

Cannara Biotech Reports Q4 and Year-End 2019 Financial Results

VANCOUVER, Nov. 26, 2019 /CNW/ - Cannara Biotech Inc. ("Cannara" or the "Company") (CSE: LOVE) (FRA: 8CB) (OTCQB: LOVFF), an emerging vertically integrated cannabis company focused on indoor cultivation, processing and sale of premium cannabis and cannabis-infused products, today announced financial results for the three month period and year ended August 31, 2019. Unless otherwise noted, all dollar amounts are expressed in Canadian dollars.



OPERATIONAL HIGHLIGHTS

- Raised in excess of \$55,000,000 since inception
- Built a strong balance sheet with over \$26,000,000 of available cash for use;
- Completed the Phase One retrofitting of 170,000 sq. ft of our 625,000 sq. ft. facility ("Farnham Facility") with an annual capacity of up to 20,000 kg of premium grade indoor flower;
- Funded ShopCBD.com Inc. with an \$8 million private placement to support the launch of the online e-commerce platform for the sale and distribution, in the US, of hemp-based CBD products;
- Listed on the CSE, Frankfurt and OTC exchanges; and
- Submitted to Health Canada site evidence package for Phase One of the facility in Farnham, Quebec to obtain a license to cultivate, process and sell premium cannabis and cannabis-infused products (the "License").

"Scale and premium. With these foundational principles, 2020 will no doubt be eventful as we pivot into cultivation, product development, distribution, sales and expand our CBD platform in the U.S.," said Zohar Krivorot, President and CEO of Cannara.

"We entered fiscal 2020 in an excellent financial position, with in excess of \$26 million highlighting our balance sheet strength," said Lennie Ryer, CFO of Cannara. "Moreover, we enter our commercial phase of operations with corresponding attractive fundamentals, including a large and highly efficient building located in the lowest energy rate jurisdiction in North America. This intentional path towards profitability is a priority for us as this sector matures and traditional value drivers take precedent."

RESULTS OF OPERATIONS

The Company operates in two segments: 1) Indoor cannabis operations which encompasses the cultivation, processing and sale of premium 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).

YEAR ENDED AUGUST 31, 2019

Canadian Operations

For the year ended August 31, 2019, the segment had not yet generated cannabis-related revenues from its Canadian operations as the Company was still in progress of completing construction of

Phase 1 of the Farnham Facility which is required to obtain the License.

For the year ended August 31, 2019, the segment incurred \$7,423,540 in operating expenses.

Included in operating expenses was:

- \$2,653,574 in professional fees paid to various lawyers, accountants and consultants for the ongoing compliance and regulatory costs of being a publicly listed entity and for the development and enhancement of Cannara's business practices, processes, systems and strategy including the selection of an Enterprise Resource Planning system;
- \$2,577,297 relating to salaries and benefits of executive, office, construction and operations staff;
- \$1,391,832 in general and administrative expenses consisting of property taxes, licensing costs, insurance, IT, board of director fees and travel-related expenses;
- \$504,134 in initial marketing costs to establish the Cannara's brand presence; and
- \$296,703 in investor relations expenses.

The segment operating loss of \$7,423,540 is a result of the Company investing into the development of its Canadian operations during the pre-revenue phase. The Company believes that it will be able to generate revenues from this segment to cover its operating costs once Cannara receives its License and it is able to commercialize its products.

U.S. Operations

For the year ended August 31, 2019, the Company was in the process of developing its e-commerce platform, ShopCBD.com, which plans on competing in the growing U.S. Hemp CBD market by launching an online e-commerce platform offering a curated selection of top tier U.S. Hemp CBD products in a fast, secure and reliable transaction. As a result, the Company has not yet generated revenue from its U.S. operations. Subsequent to year end, ShopCBD.com was officially launched in November 2019. The Company owns 62.23% of the U.S. operations.

The segment incurred an operating loss of \$1,737,390, of which \$1,080,634 is attributable to the shareholders of the Company. Included in operating loss was \$574,991 in general and administrative cost relating to IT software and subscriptions required to operate the e-commerce platform, initial research costs expensed, office and rent-related expenses and \$387,276 in salaries and benefits for its administrative and support staff. In addition, operating expenses included \$508,844 of professional fees which was mainly attributable to consultant expenses incurred to build the segment's wholesale vendor network and to establish a corporate presence in the U.S. The segment also incurred \$261,791 in marketing activities to establish the ShopCBD's brand presence and to enhance the visuals of its e-commerce platform. As at August 31, 2019, the Company capitalized \$281,020 to intangible assets for the direct cost incurred for the development of its e-commerce platform.

Other

In order to increase cash flow while the Company builds out its Farnham Facility, the Company leased 333,551 square feet of the total 625,000 available square feet to two tenants.

The Company realized 100% of its lease revenues for the year of \$2,096,974 and incurred \$403,895 in lease operating costs, generating operating income from other activities of \$1,693,079. Lease operating costs include allocations of utility expenses, property taxes, property management fees

and commission expenses related to lease renewals. The first tenant occupies 276,393 square feet of the Farnham Facility, generating monthly gross lease revenues of \$149,713. The lease is based on multiple six month terms expiring May 31, 2022. The second lease provides monthly gross lease revenues between \$23,100 - \$24,530 and will terminate on September 30, 2022. The Company is managing the lease terms in order to coincide with its development plans for the remaining build out of the facility in order to improve the Company's performance while the License application is pending.

