RESEARCH CAPITAL CORPORATION

CANNARA BIOTECH INC. (LOVE-TSXV)
UPDATE
Special Situations
July 29, 2025

Cannara Reports Record Q3/25 Results

Cannara Delivers Q3 Beat on Strong Sales and Operating Leverage: Yesterday (July 28) Cannara reported its fiscal Q3 results for the period ended May 31, 2025. Cannara reported Q3 FY2025 revenue of $27.3 million, exceeding our $26.3 million estimate and up from $19.5 million last year, driven by expanded market penetration and new product launches. Gross profit was $12.1 million (44% margin) versus our forecast of $10.4 million (40%) and $5.7 million (29%) in the prior year, reflecting increased production capacity and operational efficiencies. Adjusted EBITDA of $7.6 million outpaced our $5.2 million estimate and more than doubled year-over-year, while net income of $4.1 million ($0.04/share f.d.) beat our forecast of $2.5 million ($0.03/share f.d.) on stronger revenue and margin performance.

Disciplined Expansion Unlocks Scalable Growth and Latent Capacity: Cannara is scaling its production platform through a disciplined, modular expansion strategy that more than doubles current capacity for a total capital investment of just $22 million. Through extensive R&D and optimization of cultivation practices, the company has achieved a 26% increase in yield, raising its annual production capacity from 39,500 kg to 50,000 kg—reaching its original F2026 target a full year ahead of schedule and without incremental capital outlay. Looking forward, Cannara has revised its production targets upward: to 65,000 kg in F2027 (from 62,500 kg) and to 80,000 kg in F2028 (from 75,000 kg). At full build-out, the Valleyfield facility is designed to support up to 100,000 kg of annual output, offering substantial latent capacity and long-term operating leverage as demand continues to scale.

Quebec Vape Legalization: A Structural Growth Catalyst for Cannara: The upcoming legalization of cannabis vape cartridges in Quebec, expected by late 2025, presents a significant long-term growth opportunity for Cannara. Although vapes have been prohibited to date, approximately 25% of Quebec consumers are already using them through illicit channels, highlighting latent demand. On July 24, Cannara announced the preliminary approval of five vape SKUs—comprising both live resin and solventless live rosin formats—for province-wide distribution. These products represent 20% of the 25 vape SKUs the SQDC intends to launch across its 107 retail outlets by calendar year-end. Given Cannara's ~12% retail market share in Quebec and its position as Canada's leading provider of live resin vapes, the company is exceptionally well positioned to capitalize on this new category in its core provincial market.

Processing Expansion to Unlock Downstream Leverage: Cannara plans to complete a $10 million processing centre at Valleyfield during FY2026, providing the drying and trimming capacity required to support canopy expansion across grow rooms 13 through 24. The buildout will include a larger-scale BHO extraction lab, expanded vault and storage infrastructure, and will enable on-site processing of the full 24-zone configuration, which is currently centralized at the Farnham facility. By relocating drying and trimming operations to Valleyfield, Cannara will unlock operational capacity at Farnham to scale higher-margin, downstream activities such as pre-roll production, vape cartridge filling, and concentrate manufacturing. The investment positions Cannara to capture incremental margin across its value chain while maintaining a low capital intensity profile.

Maintain BUY recommendation with a $3.00 target price. We maintain our BUY recommendation on Cannara Biotech Inc. with a $3.00 target price, supported by the company's low-cost Quebec footprint, vertically integrated processing, and high-margin, consumer-led product portfolio. Q3 FY2025 results highlight disciplined cost control and strong execution across premium categories such as dried flower, vapes, infused pre-rolls, and concentrates. Our target is based on an 8.0x EV/EBITDA multiple applied to our FY2027 EBITDA estimate.

