



## **CANNARA BIOTECH INC.**

Consolidated Financial Statements

Years ended August 31, 2025 and 2024

# CANNARA BIOTECH INC.

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To the Shareholders of Cannara Biotech Inc.:

## Opinion

We have audited the consolidated financial statements of Cannara Biotech Inc. (the "Company"), which comprise the consolidated statement of financial position as at August 31, 2025 and the consolidated statements of net income and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at August 31, 2025, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS<sup>®</sup> Accounting Standards as issued by the International Accounting Standard Board.

## Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### *Valuation of Biological Assets and Inventory*

#### *Key Audit Matter Description*

Biological assets are measured at fair value less costs to sell. Inventory is measured at the lower of cost and net realizable value. In estimating the fair value of biological assets, management is required to make a number of estimates, including estimating the stage of completion of the cannabis up to the point of harvest, expected yield per plant, production costs, selling costs, retail selling price, excise tax when applicable, and the allocation of indirect costs. In estimating the fair value of final inventory values, management is required to determine an estimate of obsolete inventory. Refer to Notes 3, 5 and 6 of the consolidated financial statements for further details.

We identified valuation of biological assets and inventory as a key audit matter, as a high degree of auditor judgment was required to evaluate the significant assumptions and estimates made by management.

We responded to this matter by performing procedures in relation to the valuation of biological assets and inventory. Our audit work in relation to this included, but was not restricted to, the following:

### *Audit Response*

We responded to this matter by performing procedures in relation to the valuation of biological assets and inventory. Our audit work in relation to this included, but was not restricted to, the following:

- Performed a physical observation of the year-end biological assets, assessing the stage of growth for plants, and of the inventory and cannabis production cycle at specific times during the year;
- Tested on a sample basis the value and classification of costs as either pre-harvesting raw materials, post-harvesting raw materials, labour costs, selling costs, or indirect costs;
- Tested the allocation of indirect costs by assessing the appropriateness of the allocation method and by substantively testing the cost drivers and other estimates;
- Evaluated the appropriateness of the selling price per gram by comparing it to market data and to the Company's sales data;
- Evaluated the appropriateness of the expected yield per plant by reperforming weigh-ins of dried grams of cannabis harvested, assessing historical and subsequent to year-end data on yield per plant for each strain and recalculating the expected yield per plant ;
- Performed sensitivity analyses over significant unobservable inputs used to determine the fair value of biological assets to assess the impact of changes in those significant unobservable inputs on the Company's determination of fair value;
- Assessed the measurement of inventory by verifying that the inventory was valued at the lower of cost and net realizable value and by assessing the provision for slow-moving inventory based on its age and likelihood of sale;
- Evaluated the reasonableness of the expected net selling prices based on actual sales made and the required costs to complete and costs to sell the inventory; and
- Assessed the appropriateness of the disclosures in the notes to the consolidated financial statements.

### **Other Matter**

The consolidated financial statements of the Company for the year ended August 31, 2024 were audited by another auditor who expressed an unmodified opinion on those statements on November 25, 2024.

### **Other Information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS<sup>®</sup> Accounting Standards as issued by the International Accounting Standard Board, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Company as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jo-Ann Lempert.

Montréal, Québec

November 21, 2025

*MNP* LLP<sup>1</sup>

<sup>1</sup> By FCPA auditor, public accountancy permit No. A122514

# CANNARA BIOTECH INC.

Consolidated Statements of Financial Position  
As at August 31, 2025 and 2024

	2025	2024
<b>Assets</b>		
Current assets		
Cash	\$ 14,360,016	\$ 6,620,387
Accounts receivable	14,106,082	13,036,873
Biological assets (note 5)	6,815,941	6,649,591
Inventory (note 6)	44,516,056	33,423,515
Asset held for sale (note 4)	–	4,897,564
Prepaid expenses and other assets	2,360,103	2,845,914
	82,158,198	67,473,844
Deposits	159,160	256,323
Deferred financing costs (note 9)	52,164	–
Deposits on property, plant and equipment	276,505	99,381
Property, plant and equipment (note 7)	85,651,268	84,340,705
Right-of-use asset (note 8)	349,005	595,218
Deferred tax assets (note 17)	–	1,954,502
	\$ 168,646,300	\$ 154,719,973
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 11,082,834	\$ 9,842,023
Excise tax payable	7,446,336	6,097,043
Sales tax payable	2,237,696	1,423,245
Deferred lease revenue	69,720	85,830
Revolving credit facilities (note 9)	6,758,000	6,259,298
Current portion of convertible debenture (note 9)	4,072,270	1,000,000
Current portion long term debt	221,319	–
Current portion of deferred grant income (note 12)	63,536	48,988
Current portion of lease liabilities (note 8)	281,158	279,612
Current portion of term loan (note 9)	1,965,961	1,965,961
	34,198,830	27,002,000
Lease liabilities (note 8)	114,804	368,537
Convertible debenture (note 9)	2,104,285	5,442,350
Deferred grant income (note 12)	878,220	944,962
Deferred income tax liabilities (note 17)	3,066,037	–
Term loan (note 9)	26,063,147	33,010,635
	66,425,323	66,768,484
Shareholders' equity		
Share capital (note 10)	89,764,540	88,523,025
Contributed surplus	12,278,157	12,326,377
Retained earnings (deficit)	178,280	(12,897,913)
Total equity	102,220,977	87,951,489
Contingencies (note 18)		
Subsequent events (note 22)		
	\$ 168,646,300	\$ 154,719,973

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Zohar Krivorot", Director

"Donald Olds", Director

# CANNARA BIOTECH INC.

Consolidated Statements of Net Income and Comprehensive Income  
Years ended August 31, 2025 and 2024

	2025	2024
Revenue:		
Revenue from sale of goods (note 19)	\$ 148,629,092	\$ 110,227,370
Excise taxes	(45,610,842)	(32,593,976)
Net revenue from sale of goods	103,018,250	77,633,394
Lease revenues (note 19)	3,843,966	4,021,269
Other income (note 12)	454,441	494,920
	107,316,657	82,149,583
Cost of sales:		
Cost of goods sold (note 6)	62,471,640	53,958,398
Lease operating costs	373,557	326,734
Gross profit before fair value adjustments	44,471,460	27,864,451
Change in fair value of inventory sold	(26,876,495)	(23,226,689)
Unrealized gain on changes in fair value of biological assets (note 5)	29,622,019	25,550,941
Gross profit	47,216,984	30,188,703
Operating expenses (income)		
General and administrative (note 14)	10,892,582	9,836,101
Selling, marketing and promotion	9,838,944	6,675,462
Professional and legal fees	1,244,204	1,159,250
Research and development (note 13)	711,232	1,120,982
Share-based compensation (note 11)	1,193,295	1,976,809
Depreciation (notes 7 and 8)	1,563,241	1,375,575
Gain on disposal of asset held for sale (note 4)	(548,835)	(2,039,007)
Gain on disposal of right-of-use assets (note 8)	(3,861)	-
Loss on disposal of property, plant and equipment (note 7)	130,227	5,380
	25,021,029	20,110,552
Operating income	22,195,955	10,078,151
Net finance expense (note 15)	4,099,223	5,594,169
Income before income taxes	18,096,732	4,483,982
Income taxes expense (recovery) (note 17)	5,020,539	(1,954,502)
Net income and comprehensive income	\$ 13,076,193	\$ 6,438,484
Earnings per share (note 10):		
basic	\$ 0.14	\$ 0.07
diluted	\$ 0.14	\$ 0.07
Weighted average number of common shares (note 10):		
basic	90,865,403	90,068,383
diluted	92,368,374	91,385,025

See accompanying notes to consolidated financial statements.

