

Cannara Biotech Inc. Enters into Definitive Agreement to Acquire TGOD's State-of-the-Art Cultivation and Manufacturing Facility in Valleyfield, Quebec

Newly built fully automated one million sq. ft. facility increases Company's capacity of premium-grade cannabis up to 125,000 kg annually

MONTREAL, June 10, 2021 /CNW/ - Cannara Biotech Inc. ("**Cannara**" or the "**Company**") (TSXV: LOVE) (OTCQB: LOVFF) (FRA: 8CB), a vertically integrated producer of premium-grade cannabis and derivative products with one of the largest indoor cannabis cultivation facilities in Canada and the largest in Quebec, today announced that it has entered into a definitive agreement (the "**Transaction**") to acquire a one million square foot licensed cultivation and manufacturing facility in Valleyfield, Quebec ("**Valleyfield Facility**") from Medican Organic Inc., a wholly-owned subsidiary of The Green Organic Dutchman Holdings Ltd. ("**TGOD**"), through an all-cash offer of \$27 million plus the funding of certain deposit requirements of approximately \$5.7 million.



"With this acquisition, Cannara continues to increase its footprint and create more jobs in its home province of Quebec," said Zohar Krivorot, President & Chief Executive Officer of Cannara. "Today's announcement reinforces our position as one of Canada's top leading producer of premium-grade cannabis and cannabis derivative products."

Located in Valleyfield, Quebec, the newly built state-of-the-art facility spans over 1,033,506 sq. ft. providing Cannara the ability to reach an annual cultivation capacity of 125,000 kg of premium-grade cannabis.

"While already marked by a strong balance sheet, we believe that this transaction significantly bolsters our business fundamentals, including annual output, profitability and overall financial position," said Nicholas Sosiak, Chief Financial Officer of Cannara. "Underlying this acquisition is our confidence in the broader market for competitively priced premium-grade cannabis products and our intention to capture a significant share of it."

Transaction Highlights

- **Positions Cannara as one of Canada's top leading cannabis companies:** The fully licensed and automated Valleyfield Facility outfitted with climate control and growing systems is comprised of 24 independent growing zones totaling 600,000 sq. ft., a massive 200,000 sq. ft. cannabis 2.0 processing center and a 200,000 sq. ft. rooftop greenhouse. This acquisition positions the Company amongst Canada's top leading cannabis companies.
- **Operational and cost synergies from proximity of current 605,000 sq. ft. facility located in Farnham, Quebec ("**Farnham Facility**"):** The Valleyfield Facility and Farnham Facility are within one hour drive from each other. The proximity of the Company's two mega facilities will increase operational efficiencies, reduce costs and offer additional capacity utilization. As both assets are in Quebec, Cannara will continue to benefit from the province's low cost of electricity.

The Company has been granted the "economic development rate" by Hydro-Québec and will therefore receive a reduction in electricity rates until March 31, 2027, which is expected to reduce operating costs at the facilities.

- **Continued growth in market share in Quebec:** With two leading facilities in Quebec, the Transaction allows Cannara to continue capturing market share in Quebec, Canada's second-largest cannabis market.
- **Transaction funded through private equity placement priced at a premium to current market price:** The Transaction is majorly funded through a private equity placement at \$0.18 cents providing a free and clear title on the Valleyfield Facility.

Subject to customary closing conditions, the transaction is expected to close on June 20, 2021. The property shall remain at the risk of the Vendor until the closing date. BMO Capital Markets acted as exclusive financial advisor to TGOD.

The acquisition will be financed by a non-brokered private placement of up to \$35,000,000 of which \$25,000,000 has been committed (the "**Committed Amount**"). Of the Committed Amount, \$19.3 million will be in the form of common shares (the "**Equity Raise**") and \$5.7 million will be in the form of an unsecured convertible debenture (the "**Debenture Raise**" and, collectively with the Equity Raise, the "**Offerings**"). The issue price per share for the Equity Raise is \$0.18 which would result in an issuance of 107,222,222 new common shares. The sole subscriber to the Equity Raise is Olymbec Investments Inc. ("**Olymbec**"), a company partially owned/controlled by Mr. Derek Stern, currently a member of the board of directors of Cannara, making this part of the transaction a related party transaction. The number of shares to be issued to Olymbec through the Equity Raise, combined with Mr. Stern's current holdings, would increase the percentage of Cannara common shares that he owns or controls, post-private placement, to 19%.

A total of \$5.7 million will be raised by Cannara through the Debenture Raise via a private placement to Olymbec. The unsecured convertible debenture (the "**Debenture**") will bear interest at a rate of 4% per annum, compounded semi-annually and payable along with the principal amount on the third anniversary of their issue. Subject to the approval of the TSX.V, Interest on the Debentures may be payable, at the option of Cannara, by the issuance of common shares at \$0.18. The conversion price of the Debenture is \$0.18 per common share and the number of common shares that could be issued to Olymbec upon conversion (excluding any interest paid in kind) would be 31,666,667 common shares potentially increasing the total number of shares to be issued under the Offerings to 138,888,889, which combined with Mr. Stern's current holdings and the common shares acquired through the Equity Raise, would increase the percentage of Cannara common shares that he owns and controls, post-private Offerings to 192,798,361 or 21.89% of Cannara's common shares. Until such time that a disinterested shareholder approval is obtained with respect to the establishment of the new Control Person, the conversion right provided in the Debenture would be suspended. If the amount of the Offerings exceeds \$25,000,000, the Debenture will not be issued, and the full amount of the private placement will be issued in the form of common shares at a price of \$0.18 per share.

The participation in the Offerings by Olymbec, may be considered a "related party transaction" (the "Related Party") as defined under Multilateral Instrument 61-101, Protection of Minority Security Holders in Special Transactions ("MI 61-101"). Cannara has determined that exemptions from the formal valuation and minority shareholder approval requirements under MI 61-101 are available. In

particular, Cannara has determined that the exemptions set out in paragraphs (a) and (b) in section 5.5 of MI 61-101 are applicable since the aggregate consideration to be paid by the Related Party does not exceed 25% of the market capitalization of Cannara and Cannara is not listed on the Toronto Stock Exchange, but only on the TSX Venture Exchange. In addition, regarding the minority shareholder approval exemptions, the independent directors have determined that the exemptions set out in paragraphs (1)(a) and (b) in section 5.7 of MI 61-101 are applicable in that the aggregate consideration to be paid by the Related Party does not exceed 25% of the market capitalization of Cannara and Cannara is not listed on the Toronto Stock Exchange, but only on the TSX Venture Exchange.

If only the Committed Amount is raised, the remainder of the funds to complete the acquisition will come from Cannara's working capital and amendments to its current banking facilities. If the maximum amount of \$35,000,000 is raised nearly all of it will be used to finance the acquisition and to pay for certain capital expenditures and transition costs.

About Cannara Biotech Inc.

Cannara Biotech Inc. (TSXV: LOVE) (OTCQB: LOVFF) (FRA: 8CB) is a vertically integrated producer of premium-grade cannabis and cannabis-derivative products for the Quebec and Canadian markets. Cannara owns two Quebec-based mega facilities spanning over 1,600,000 sq. ft., providing the Company with 125,000kg of potential annualized cultivation output. Leveraging Quebec's low electricity costs, Cannara's facilities will produce purposefully cultivated premium-grade cannabis products at an affordable price. For more information, please visit cannara.ca.

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