cannara, Cannara OPS and Cannara QC for use towards the Company's Canadian and other operations and \$5,510,957 (August 31, 2019 - \$7,600,794) is held by Global shopCBD.com and ShopCBD.com to fund its U.S. operations.

The Company believes it has expended most of the required capital required to operationalize Phase 1 of the Farnham Facility. During the year ending August 31, 2020, the Company anticipates to further spend on production equipment related to cannabis packaging and derivatives.

The Company expects that its existing cash resources as at February 29, 2020 will enable it to fund its planned operating expenses for at least the next twelve months from February 29, 2020.

OPERATING ACTIVITIES

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

FINANCING ACTIVITIES

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

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

INVESTING ACTIVITIES

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

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

There is no restriction on the Company's ability to use its cash for its operational needs while it earns interest on the unused balance.

OUTSTANDING SHARES

As at the date of this report, the Company had 709,970,705 common shares outstanding. There were 11,748,710 warrants and 38,221,000 options issued.

For further information, the complete Financial Statements and Management's Discussion and Analysis for the three and six month periods ended February 29, 2020, along with additional information about the Company and all of its public filings are available at www.sedar.com and the Company's website.

About Cannara Biotech Inc.

Cannara Biotech Inc. (CSE: LOVE) (OTCQB: LOVFF) (FRA: 8CB) has built one of the largest indoor cannabis cultivation facilities (625,000 square feet) in Canada and the largest in Quebec. Leveraging Quebec's low electricity costs, Cannara Biotech Inc.'s facility will produce premium-grade indoor cannabis and cannabis-derivative products for the Canadian and international markets.

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This information release contains certain forward-looking information. Such information involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from those implied by statements herein, and therefore these statements should not be read as guarantees of future performance or results. All forward-looking statements are based on the Company's current beliefs as well as assumptions made by and information currently available to it as well as other factors. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this press release. Due to risks and uncertainties, including the risks and uncertainties identified by the Company in its public securities filings, actual events may differ materially from current expectations. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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