# CANNARA BIOTECH INC.

Consolidated Statements of Changes in Equity  
Years ended August 31, 2025 and 2024

	Shares	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total equity
As at August 31, 2024	90,018,952	\$ 88,523,025	\$ 12,326,377	\$ (12,897,913)	\$ —	\$ 87,951,489
Net income	—	—	—	13,076,193	—	13,076,193
Share-based compensation (note 10)						
Employee compensation	—	—	1,177,092	—	—	1,177,092
Other services	—	—	16,203	—	—	16,203
Settlement of restricted shares units (note 10)	1,414,183	1,241,515	(1,241,515)	—	—	—
As at August 31, 2025	91,433,135	\$ 89,764,540	\$ 12,278,157	\$ 178,280	\$ —	\$ 102,220,977

	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total equity
As at August 31, 2023	90,305,852	\$ 88,803,613	\$ 10,349,568	\$ (19,339,846)	\$ (69,291)	\$ 79,744,044
Net income	—	—	—	6,438,484	69,291	6,507,775
Share-based compensation (note 10)						
Employee compensation	—	—	1,976,809	—	—	1,976,809
Repurchase and cancellation of common shares under NCIB (note 9)	(286,900)	(280,588)	—	3,449	—	(277,139)
As at August 31, 2024	90,018,952	\$ 88,523,025	\$ 12,326,377	\$ (12,897,913)	\$ —	\$ 87,951,489

See accompanying notes to consolidated financial statements.

# CANNARA BIOTECH INC.

Consolidated Statements of Cash Flows  
Years ended August 31, 2025 and 2024

	2025	2024
Cash provided by (used in):		
Operating		
Net income	\$ 13,076,193	\$ 6,438,484
Items not involving cash:		
Change in fair value of inventory sold	26,876,495	23,226,689
Unrealized gain on changes in fair value of biological assets (note 5)	(29,622,019)	(25,550,941)
Depreciation of property, plant and equipment (note 7)	6,402,787	6,096,004
Depreciation of right-of-use asset (note 8)	282,099	256,811
Gain on disposal of asset held for sale (note 4)	(548,835)	(2,039,007)
Gain on disposal of right-of-use assets	(3,861)	-
Loss on disposal of property, plant and equipment	130,227	5,380
Loss (gain) on convertible debenture modification (note 9)	26,764	(11,218)
Interest expense (note 15)	3,476,833	4,063,756
Interest on lease liabilities (note 15)	47,903	55,725
Interest income (note 15)	(280,942)	(178,963)
Share-based compensation (note 11)	1,193,295	1,976,809
Accretion and amortization of financing costs (notes 9 and 15)	240,352	727,106
Income taxes expense (recovery) (note 17)	5,020,539	(1,954,502)
Other	-	69,291
Net change in non-cash operating working capital items (note 21)	(6,304,404)	(2,498,514)
	20,013,426	10,682,910
Financing		
Repayment of convertible debenture (note 9)	(1,000,000)	-
Repayment of term loan (note 9)	(1,474,471)	(1,965,961)
Proceeds from revolving credit facilities (note 9)	500,000	5,700,000
Repayment of revolving credit facilities	(1,298)	(2,440,702)
Payment of debt financing issuance costs (note 9)	(242,784)	(198,267)
Net purchase of shares under NCIB (note 10)	-	(277,139)
Interest paid on debt instruments (note 9)	(3,103,008)	(2,835,545)
Payment of debt guarantee fees	(287,414)	(656,250)
Payment of interest on letter of credit	(108,319)	(212,247)
Lease payments (note 8)	(347,726)	(258,608)
Other long-term debt payments	(258,681)	-
	(6,323,701)	(3,144,719)
Investing		
Deposits on property, plant and equipment	(1,431,822)	(397,749)
Acquisition of property, plant and equipment (note 7)	(4,926,866)	(7,071,211)
Disposal of asset held for sale (note 4 and 21))	-	2,100,000
Disposal of property, plant and equipment	158,980	16,484
Interest received	249,612	164,155
	(5,950,096)	(5,188,321)
Net change in cash	7,739,629	2,349,870
Cash, beginning of year	6,620,387	4,270,517
Cash, end of year	\$ 14,360,016	\$ 6,620,387

See accompanying notes to consolidated financial statements.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

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## 1. Nature of operations

Cannara Biotech Inc. ("Cannara" or the "Company") is a vertically integrated producer of premium-grade cannabis and cannabis-derivative products for the Canadian market. The Company is domiciled in Canada and was incorporated under the laws of British Columbia on October 19, 2017. Its head office is located at 333 Décarie, Suite 200, Ville St-Laurent, Québec, H4N 3M9. The Company's common shares are listed under the symbol "LOVE.V" on the TSX Venture Exchange (the "TSXV") in Canada, "LOVFF" on the OTCQB Venture Market in the United States and "8CB" on the Frankfurt Stock Exchange in Germany.

Cannara owns and operates two Quebec-based mega cultivation facilities spanning over 1,650,000 square feet. Cannara's first purpose-built, modern indoor cultivation facility is located in Farnham, Quebec and measures 625,000 square feet, comprising 210,000 square feet of licensed cannabis production area and approximately 415,000 square feet of leased warehouse space ("Farnham Facility"). The second facility, acquired in June 2021, is a hybrid greenhouse facility that has been designed to replicate the indoor cultivation environment. The facility is comprised of 24 independent growing zones totaling 600,000 square feet, a 225,000 square foot cannabis 2.0 processing center and a 200,000 square foot rooftop greenhouse located in Valleyfield, Quebec ("Valleyfield Facility"). Cannara operates through its wholly owned subsidiaries, Cannara Biotech (Quebec) Inc. and Cannara Biotech (Valleyfield) Inc., both holding active licenses issued by Health Canada under the Cannabis Act.

The Company continues to invest in capital expenditures at its Valleyfield Facility, activating 12 of its 24 growing zones to-date, representing 300,000 square feet of active growing capacity. The Company sells its products under three flagship brands: Tribal, Nugz and Orchid CBD.

The Company generated a net income of approximately \$13.1 million during the year ended August 31, 2025 (Year ended August 31, 2024 - \$6.4 million) and has retained earnings of approximately \$0.2 million as at August 31, 2025 (August 31, 2024 – deficit of \$12.9 million).

The ability of the Company to ultimately continue to deliver recurrent profits from operations is dependent upon the continued success of its product and brand pipeline in addition to maintaining the consistency of its grow operations and lean cost structure. The Company expects to finance its operations through its sales, existing cash, available undrawn credit facilities, and, if necessary, additional equity or debt financing.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

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## 2. Basis of preparation

### (a) Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with IFRS<sup>®</sup> Accounting Standards as issued by the International Accounting Standards Board and International Accounting Standard.