The reported net loss from other activities was \$3,810,875 for the year ended August 31, 2019, as a result of \$2,189,039 in share-based compensation related to issuance of stock options to employees, directors and officers of the Company, \$566,327 in amortization expenses relating to the Company's property, plant and equipment and its right-of-use assets, \$873,345 in net finance expense consisting primarily of mortgage interest costs offset by interest income earned on cash and a one-time charge of \$1,875,243 relating to expenses for the reverse takeover transaction (of which \$1,701,282 was non-cash).

THREE MONTH PERIOD ENDED AUGUST 31, 2019

Canadian Operations

For the three month period ended August 31, 2019, the segment incurred \$2,116,301 operating loss as a result of being in the pre-revenue phase. Included in operating expenses was \$638,467 in consulting fees for the development and enhancement of Cannara's business practices, processes, systems and strategy including the selection of an Enterprise Resource Planning system, \$967,858 in salaries and benefits and \$391,002 in general and administrative expenses.

U.S. Operations

For the three month period ended August 31, 2019, the segment incurred \$680,098 in operating loss, of which \$425,310 is attributable to the shareholders of the Company. Included in operating loss was \$242,369 in general and administrative cost relating to IT software and subscriptions required to operate the e-commerce platform, and office and rent-related expenses and \$165,909 of professional fees which was mainly attributable to consultant expenses incurred to build the segment's wholesale vendor network and IT consulting expenses that were not capitalizable to the intangible asset. The Company also spent \$239,127 in marketing cost to promote the ShopCBD brand and to enhance the visuals of its platform.

Other

For the three month period ended August 31, 2019, the Company realized 100% of its lease revenues of \$553,308 and spent incurred \$48,364 in lease operating costs, generating operating income from other activities of \$504,944.

The reported net loss from other activities was \$1,035,579 for the year ended August 31, 2019. Included in net loss from other activities was \$1,198,129 in share-based compensation, \$148,875 in amortization expenses relating to the Company's property, plant and equipment and its right-of-use assets, and net finance expenses of \$193,519, consisting primarily of mortgage interest costs offset by interest income earned on cash. The increase in shared-based compensation relates to share options granted on July 24, 2019, which had vested immediately upon issuance.

LIQUIDITY AND CAPITAL RESOURCES

The Company reported a net working capital amount of \$22,737,628 as of August 31, 2019 (August 31, 2018 - \$12,320,832). As at August 31, 2019, the Company had cash on hand of \$26,505,992 (August 31, 2018 - \$12,899,672). The Company expects that its existing cash as at August 31, 2019 will enable it to fund its planned construction and operating expenses for at least the next twelve months from year end. The Company believes that it will have revenues to cover operating costs once Cannara receives its cultivation license and ShopCBD.com launches its e-commerce platform.

OPERATING ACTIVITIES

For the three month period and year ended August 31, 2019, cash used for operating activities was \$1,060,099 and \$7,409,294 respectively. The cash flow used in operating activities was primarily attributable to expenses relating to salaries of personnel and professional fees for the development of the Company's segmented business operations, initial marketing costs, office, travel and public company-related expenses.

FINANCING ACTIVITIES

For the three month period ended August 31, 2019, cash provided from financing activities amounted to \$1,735,408 which results from \$2,160,000 raised by way of a non-brokered private placement of common shares of the Company at a price of \$0.18 per common share on July 12, 2019 offset by \$347,962 in interest expenses paid on the mortgage on the Farnham Facility and \$69,514 in lease payments for the Company's corporate head office.

For the year ended August 31, 2019, cash flows provided from financing activities amounted to \$42,660,844 which, in addition to amounts raised from the above private placement, consist of amounts raised from the issuance of 207,640,375 common shares and 868,000 warrants by the Company and 238,285,661 common shares from the first and second round of private placement by Global shopCBD.com Inc. Amounts spent on financing activities also include \$1,376,717 in interest paid to service the mortgage payable and \$235,454 in lease payment for the Company's corporate head office.

INVESTING ACTIVITIES

For the three month period and year ended August 31, 2019, cash used for investing activities amounted to \$5,025,170 and \$21,639,794 respectively. Investing activities during the periods relate substantially to construction and equipment costs incurred for Phase 1 Farnham Facility as well as deposits made on property, plant and equipment to be received. In addition, the Company invested \$91,319 and 281,020 respectively, for the technical development of its online e-commerce platform in relation to its U.S. operations. For the three month period and year ended August 31, 2019, the Company received \$218,851 and \$679,615 respectively in interest income relating to interest earned on the cash balance held at a schedule 1 financial institution.

SUBSEQUENT EVENTS

On September 12, 2019, the Company announced that it has submitted to Health Canada its Site Evidence Package for Phase 1 of the Farnham Facility which will permit the Company to cultivate, process and sell premium cannabis and cannabis-infused products under The Cannabis Act. The submission of the site evidence package marks the substantial completion of the Phase 1 construction of the Farnham Facility. Also subsequent to year end, the Company secured a first mortgage against the Farnham Facility in the value of \$6 million with the Canadian Imperial Bank of

Commerce. These funds reduced the existing vendor take-back mortgage.

OUTSTANDING SHARES

As at the date of this report, the Company had 706,770,705 common shares outstanding. There were 14,948,710 warrants and 39,029,424 options issued.

For further information, the complete Financial Statements and Management's Discussion and Analysis for the three and year ended August 31, 2019 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

Cannara Biotech (CSE: LOVE) (OTCQB: LOVFF) (FRA: 8CB) is building 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's facility will produce premium-grade indoor cannabis and cannabis-infused 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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