RATING & TARGET PRICE

Rating	BUY
Price	1.50
Price Target	3.00
Market Cap ($M)	137.10
Projected Return	100.0%

MARKET DATA

LOVE-TSXV	1.50
Average Daily Volume	56,000.00
52 Week Range	C$1.51 - C$0.52
Enterprise Value ($M)	181.0
Shares Out. (MM)	137.1

ANALYST INFORMATION

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Cannara Reports Record Q3/25 Results

Yesterday Cannara Biotech Inc. reported its Q3/25 results for the period ended May 31, 2025. The results for the quarter and nine-montth period are outlined in thee table below:

Figure 1 - Cannara Biotech Inc. - Q3/25 Financial Overview

		RCC Estimate			Nine-months	
Financial Data	Q3/25	Q3/25	Variance	Q3/24	2025	2024
Revenue (mm)	$27.3	$26.3	4%	$19.5	$79.0	$58.7
Gross profit	$12.1	$10.4	16%	$5.7	$32.7	$20.8
Gross margin	44%	40%	461bps	29%	41%	35%
EBITDA	$7.6	$5.2	45%	$2.8	$20.7	$11.4
EBITDA margin	28%	20%	793bps	14%	26%	19%
Net income (loss)	$4.1	$2.5	68%	$2.0	$9.8	$0.7
EPS	$0.04	$0.03	33%	$0.02	$0.11	$0.01

Source: Company documents & RCC

Cannara reported Q3 FY2025 revenue of $27.3 million, ahead of our forecast of $26.3 million and up significantly from $19.5 million in the prior-year period. The year-over-year growth was driven by deeper market penetration in existing provinces, entry into new regional markets, and an expanded product portfolio that included new genetic strains and SKUs, all of which contributed to stronger sales performance.

Gross profit came in at $12.1 million, representing a 44% margin, compared to our estimate of $10.4 million (40%) and $5.7 million (29%) in Q3 FY2024. The increase reflects higher production capacity, operating scale benefits, and ongoing improvements across cultivation, processing, and post-harvest operations.

Cannara generated $7.6 million in adjusted EBITDA, well above our forecast of $5.2 million and more than double the $2.8 million reported in the prior-year quarter. The EBITDA beat was primarily the result of stronger-than-expected revenue and margin performance.

Net income for the quarter was $4.1 million, or $0.04 per share fully diluted, compared to our forecast of $2.5 million ($0.03 per share f.d.) and $2.0 million ($0.02 per share f.d.) in Q3 FY2024. The outperformance on the bottom line was driven by revenue upside, improved gross profit, and stronger EBITDA conversion.

Cannara Continues to Gain Market Share in Key Provincial Markets

Cannara continues to gain market share in key provincial markets, solidifying its position as a top cannabis producer in Canada. In Q3 2025, the company captured an estimated 3.9% national retail market share, holding steady from the prior quarter and up from ~3.7% a year ago. This places Cannara among the top 10 producers nationally by retail sales. Its performance is especially strong in Quebec – Cannara's home market – where it achieved ~12.3% market share in Q3, ranking as the #3 licensed producer in the province. By June 2025, Cannara's Quebec share ticked up to 12.6%, making it the second-largest player in that province's highly competitive market. The company attributes its Quebec success to strong brand equity (Tribal, Nugz, and Orchid CBD brands) and consistent premium quality products that resonate with consumers. Outside Quebec, Cannara is steadily expanding: in Ontario, it held roughly 2.9% share in Q3 (softening slightly to 2.7% in June amid heavy industry discounting); in Alberta, it maintained about 2.6% share in Q3. Meanwhile, newer markets are contributing incremental growth – for example, Saskatchewan share reached ~1.5% in Q3 (up 0.5% QoQ after transitioning to a new distributor), Manitoba grew to ~0.8% share in Q3 (up from 0.6% in Q2), and Nova Scotia (entered in 2024) saw Cannara achieve ~0.4% share for Q3, rising to 0.6% by June after new product launches in that market. A notable development is Cannara's entry into Newfoundland & Labrador: the company secured its first two product listings in Newfoundland for Q4 2025, which will bring Cannara's distribution to 8 out of 10 provinces. Management is also evaluating opportunities in the remaining underserved regions (New Brunswick, PEI, and the northern territories). The overall picture is that Cannara's geographic footprint and market share are expanding, with the company firmly entrenched as a market leader in Quebec and making progress in other provinces through targeted sales efforts and portfolio expansion. These gains in retail market share across multiple provinces underscore Cannara's ability to capture demand from competitors and drive top-line growth.