The consolidated financial statements were approved for issuance by the Board of Directors on November 21, 2025.

### (b) Basis of measurement

These consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for the following:

- (i) Equity-based share-based payment arrangements, which have been recorded at fair value at grant date pursuant to IFRS 2, *Share-based Payment*;
- (ii) Right-of-use asset and related lease liability, which have been recorded on initial recognition at the present value of the lease payments that are not paid at lease commencement date pursuant to IFRS 16, *Leases*;
- (iii) Biological assets, which have been recorded at fair value less cost to complete and cost to sell pursuant to IAS 41, *Agriculture*;
- (iv) Asset held for sale, which has been recorded at the lower of the cost or the fair value less cost to sale pursuant to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*; and
- (v) The convertible debenture, which has been initially recorded at fair value pursuant to IFRS 9, *Financial Instruments*.

### (c) Functional currency

All figures presented in the consolidated financial statements are reflected in Canadian dollars.

Foreign currency transactions are translated to the respective functional currencies of the Company's subsidiaries at the exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate applicable at the statement of financial position date. Non-monetary items carried at historical cost denominated in foreign currencies are translated to the functional currency at the date of the transactions. Non-monetary items carried at fair value denominated in foreign currencies are translated to the functional currency at the date when the fair value is determined. Realized and unrealized exchange gains and losses are recognized through profit and loss.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

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## 2. Basis of preparation (continued)

### (c) Functional currency (continued)

On consolidation, the assets and liabilities of foreign operations reported in their functional currencies are translated into Canadian dollars at year-end exchange rates. Income and expenses, and cash flows of foreign operations are translated into Canadian dollars using average exchange rates.

The Company's and of all of its subsidiaries' functional currency is the Canadian dollar.

### (d) Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of the subsidiary are changed when necessary to align them with the policies adopted by the Company.

All intercompany balances and transactions, revenue and expenses, or any unrealized gains or losses resulting from transactions with jointly controlled entities are eliminated to the extent of the Company's interest in the entity when preparing the consolidated financial statements.

The table below provides details of subsidiaries of the Company as at August 31, 2025:

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Subsidiaries	Principal place of business/ Jurisdiction of incorporation	Ownership Interest
Cannara Biotech (Ops) Inc.	Canada	100%
Cannara Biotech (Quebec) Inc.	Canada	100%
Cannara Biotech (Valleyfield) Inc.	Canada	100%
Global shopCBD.com Inc.	Canada	100%
ShopCBD.com	United States	100%

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# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

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### 3. Material accounting policies

A summary of the material accounting policies applied in the preparation of these consolidated financial statements are as follows:

#### (a) Biological assets

The Company's biological assets consist of cannabis plants which are not yet harvested. These biological assets are measured at fair value less costs to complete and cost to sell, which becomes the initial basis for the cost of inventories after harvest. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour for personnel directly and indirectly related to growing cannabis plants, nutrients, supplies, materials, utilities, property taxes, insurance, security, depreciation and overhead costs to the extent it is related to the growing space. Unrealized fair value gains or losses on growth of biological assets are recorded in a separate line on the face of the statements of net income and comprehensive income and subsequently transferred to inventory at the point of harvest.

#### (b) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

The inventory of harvested cannabis is transferred from biological assets at their fair value less costs to sell at the point of harvest, which becomes the initial deemed cost of the inventory. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. The capitalized cost also includes subsequent costs such as materials, labour and depreciation expense on equipment involved in processing, packaging, labelling and inspection of the final product. All direct and indirect costs related to inventory are capitalized as they are incurred, and they are subsequently recorded within cost of good sold in the consolidated statements of net income and comprehensive income at the time cannabis is sold. When the inventory is sold, the fair value amounts included in inventory cost are recorded within changes in fair value of inventory sold in the statements of income and comprehensive income.

Raw materials for cultivation, supplies, accessories and products for resale are initially valued at cost.

The Company periodically reviews the cost of items in inventory and provides write-downs or write-offs of inventory based on its net realizable value.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

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### 3. Material accounting policies (continued)

#### (c) Property, plant and equipment

Property, plant and equipment are carried at the historical cost less accumulated depreciation and accumulated impairment losses. Where an item of property, plant or equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Cost includes expenditures that are directly attributable to the acquisition, the development and the construction of the asset including borrowing costs on qualifying assets. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Assets under construction are transferred to the appropriate category of property, plant and equipment when the assets are ready for their intended use at which point depreciation of these assets commences.

Building or part of a building leased out under an operating lease are considered as investment property. Investment property is accounted for in accordance with the cost model as detailed above.

Start-up costs are expensed as incurred.

The carrying amount of an asset is derecognized when the asset is replaced. Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the disposed asset. Gains and losses on disposals are recognized in the statement of net income and comprehensive income.

Residual values, method of depreciation and useful lives of the assets are reviewed at the end of each period and adjusted, if appropriate.

Repair and maintenance costs are expensed as incurred in the consolidated statement of net income and comprehensive income. Costs which increase future benefits associated with the item are allocated to the assets and depreciated over their residual useful lives.

Depreciation is calculated using the following useful life method over the estimated useful life of the assets as follows:

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Asset type	Useful life method	Term
Land	Indefinite	Indefinite
Buildings	Straight-line	10-30 years
Facilities production equipment	Straight-line	10 years
Computer equipment and software	Straight-line	3-6 years
Vehicles	Straight-line	5 years
Furniture and fixtures	Straight-line	5-10 years

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# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

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### 3. Material accounting policies (continued)

#### (d) Asset held for sale

The Company classifies non-current assets as assets held for sale when they are available for immediate sale in their present condition and the sale is highly probable.

The sale is considered highly probable when the following conditions are met:

- (a) management is committed to a plan to sell;
- (b) an active program to locate a buyer and complete the plan to sell has been initiated;
- (c) the asset is being marketed for sale at a price that is reasonable in relation to its current fair value; and
- (d) actions required to complete the plan indicate that it's unlikely that significant changes will be made or the plan will be withdrawn.

The non-current asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell and is reclassified as a current asset and impairment losses on initial recognition as held for sale and subsequent gains and losses on remeasurement are recognized in profit or loss.

#### (e) Leases

There is a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset has a low monetary value. Lessors classify leases as operating or finance. Disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Company has a lease for its head office premises, a transport vehicle and some production equipment. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which generally comprises the initial amount of the lease liability, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses its incremental borrowing rate as the discount rate.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

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### 3. Material accounting policies (continued)

#### (e) Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired and also whether the credit risk on a financial asset has increased significantly since initial recognition. The Company has adopted the simplified approach for accounts receivable. For accounts receivable that do not contain a significant financing component, the loss allowance is measured at initial recognition and throughout the life of the receivable at an amount equal to the lifetime expected credit losses ("ECL").

ECL is a probability-weighted estimate of credit losses. A credit loss is the difference between the cash flows that are due to the Company in accordance with the contract and the cash flows that the Company expects to receive discounted at the original effective interest rate. Because ECL considers the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full but later than when contractually due.

