

# Cannara Biotech Reports Q1 2020 Financial Results

VANCOUVER, Jan. 20, 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-infused products, today announced financial results for the three-month period ended November 30, 2019. Unless otherwise noted, all dollar amounts are expressed in Canadian dollars.



## OPERATIONAL HIGHLIGHTS

- 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 of premium dried cannabis and cannabis-infused products;
- Secured a first mortgage against the Farnham Facility for \$6 million with a Canadian financial institution, resulting in reduced annual interest expense.

"Operationally during the quarter, we have been focused on final, detailed preparations for the Farnham Facility in anticipation of being given the green light to commence cultivation," said Barry Laxer, Chief Operating Officer of Cannara. "The building, with 18 modern and large grow rooms and state-of-the-art technical features, is poised to become a significant factor in Quebec's cannabis landscape, growing what we believe will quickly become the consumer's preferred choice: indoor grown, high THC, robust flowering and crystallization with a rich terpene profile and aroma."

## 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).

## THREE-MONTH PERIOD ENDED NOVEMBER 30, 2019

### Canadian Operations

For the three-month period ended November 30, 2019, the segment incurred \$1,856,014 in operating expenses compared to \$2,190,771 in the same period in the prior year resulting in a favorable decrease in operating expenses of \$334,757. The segment operating loss for the three-month period ended November 30, 2019 was also \$1,856,014 compared to \$2,190,771 in the same period of the prior year. 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 three-month period ended November 30, 2019, the Company generated product revenue of \$5,721 and incurred \$3,923 in costs of goods sold. ShopCBD.com was launched during November

2019.

For the three-month period ended November 30, 2019, the segment incurred \$600,969 in operating expenses compared to nil in the same period of the prior year as the segment was only created in the third fiscal quarter of 2019. Current year operating expenses mainly comprise \$204,364 in salaries and benefits to develop, support and operate the business, \$188,112 in marketing spend to launch and drive traffic to ShopCBD.com and \$156,372 in general and administrative expenses relating to software costs to operate the e-commerce platform and office-related expenses.

The segment incurred \$599,171 in operating loss from its U.S. operations, of which \$377,403 is attributable to the shareholders of the Company.

### **Other**

In order to increase cash flow while the Company continues its phased approach to construction at the Farnham Facility, the Company leased 333,551 square feet of the total 625,000 available square feet to two tenants.

The Company generated lease revenues of \$527,528 for the three-month period ended November 30, 2019 compared to \$518,443 in the same period of the prior year as a result of contractual rent escalations. In order to realize these lease revenues, the Company spent \$29,632 in lease operating costs during the three-month period ended November 30, 2019 compared to \$52,538 in the same period of the prior year. The decrease in lease operating expenses is attributable to the timing of property tax expenses incurred and the cancellation of a property management agreement in October 2019 as the Company will internally manage the property to increase net revenues from leases.

The Company generated \$497,896 in operating income from other activities for the three-month period ended November 30, 2019 which is comparable to \$465,905 earned in the same period of prior year.

The reported net loss from other activities for the three-month period ended November 30, 2019 was \$485,815 compared to \$114,455 in the same period of the prior year, resulting in an unfavorable increase in net loss of \$371,360. The increase is attributable to:

- An increase of \$93,282 in share-based compensation as a result of stock options granted as at November 30, 2019 compared to November 30, 2018;
- An increase of \$400,367 in amortization as the Company began depreciating the Farnham Facility and related assets effective September 12, 2019;
- A decrease of \$90,298 in finance expense which is mainly attributable to the lower interest rate paid on the mortgage obtained in October 2019.

For the three-month period ended November 30, 2019, the Company reported a total comprehensive loss of \$2,944,233 or a loss per share of \$0.01; compared to \$2,305,336 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 \$11,358,538 as at November 30, 2019 (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.

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, extraction and derivatives.

The Company expects that its existing cash resources as at November 30, 2019 will enable it to fund its planned operating expenses for at least the next twelve months from November 30, 2019.

### **OPERATING ACTIVITIES**

For the three-month period November 30, 2019, cash used for operating activities was \$3,383,725. The cash flow used in operating activities was primarily attributable to expenses relating to salaries of personnel, initial expenses to prepare the Farnham facility for operations including the implementation of an ERP system, professional fees for the development of the Company's segmented business operations, additional insurance premiums to cover a purpose-built cannabis facility, travel and public company related expenses.

### **FINANCING ACTIVITIES**

For the three-month period ended November 30, 2019, cash used in financing activities amounted to \$399,467 which is mainly attributable to interest paid on the mortgage of \$301,868 and \$68,904 on lease-related payments.

During the three-month period ended November 30, 2019, the Company received a mortgage of \$6,000,000, and the funds obtained were used to pay down the existing mortgage.

### **INVESTING ACTIVITIES**

For the three-month period ended November 30, 2019, cash used for investing activities amounted to \$5,755,462. Investing activities during the period relate substantially to construction and the acquisition of production equipment in order to render Phase 1 of the Farnham Facility operational in anticipation of the License being granted early in the new year. In addition, the Company invested \$58,663 for the technical development of its online e-commerce platform in relation to its U.S. operations.

For the three-month period ended November 30, 2019, the Company received \$88,781 in interest income relating to interest earned on cash balances. There are no restrictions 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 706,970,705 common shares outstanding. There were 14,748,710 warrants and 39,764,424 options issued.

For further information, the complete Financial Statements and Management's Discussion and Analysis for the three-month period ended November 30, 2019, along with additional information about the Company and all of its public filings are available at [www.sedar.com](http://www.sedar.com) and the Company's website.

### **About Cannara Biotech**

Cannara Biotech (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's facility will produce premium-grade indoor cannabis and cannabis-infused products for the Canadian and international markets.

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### **Cautionary Statement Regarding "Forward-Looking" Information**

*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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