Figure 2 - Cannara Biotech Inc. - Market Share in Key Provincial Markets

Province	June 2025	Q3 2025	Q2 2025	Q1 2025
National Retail Market Share	**3.8%**	**3.9%**	**3.9%**	**3.7%**
Quebec	12.6%	12.3%	12.8%	12.5%
Ontario	2.7%	2.9%	2.9%	2.6%
Alberta	2.4%	2.6%	2.7%	2.3%
British Columbia	1.7%	1.7%	1.5%	1.5%
Saskatchewan	1.6%	1.5%	1.0%	1.7%
Manitoba	1.1%	0.8%	0.6%	0.9%
Nova Scotia	0.6%	0.4%	0.5%	0.4%

Province	Q3 2025	Q2 2025	Variance
Quebec	12.3%	12.8%	-4.0%
Ontario	2.9%	2.9%	0%
Alberta	2.6%	2.7%	-3.7%
British Columbia	1.7%	1.5%	+13.3%
Saskatchewan	1.5%	1.0%	+50.0%
Manitoba	0.6%	0.6%	0%
Nova Scotia	0.4%	0.5%	-20.0%

Source: Company documents

Expanding the Bench: Product Innovation Reinforces Cannara's Brand Leadership

Product development and innovation remain core to Cannara's growth strategy, and Q3 saw a flurry of new product launches that strengthen its portfolio. In the third quarter, Cannara introduced several notable products across its brands, including: Tribal "G Mint Trifecta" infused pre-rolls (a unique sub-30% THC infused pre-roll tailored for Quebec's regulations), Nugz "Neon Bubble Bath" infused pre-rolls, a Nugz Neon Bubble Bath all-in-one cured resin vape, and Nugz "Meat Pie" dried flower strain. These launches demonstrate Cannara's focus on trending formats like infused pre-rolls and vapes, as well as new genetic strains to keep the flower offering fresh. Looking ahead, Q4 2025 is slated for an even larger wave of product launches – the company has secured approval for 11 new SKUs in Q4 (10 in Ontario and 1 in Quebec). This upcoming lineup features two new proprietary genetics ("Waygu Delight" and "Porto Leche" cultivars under the Nugz and Tribal brands, respectively) available in flower and pre-roll formats, as well as Cannara's first accessory product, the "Häpple" glass hash pipe, which will be listed with the Quebec retailer (SQDC). Also included are new vape offerings such as Tribal "Supernova" live resin vapes in multiple strains and Tribal "Bubble Up Trifecta" infused pre-rolls, among others. Beyond Q4, management gave a glimpse of early FY2026 innovations: Cannara will be entering Quebec's newly opened vaporizable cartridge category with five vape SKUs (three live resin and two solventless live rosin cartridges) that have already been approved, representing 20% of all products authorized by the SQDC for this category's launch. These vapes – developed by Cannara's R&D team to meet Quebec's strict sub-30% THC and additive-free requirements – will mark Cannara's debut in a previously untapped segment in its largest market. The aggressive pace of product launches and the breadth of new offerings (spanning flower, pre-rolls, vapes, and even accessories) illustrate Cannara's commitment to portfolio innovation. This not only drives incremental revenue but also reinforces Cannara's brand leadership (e.g. Tribal is now recognized as Canada's #1 premium live resin vape provider) and helps defend market share by meeting consumer demand for new, high-quality products.

Financial Forecast

Outlined below is our financial forecast through F2027.