Losses are recognized as an expense in general and administrative expenses in the statement of net income and comprehensive income and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of net income and comprehensive income.

#### (f) Impairment of non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purposes of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit, or "CGU"). An impairment loss is recognized for the amount, if any, by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and the value in use (being the present value of expected future cash flows of the asset or CGU). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

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## 3. Material accounting policies (continued)

### (g) Revenue recognition

The Company generates revenue from the sale of cannabis and cannabis accessories.

Revenue is recognized when performance obligation under the terms of a contract with a customer is satisfied. The Company uses the following five-step contract-based analysis of transactions to determine if, when and how much revenue can be recognized:

1. Identify the contract with a customer;
2. Identify the performance obligation(s) in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligation(s) in the contract; and
5. Recognize revenue when or as the Company satisfies the performance obligation(s). Revenue from the sale of cannabis is generally recognized when control over the goods has been transferred to the customer. The Company generally satisfies its performance obligation and transfers control to the customer upon shipment or upon receipt by the customer. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled. The transaction price may include variable consideration, such as expected product returns, discounts, and price adjustments, which are estimated at contract inception and updated at each reporting date.

Amounts disclosed as net revenue from sale of goods are net of excise taxes.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

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### 3. Material accounting policies (continued)

#### (h) Financial instruments

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, when the contractual right to receive the cash flows is transferred or when the contractual rights to receive the cash flows are retained but the Company assumes contractual obligation to pay the cash flows to one or more recipients.

Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Upon initial recognition, financial assets and financial liabilities are measured at fair value plus or minus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial assets are subsequently measured at amortized cost, using the effective interest method and net of any impairment losses of:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows;
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payment of principal and for interest.

The classification of financial instruments by the Company is as follows:

Financial instrument	Measurement
Cash	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Revolving credit facilities	Amortized cost
Long-term debt	Amortized cost
Convertible debenture	Amortized cost
Term loan	Amortized cost

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# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

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## 3. Material accounting policies (continued)

### (i) Determination of fair values

Certain of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes as explained below. When applicable, further information about the assumptions made in determining fair values is disclosed in the note specific to that asset or liability.

Fair value is the price that would be received in selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In estimating the fair value of an asset or a liability, the Company considers the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

The fair value hierarchy of the Company's financial instruments is as follows:

Level 1 - quoted market prices in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3 - unobservable inputs, such as inputs for the asset or liability, which are not based on observable market data.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data and rely as little as possible on the Company's specific estimates. If all significant inputs required to fair value instruments are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

The fair value of the biological assets, as well as certain financial instruments on initial recognition, such as convertible debentures, were measured using Level 3 inputs due to the use of unobservable assumptions in determining their fair values at the time of initial recognition.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

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## 3. Material accounting policies (continued)

### (j) Government grants

Government grants are recognized when there is reasonable assurance that the Company has met the requirements of the approved grant program and there is reasonable certainty based on management's judgment that the government grant will be received. Government grants are recognized in other income on a systematic basis as the Company recognizes the costs that the grants are intended to compensate.

### (k) Research and development

Research and development expenditures are recognized as an expense in the year in which they are incurred. Research and development expenditures include employee salaries and benefits, professional fees, materials and attributable indirect costs to the Company's cultivation process as the Company develops new genetics and uses data generated from plants to adjust various factors in the cultivation process with the objective to maximize yield and streamline the production process.

### (l) Finance income and expenses

Finance income includes interest income on available cash balances, gain on convertible debenture modification and foreign exchange gains.

Finance expenses include interest expense on borrowings related to the term loan, convertible debentures, revolving credit facilities, lease liabilities, fees related to the letter of credit, as well as debt guarantee fees, accretion and amortization of finance costs and other finance expense and foreign exchange losses.

### (m) Share-based payments

The Company has share-based payment plans that grant share options or restricted shares unit to employees, directors and consultants. Accordingly, awards are measured on the grant date at fair value and recorded as a share-based compensation expense with a corresponding increase to contributed surplus. The expense is recognized over the vesting period of the options or the restricted shares unit granted and is recognized as an expense in earnings with a corresponding credit to contributed surplus. Any consideration paid by employees, directors and consultants on exercise of share options is credited to share capital combined with any related share-based compensation expense originally recorded in contributed surplus. The fair value of the awards is measured using the Black-Scholes model. Measurement inputs include the underlying share price, exercise price of the instrument, expected price volatility, expected life of the instrument, expected dividends, and the risk-free interest rate.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

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## 3. Material accounting policies (continued)

### (n) Income taxes

Income tax expense represents the sum of the tax currently payable and deferred.

#### Current tax

Income tax is recognized in the consolidated statement of net income and comprehensive income, except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

#### Deferred tax

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the date of the statement of financial position and will apply when the deferred tax assets or liabilities are expected to be settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. In assessing whether deferred tax assets may be realized, management considers the likelihood that some portion or all of the tax assets will be realized. The ultimate use of net deferred tax assets is dependent upon the generation of future taxable income or available tax planning strategies in making this assessment.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

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### 3. Material accounting policies (continued)

#### (o) Earnings per share

Earnings per share is determined using the weighted average number of common shares outstanding during the year.

Diluted earnings per share is determined by adjusting the net income and the weighted average number of common shares for the effects of all potential dilutive common shares, related to share options, restricted share units and convertible debenture. The number of additional shares is calculated by assuming that outstanding share options, restricted share units and for convertible debenture, the potential adjustment is based on the additional shares resulting from the assumed conversion. Conversion is assumed to have occurred at the beginning of the period, or, if later, on the date of issuance of the convertible instrument. Potentially dilutive instruments are not included in the calculation of earnings per share if they are anti-dilutive for the periods presented.

#### (p) Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates, judgments and assumptions. The carrying amounts of assets, liabilities, accruals, provisions, contingent liabilities and other financial obligations, as well as the determination of fair values and reported income and expense in these consolidated financial statements, depend on the use of estimates and judgments. IFRS also require management to exercise judgment in the process of choosing and applying the Company's accounting policies.

These estimates and judgments are based on the circumstances and estimates at the date of the consolidated financial statements and affect the reported amounts of income and expenses during the reporting period.

Given the uncertainty regarding the determination of these factors, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant items impacted by such estimates and judgments are outlined below.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

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### 3. Material accounting policies (continued)

(p) Critical accounting estimates and judgments (continued)

*Management estimates*

Management estimates the expected credit losses on account receivables by taking into account the Company's collection history, deterioration of collection rates during the average credit period, as well as observable changes in and forecasts of future economic conditions that affect default risk. Where applicable, the carrying amount of a trade receivable is reduced for any expected credit losses. Changes in the allowance for expected credit losses are recognized in the consolidated statements of income and comprehensive income. Accounts receivables are written off when they are deemed uncollectible.

Management estimates the useful lives of property, plant and equipment in the period during which the assets become available for use. The amounts and timing of recorded expenses for depreciation of property, plant and equipment for any period are affected by these estimated useful lives. The estimates are reviewed each period and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. Changes in these factors may cause significant changes in the estimated useful lives of the Company's property, plant and equipment and the related depreciation expense in the future.

Management estimates variable consideration related to expected returns of goods sold as part of its revenue recognition process. Estimates of variable consideration are determined using historical experience and expected future outcomes and are constrained to the extent that it is highly probable that a significant reversal of recognized revenue will not occur when the uncertainty is resolved. Expected product returns give rise to a refund liability and a corresponding right to recover returned goods, which is included in inventory.

*Critical accounting judgments and assumptions*

*Valuation of Biological Assets and Inventory and Net realizable value*

Biological assets, consisting solely of cannabis plants, are measured at fair value less costs to complete and costs to sell up to the point of harvest. Determining the fair value of biological assets requires management to make several estimates, including expected selling prices, yields per plant, and the stage of completion in the cultivation process. Because the fair value of biological assets forms the deemed cost of inventory upon harvest, these estimates also significantly affect the valuation of finished and work-in-process cannabis inventory. The net realizable value (NRV) of inventory is estimated based on anticipated selling prices in the ordinary course of business, less estimated costs of completion and selling expenses. Management exercises judgment in determining the assumptions used to assess NRV, including end-product type, average selling price per gram, age of inventory, and costs to complete and sell.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

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### 3. Material accounting policies (continued)

#### (q) Adoption of New Accounting Pronouncements

##### *Amendments to IAS 1: Classification of Liabilities as Current or Non-current*

The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2024. The Company has applied the amendments effective September 1, 2024, retrospectively and it did not impact the classification of current or non-current liabilities.

#### (r) New Accounting Pronouncements Not Yet Adopted

##### *IFRS 18 Presentation and Disclosures in Financial Statements*

IFRS 18, Presentation and Disclosures in Financial Statements, replaces IAS 1, Presentation of Financial Statements for reporting periods beginning on or after January 1, 2027, including for interim financial statements with retrospective application. IFRS 18, introduces a specified structure for the income statement by requiring income and expenses to be presented into the three defined categories of operating, investing and financing, and by specifying certain defined totals and subtotals. Where company-specific measures related to the income statement are provided, IFRS 18 requires companies to disclose explanations around these measures, which are referred to as management defined performance measures. IFRS 18 also provides additional guidance on principles of aggregation and disaggregation which apply to the primary financial statements and the notes. IFRS 18 will not affect the recognition and measurement of items in the financial statements, nor will it affect which items are classified in other comprehensive income and how these items are classified. The Company is currently assessing the effect of this new standard on its financial statements.

### 4. Assets held for sale

In January 2024, management committed to a plan to sell a parcel of land at its Valleyfield site that was unused in addition to the building under construction adjacent to the land parcel that was previously intended to be leased out as part of its real estate segment. The carrying amount of these assets in the amount of \$4,958,557 were reclassified as assets held for sale in the second fiscal quarter of 2024 (note 7).

In April 2024, the Company sold a portion of the land at the Valleyfield site for \$2.1 million, generating a gain on disposal of \$2.0 million.

In August 2025, the Company sold the remaining parcel of land along with the building under construction at the Valleyfield site for \$5.5 million, generating a gain on disposal of \$0.5 million. The funds were used directly to reimburse a portion of the term loan and related expenses (note 9 (b) and 21).

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 5. Biological assets

The Company's biological assets consist of cannabis plants up to the point of harvest. The changes in the carrying values of biological assets are as follows:

Carrying amount, August 31, 2023	\$	5,774,121
Production costs capitalized		20,128,710
Change in fair value due to biological transformation, less cost to sell		25,550,941
Transferred to inventory upon harvest		(44,804,181)
Carrying amount, August 31, 2024	\$	6,649,591
Production costs capitalized		22,433,561
Change in fair value due to biological transformation, less cost to sell		29,622,019
Transferred to inventory upon harvest		(51,889,230)
Carrying amount, August 31, 2025	\$	6,815,941

As at August 31, 2025, it is expected that the Company's biological assets will yield approximately 11,108 kilograms of dried cannabis when harvested (As at August 31, 2024 - 9,150 kilograms of dried cannabis).

The estimates used in determining the fair value of cannabis plants are as follows:

- expected average selling price per gram of harvested cannabis;
- expected cost to complete and cost to sell;
- expected yield per cannabis plant;
- stage of completion in the production process (days remaining until harvest); and
- expected plant loss based on their various stages of growth.

The valuation of biological assets is based on an income approach in which the fair value at the point of harvesting is estimated based on selling prices less the costs to sell. For in-process biological assets, the fair value at point of harvest is adjusted based on the stage of growth at period-end. Stage of growth is determined by reference to the time incurred as a percentage of total weeks of growth as applied to estimated total fair value per gram (less costs to complete and costs to sell) to arrive at an in-process fair value for estimated biological assets, which have not yet been harvested.

Because there is no actively traded commodity market for cannabis plants and dried product, the valuation of the biological assets is obtained using valuations techniques where the inputs are based upon unobservable market data and are classified as level 3 in the fair market value hierarchy. There has been no transfer between levels as at August 31, 2025.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 5. Biological assets (continued)

Management's identified significant unobservable inputs, their values and sensitivity analysis are presented in the table below. The Company's estimates are, by their nature, subject to change, and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods. The income approach calculates the present value of expected future cash flows from the Company's biological assets using the following inputs for the period ended August 31, 2025:

Unobservable inputs	Input values	Sensitivity analysis
<i>Selling price</i> Represents the average expected selling price per gram of dried cannabis, excluding excise taxes, where applicable, which is expected to approximate future selling prices. The average selling price varies depending on the estimated products.	Weighted average of \$2.73 per gram of dried cannabis packaged (August 31, 2024 - \$2.88 per gram)	An increase or decrease of 5% applied to the selling price would result in a change of approximately \$689,000 to the valuation.
<i>Yield per plant</i> Represents the average number of grams of dried cannabis expected to be harvested from each cannabis plant from the two facilities.	89 grams per plant (August 31, 2024 - 85 grams per plant)	An increase or decrease of 15% applied to the average yield per plant would result in a change of approximately \$1,013,000 to the valuation.
<i>Stage of completion</i> Calculated by taking the average number of days in the cultivation cycle over the total estimated duration of a cultivation cycle which is currently approximately 12 to 13 weeks from clone to harvest.	Weighted average stage of completion is 50% (August 31, 2024 - 47%)	An increase or decrease of 5% applied to the average stage of growth per plant would result in a change of approximately \$337,000 to the valuation.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 6. Inventory

	August 31, 2025		
	Capitalized cost	Fair value adjustment <sup>1</sup>	Total
Raw materials - cultivation and supplies	\$ 6,653,585	\$ -	\$ 6,653,585
Harvested cannabis			
Dried cannabis and work-in-progress	11,244,376	9,276,198	20,520,574
Finished goods	2,137,733	930,175	3,067,908
Derivative products			
Derivative products and work-in-progress	6,959,089	3,456,914	10,416,003
Finished goods	2,501,105	510,824	3,011,929
Finished goods - cannabis accessories	846,057	-	846,057
	<b>\$ 30,341,945</b>	<b>\$ 14,174,111</b>	<b>\$ 44,516,056</b>

	August 31, 2024		
	Capitalized cost	Fair value adjustment <sup>1</sup>	Total
Raw materials - cultivation and supplies	\$ 3,947,915	\$ -	\$ 3,947,915
Harvested cannabis			
Dried cannabis and work-in-progress	8,462,992	8,667,986	17,130,978
Finished goods	1,763,282	773,295	2,536,577
Derivative products			
Derivative products and work-in-progress	5,594,497	1,821,557	7,416,054
Finished goods	1,685,110	184,648	1,869,758
Finished goods - cannabis accessories	522,233	-	522,233
	<b>\$ 21,976,029</b>	<b>\$ 11,447,486</b>	<b>\$ 33,423,515</b>

<sup>1</sup> Fair value adjustment represents the fair value adjustment transferred from biological assets at harvest.