Figure 3 - Cannara Biotech Inc. - Financial Forecast Through F2027

$000	FY2024	FY2025E	FY2026E	FY2027E
Revenue	$82,150	$104,025	$121,241	$137,207
Gross profit	$27,864	$40,372	$51,514	$58,514
Gross margin	33.9%	38.8%	42.5%	42.6%
EBITDA	$15,100	$25,054	$33,701	$36,602
EBITDA margin	18%	24%	28%	27%
Net Income	$6,438	$9,351	$15,363	$17,307
EPS f.d.	$0.07	$0.10	$0.17	$0.19

Source: Company documents & RCC

Other Developments

Credit Covenant Milestone Reduces Cost of Capital: In March 2025, Cannara met key financial covenants under its credit agreement with BMO, resulting in the removal of a limited recourse guarantee previously provided by a related party. This milestone reflects the company's improved financial profile and has lowered its annual interest expense by approximately $375,000. The elimination of the guarantee strengthens Cannara's capital structure and contributes to a reduced overall cost of debt, further enhancing financial flexibility.

Olymbec Convertible Debenture Repayment: In May 2025, Cannara made a $1 million principal repayment on its Olymbec Convertible Debenture, originally issued in June 2021 with an initial principal of $5.7 million. This repayment reflects the company's disciplined approach to capital management and ongoing efforts to reduce leverage, improve financial flexibility, and strengthen its overall balance sheet.

Amended Credit Facility Lowers Cost of Debt Below 6%: In June 2025, Cannara finalized an amendment and restatement of its credit agreement with BMO, resulting in a 50-basis-point reduction in the interest rate spread. The decrease was implemented in two phases: an initial 25-basis-point cut upon agreement execution, followed by a second 25-basis-point reduction after Cannara achieved key covenant thresholds for Q2 2025. This development lowered the effective interest rate on the facility from over 8% in 2024 to below 6%, reflecting Cannara's improving credit profile, strong financial performance, and prudent capital structure management.

Company Description:

Cannara Biotech Inc. is a vertically integrated Canadian licensed producer of premium-grade cannabis, strategically positioned to serve the national adult-use market with high-quality products at highly competitive prices. Headquartered in Quebec, the company operates two of the largest cultivation assets in the country, totaling over 1.65 million square feet of indoor and hybrid greenhouse space, making it the largest producer in Quebec and the 4th largest nationally by facility footprint.

Risks:

Regulatory Compliance and Licensing. Cannara operates in a heavily regulated and evolving legal environment governed by the ***Cannabis Act***, Health Canada, and various provincial and stock exchange regulations. Compliance imposes significant costs and operational complexity. Any failure to obtain, renew, or comply with necessary licenses can lead to penalties, license revocation, or operational shutdowns. Regulatory changes, tax reforms, or shifts in enforcement practices could materially impact growth, increase compliance burdens, and limit market participation.

Legal and Operational Uncertainty. The cannabis industry is still maturing, with evolving interpretations of laws and emerging legal risks. Health Canada can alter its frameworks or revoke licenses at any time. Additionally, regulatory asymmetries across provinces create operational challenges. Any unfavorable changes could reduce Cannara's addressable market and delay business objectives.

Competitive and Illicit Market Pressure. Cannara faces intense competition from both licensed producers and illicit market participants. Larger competitors may have more resources for R&D, production, and marketing. Unlicensed sellers can offer cheaper or unregulated products, eroding legal market share. Failure to differentiate Cannara's offerings, manage pricing pressures, or scale efficiently could materially affect profitability and growth.

Excise Tax Risks. Canada's excise duty framework imposes financial and operational burdens. Any increase in duty rates or adverse interpretations of the ***Excise Act, 2001*** could compress margins, raise costs, and impact Cannara's competitiveness. Failure to renew CRA licenses or adapt to new tax rules could significantly disrupt operations.

Marketing Restrictions. Strict federal limitations on cannabis advertising and branding hinder Cannara's ability to promote products or build customer loyalty. Restrictions on lifestyle branding, packaging, and endorsements reduce brand visibility and market penetration, making customer acquisition more difficult and potentially impacting long-term revenue growth.

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