The amounts of inventory expensed as cost of goods sold during the year ended August 31, 2025 was \$62,471,640 (2024 - \$53,958,398), including an impairment loss on inventory cost of \$1,507,030 (2024 - \$1,731,029) and \$3,475,572 (2024 - \$2,591,205) in change in fair value of inventory sold for cannabis that exceeded its net realizable value.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 7. Property, plant and equipment

	Land	Buildings	Facility production equipment	Computer equipment and software	Vehicles	Furniture and fixtures	Construction in progress	Total
<b>Cost</b>								
Balance as at August 31, 2024	\$ 2,330,099	\$ 76,710,294	\$ 16,346,551	\$ 1,733,228	\$ 42,140	\$ 2,528,937	\$ 4,708,667	\$ 104,399,916
Additions	–	118,089	5,444,688	269,194	16,075	130,598	2,048,537	8,027,181
Transfer	–	1,422,030	680,855	–	–	–	(2,102,885)	–
Disposal	–	–	(406,104)	–	(3,700)	–	–	(409,804)
Derecognition of fully amortized assets	–	(491,962)	(1,234,471)	(59,141)	(2,000)	–	–	(1,787,574)
<b>Balance as at August 31, 2025</b>	<b>\$ 2,330,099</b>	<b>\$ 77,758,451</b>	<b>\$ 20,831,519</b>	<b>\$ 1,943,281</b>	<b>\$ 52,515</b>	<b>\$ 2,659,535</b>	<b>\$ 4,654,319</b>	<b>\$ 110,229,719</b>
<b>Accumulated amortization</b>								
Balance as at August 31, 2024	\$ –	\$ (13,193,888)	\$ (4,662,315)	\$ (1,264,345)	\$ (24,865)	\$ (913,798)	\$ –	\$ (20,059,211)
Depreciation	–	(3,348,583)	(2,488,435)	(343,614)	(10,743)	(251,647)	–	(6,443,022)
Disposal	–	–	135,160	–	1,048	–	–	136,208
Derecognition of fully amortized assets	–	491,962	1,234,471	59,141	2,000	–	–	1,787,574
<b>Balance as at August 31, 2025</b>	<b>\$ –</b>	<b>\$ (16,050,509)</b>	<b>\$ (5,781,119)</b>	<b>\$ (1,548,818)</b>	<b>\$ (32,560)</b>	<b>\$ (1,165,445)</b>	<b>\$ –</b>	<b>\$ (24,578,451)</b>
<b>Net book value</b>								
Balance as at August 31, 2025	\$ 2,330,099	\$ 61,707,942	\$ 15,050,400	\$ 394,463	\$ 19,955	\$ 1,494,090	\$ 4,654,319	\$ 85,651,268

As at August 31, 2025, the remaining assets included in construction in progress represents mainly the unused portion of the Valleyfield Facility, related capital production expenditures and for the build-out of a portion of the post-processing area. The costs are transferred to other categories as the assets become available or ready for use.

As part of its real estate segment, the Company used the non-cannabis licensed area of the Farnham building to generate lease revenues. As at August 31, 2025, a carrying value of \$10,156,926 related to the Farnham building is recognized as an investment property (As at August 31, 2024 - \$10,156,926). The fair value of the Farnham building is not reliably measured on a continuous basis, as such the fair value of the building is not known, and it was measured using the cost model as per IAS 16, Property, plant and equipment.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 7. Property, plant and equipment (continued)

	Land	Buildings	Facilities production equipment	Computer equipment and software	Vehicles	Furniture and fixtures	Construction in progress	Total
<b>Cost</b>								
Balance as at August 31, 2023	\$ 2,452,085	\$ 75,479,394	\$ 14,490,667	\$ 1,626,042	\$ 40,440	\$ 2,407,859	\$ 6,731,664	\$ 103,228,151
Additions	–	708,622	1,678,004	107,186	3,700	86,446	3,573,475	6,157,433
Transfer	–	522,278	202,991	–	–	34,632	(759,901)	–
Disposal	–	–	(25,111)	–	(2,000)	–	–	(27,111)
Reclass asset held for sale	(121,986)	–	–	–	–	–	(4,836,571)	(4,958,557)
<b>Balance as at August 31, 2024</b>	<b>\$ 2,330,099</b>	<b>\$ 76,710,294</b>	<b>\$ 16,346,551</b>	<b>\$ 1,733,228</b>	<b>\$ 42,140</b>	<b>\$ 2,528,937</b>	<b>\$ 4,708,667</b>	<b>\$ 104,399,916</b>
<b>Accumulated depreciation</b>								
Balance as at August 31, 2023	\$ –	\$ (9,503,932)	\$ (2,831,044)	\$ (948,334)	\$ (17,025)	\$ (668,119)	\$ –	\$ (13,968,454)
Depreciation	–	(3,689,956)	(1,836,031)	(316,011)	(8,327)	(245,679)	–	(6,096,004)
Disposal	–	–	4,760	–	487	–	–	5,247
<b>Balance as at August 31, 2024</b>	<b>\$ –</b>	<b>\$ (13,193,888)</b>	<b>\$ (4,662,315)</b>	<b>\$ (1,264,345)</b>	<b>\$ (24,865)</b>	<b>\$ (913,798)</b>	<b>\$ –</b>	<b>\$ (20,059,211)</b>
<b>Net book value</b>								
Balance as at August 31, 2024	\$ 2,330,099	\$ 63,516,406	\$ 11,684,236	\$ 468,883	\$ 17,275	\$ 1,615,139	\$ 4,708,667	\$ 84,340,705

During the year ended August 31, 2025, the Company recognized \$6,443,022 as depreciation expense (2024 - \$6,096,004), of which \$1,281,142 has been recognized in the consolidated statement of net income and comprehensive income (2024 – \$1,118,764), and \$5,161,880 (2024 - \$4,977,240) has been included in the calculation of the biological assets and inventory valuation and for which some lots were ultimately used for research and development (note 12).

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 8. Right-of-use asset and lease liabilities

### (a) Right-of-use asset

	2025		2024	
<b>Cost</b>				
Balance, beginning of year	\$	987,986	\$	312,974
Additions		47,636		675,012
Disposal		(23,500)		–
Derecognition of fully amortized assets		(7,418)		–
<b>Balance, end of year</b>	<b>\$</b>	<b>1,004,704</b>	<b>\$</b>	<b>987,986</b>
<b>Accumulated depreciation</b>				
Balance, beginning of year	\$	(392,768)	\$	(135,957)
Amortization		(282,099)		(256,811)
Disposal		11,750		–
Derecognition of fully amortized assets		7,418		–
<b>Balance, end of year</b>	<b>\$</b>	<b>(655,699)</b>	<b>\$</b>	<b>(392,768)</b>
<b>Net book value</b>				
<b>Balance, end of year</b>	<b>\$</b>	<b>349,005</b>	<b>\$</b>	<b>595,218</b>

### (b) Lease liabilities

	2025		2024	
Maturity analysis - contractual undiscounted cash flows:				
Less than one year	\$	304,170	\$	323,762
One to five years		118,063		390,461
<b>Total undiscounted lease liabilities</b>	<b>\$</b>	<b>422,233</b>	<b>\$</b>	<b>714,223</b>
Current	\$	281,158	\$	279,612
Non-current		114,804		368,537
<b>Lease liabilities included in the consolidated statement of financial position</b>	<b>\$</b>	<b>395,962</b>	<b>\$</b>	<b>648,149</b>
<b>Balance, beginning of year</b>				
Balance, beginning of year	\$	648,149	\$	176,020
Additions		47,636		675,012
Lease payments		(347,726)		(258,608)
Interest on lease liabilities		47,903		55,725
<b>Balance, end of year</b>	<b>\$</b>	<b>395,962</b>	<b>\$</b>	<b>648,149</b>

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 9. Financing

### (a) Revolving credit facilities

	2025	2024
Net carrying value, beginning of year	\$ 6,259,298	\$ 3,000,000
Proceeds from revolving credit facilities	500,000	5,700,000
Repayment of revolving credit facilities	(1,298)	(2,440,702)
Net carrying value, end of year	\$ 6,758,000	\$ 6,259,298

  

	2025	Expiry date
Revolving credit facility A	\$ 6,258,000	2025-11-26
Revolving credit facility B	500,000	2025-11-13
Net carrying value, end of year	\$ 6,758,000	

The Company has access to a \$10 million revolving credit facility which is intended to be used for general working capital purposes. Each tranche drawn on the revolving credit facility has either a 30, 60 or 90-day term depending on management's decision and can be renewed by the Company at the end of the period. All tranches of the revolving credit facility were renewed subsequent to year-end (note 22).

The revolving credit facilities bear a variable interest rate based on prime rate or the Canadian overnight repo rate average ("CORRA") plus an applicable margin based on the credit agreement. As at August 31, 2025, the average interest on the revolving credit facilities was 5.75% (August 31, 2024 – 8.28%). This reduction reflects the Company's achievement of certain covenant thresholds, which lowered the applicable interest rate.

As part of the term loan extension (note 9 (b)), the availability period of the revolving credit facilities was also extended until December 31, 2027, under the same security, guarantees, and covenant terms as the term loan. The revolving credit facilities are classified as a current liability, as they are actively managed and expected to be settled by the Company within its normal operating cycle.

During the year ended August 31, 2025, the Company recognized \$451,292 as interest expense for the revolving credit facilities (2024 – \$524,066). As at August 31, 2025, accrued interest of \$6,355 were included in account payables and accrued liabilities (2024 – \$92,019).

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 9. Financing (continued)

### (b) Term loan

	2025	2024
Net carrying value, beginning of year	\$ 34,976,596	\$ 36,854,235
Repayment of term loan	(6,933,154)	(1,965,961)
Addition of term loan issuance costs	(190,620)	(198,267)
Amortization of deferred financing costs	176,286	286,589
Net carrying value, end of year	\$ 28,029,108	\$ 34,976,596
Term loan <sup>(i)</sup>	\$ 28,454,147	\$ 35,387,301
Less: unamortized financing costs	(425,039)	(410,705)
	28,029,108	34,976,596
Short-term portion of term loan	(1,965,961)	(1,965,961)
	\$ 26,063,147	\$ 33,010,635

- (i) The term loan bears a variable interest rate based on prime and/or CORRA rates plus an applicable margin based on the credit agreement. As at August 31, 2025, the interest on the term loan was 5.77% (2024 – 8.45%). This reduction reflects the Company's achievement of certain covenant thresholds, which lowered the applicable interest rate. The term loan is reimbursable quarterly. On February 21, 2025, the Company extended the term of the term loan until December 31, 2027. As part of this extension, the Company incurred \$190,620 in fees that were recorded as deferred financing fees.

The term loan is secured by a first-ranking mortgage against the Farnham and Valleyfield facilities and was previously guaranteed, with limited recourse, in part by a related party for a fee based on the outstanding loan amount (note 20 (b)). As of March 1, 2025, the Company met the required covenant thresholds to remove this limited recourse guarantee.

The lender also issued a \$5.1 million letter of credit to a provincial service provider to fund certain deposit requirements part of the Valleyfield acquisition in 2021 and \$0.1 million to another supplier. A fee is charged in exchange of this service (note 15).

For the year ended August 31, 2025, the Company recognized \$2,350,675 as interest expense for the term loan (August 31, 2024 – \$3,221,998). As at August 31, 2025, accrued interest of \$80,982 was included in account payables and accrued liabilities (August 31, 2024 – \$264,869).

The Company has to respect financial covenants such as (a) maintaining a certain liquidity coverage at all the times, (b) a fixed charge coverage ratio equal to or more than 1.25 to 1.0, (c) a funded debt to EBITDA ratio equal to or less than 3.5 to 1.0 at each quarter-end. As at August 31, 2025, the Company met all of the imposed covenants.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 9. Financing (continued)

### (b) Term loan (continued)

- (i) During the fourth quarter of 2025, the Company obtained approval for a new \$10 million committed delayed capital expenditures debt facility to finance the Company's capital expansion projects. As at August 31, 2025, the Company had not made any draws and incurred \$52,164 of financing fees which are presented as deferred financing costs.

### (c) Convertible debentures

The roll forward of the financial liability component of the convertible debentures is as follows:

	2025	2024
Net carrying value, beginning of year	\$ 6,442,350	\$ 5,753,133
Repayment	(1,000,000)	–
Loss (gain) on convertible debenture modification	26,764	(11,218)
Interest expense	643,375	317,692
Accretion and amortization of deferred issuance costs	64,066	382,743
Net carrying value, end of year	\$ 6,176,555	\$ 6,442,350
Short-term portion of the convertible debenture	(4,072,270)	(1,000,000)
	\$ 2,104,285	\$ 5,442,350

On January 30, 2024, the Company modified the maturity of the convertible debenture from January 31, 2025 to September 30, 2025 with interest increasing to 10.75%, compounded semi-annually, effective January 31, 2025. The impact of the convertible debenture modification resulted in a gain of \$11,218 which was recognized in net finance expense.

On January 27, 2025, the Company modified the maturity of the \$5,700,000 convertible debenture from September 30, 2025 to March 31, 2028. The impact of the convertible debenture modification resulted in a loss of \$26,764 which was recognized in net finance expense. As part of the amended agreement, a \$1,000,000 partial repayment was made during the third quarter of 2025 and by September 30, 2025, all interest accrued until that date would be payable either in cash or in common shares at the choice of the Company, and a second partial repayment of \$2,350,000 would be due. Subsequent to year-end, the holder of the convertible debenture converted the remaining principal balance of \$4,700,000 and all interest accrued to date in common shares of the Company at a conversion price of \$1.80.

During the year ended August 31, 2025, the Company recognized \$643,375 as interest expense (2024 - \$317,692). As at August 31, 2025, accrued interest of \$1,478,936 was included in the carrying amount of the convertible debenture (2024 - \$835,562).

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

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## 10. Share capital

The share capital represents the amount received upon issuance of common shares. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from the proceeds in equity in the period in which the transaction occurs.

### (a) Authorized

The Company has an unlimited number of voting and participating common shares authorized for issuance without par value.

### (b) Transactions on share capital

#### *NCIB*

On November 11, 2022, the Company received approval from the Toronto Stock Exchange to commence the Normal Course Issuer Bid ("NCIB"). Under the NCIB, the Company may acquire up to a maximum of 1,500,000 of its shares, or approximately 1.5% of its float for cancellation over the following 12 months.

In connection with the NCIB, the Company has established a securities purchase plan with its designated broker to facilitate the purchase of shares under the NCIB at times when the Company would ordinarily not be permitted to purchase its shares due to regulatory restrictions or self-imposed blackout periods. Under the plan, before entering a self-imposed blackout period, the Company may, but is not required to, ask the designated broker to make purchases under the NCIB within specific parameters.

During the year ended August 31, 2024, the Company purchased 286,900 common shares having an average book value of \$280,588 for cash consideration of \$277,139. The excess of the book value over the purchase price value of the shares of \$3,449 was credited to deficit. All shares purchased were cancelled.

The 1-year NCIB period ended in December 2023.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 10. Share capital (continued)

### (c) Earnings per share

The calculation of basic earnings per share was calculated based on the net income attributable to common shareholders of the Company divided by the weighted average number of common shares outstanding during the period, while the diluted earnings per share was adjusted for the effects of potential dilutive common shares such as share options, restricted share units and convertible debentures.

The calculations for basic and diluted earnings per share for the years ended August 31, 2025 and 2024 was as follows:

	2025	2024
Net income	\$ 13,076,193	\$ 6,438,484
Issued common shares, beginning of the year	90,018,952	90,305,852
Effect of restricted share units settled for common shares	846,451	–
Repurchase and cancellation of common shares under NCIB	–	(237,469)
Weighted average number of common shares, basic	90,865,403	90,068,383
Impact of dilutive securities:		
Restricted share units	1,346,666	1,316,642
Share options	156,305	–
Weighted average number of common shares, diluted	92,368,374	91,385,025
Earning per share – basic	\$ 0.14	\$ 0.07
Earning per share – diluted	\$ 0.14	\$ 0.07

For the year ended August 31, 2025, the Company excluded the following instruments from the weighted average number of diluted common shares calculation as their effect would have been anti-dilutive: 8,658,010 share options and 2,611,111 shares potentially to be issued under the convertible debentures that may potentially dilute earnings per share in the future (2024 – 4,539,687 share options and 3,166,667 shares as-if the convertible debentures were converted).

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 11. Share-based compensation

### (a) Share option plan

The Company has established a share option plan whereby certain personnel may be granted options to acquire shares under the terms of the employee share option plan or shares may be granted to third parties in exchange for services. The number and characteristics of share options granted under the employee share option plan are determined by the Board of Directors of the Company but cannot exceed 10% of the Corporation's issued and outstanding common shares, including previously granted share options; and such number of common shares as, when combined with all other common shares subject to grants made under the Company's other share compensation arrangements (including the restricted share unit plan) would not exceed 10% of the outstanding common shares. The characteristics of share options granted to third parties for services are determined on a case-by-case basis.

The share options granted under the employee share option plan vest 25% after the first anniversary of the grant date with the remainder vesting in 36 monthly consecutive equal instalments and expire after ten years maximum from the date of issue or as approved by the Board of Directors. The plan provides for the issuance of common shares at an exercise price determined by the Board of Directors which is not lower than the maximum discounted fair value of the common shares on the grant date as per TSX.V rules. Outstanding share options under the plan are granted with service requirements (or service conditions) and become exercisable upon vesting. The share options granted to third parties for services have vesting terms determined on a case-by-case basis.

The activity of outstanding share options for the years ended August 31, 2025 and 2024 was as follows:

	Number	2025 Weighted average exercise price	Number	2024 Weighted average exercise price
Outstanding, beginning of year	4,539,687	\$ 1.59	3,831,945	\$ 1.65
Granted	4,456,900	1.40	749,000	1.30
Forfeited	(85,771)	1.80	(10,331)	1.80
Expired	(252,798)	1.80	(30,927)	1.80
Outstanding, end of year	8,658,018	1.48	4,539,687	1.59
Exercisable, end of year	3,597,644	\$ 1.59	3,212,433	\$ 1.62

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 11. Share-based compensation (continued)

### (a) Share option plan (continued)

During the year ended August 31, 2025, the Company granted 525,000 share options at an exercise price of \$1.00, 100,000 share options at an exercise price of \$1.25, 3,625,000 share options at an exercise price of \$1.44 and 206,900 share options at an exercise price of \$1.80 to certain employees subject to certain vesting conditions in accordance with the employee share option plan or as approved by the board of directors (2024 - 124,000 share options at an exercise price of \$1.80 and 625,000 share options at an exercise price of \$1.20 to certain employees subject to certain vesting conditions in accordance with the employee share option plan )

During the year ended August 31, 2025, the Company recorded a share-based compensation expense of \$427,602 that was recognized in the consolidated statement of net income and comprehensive income (2024 - \$1,233,089).

During the second quarter of 2024, the board of directors approved the extension of the expiry date from 5 to 7 years for 2,435,000 share options exercisable at \$1.80 per share and 750,000 share options exercisable at \$1.00 per share of the key management and the members of the board of directors. These share options now expire between December 2025 and September 2029. The impact of the extension resulted in an additional charge of \$516,237 which was included in the share-based compensation expense.

The estimated fair value of the share options at the grant date was measured using the Black-Scholes option pricing model and the following weighted average inputs and assumptions:

	2025	2024
Share price <sup>(i)</sup>	\$ 1.62	\$ 0.85
Exercise price	\$ 1.40	\$ 1.30
Risk-free interest rate <sup>(ii)</sup>	3.35%	3.52%
Expected life <sup>(iii)</sup>	9.44 years	7 years
Expected price volatility <sup>(iv)</sup>	73.34%	88%
Fair value of the option	\$ 1.30	\$ 0.62
Expected dividend yield <sup>(v)</sup>	Nil	Nil

(i) The share price is based on the market price on the date of the grant.

(ii) The risk-free interest rate was based on the Bank of Canada government bonds rates in effect at grant date for time periods approximately equal to the expected life of the option.

(iii) The expected life of the options reflects the assumption of future exercise patterns that may occur.

(iv) Expected price volatility was estimated based on historical volatility of the Company's shares.

(v) The expected dividend yield has been estimated at nil as the Company has never paid cash dividends and does not expect to do so in the foreseeable future.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 11. Share-based compensation (continued)

### (a) Share option plan (continued)

The number of outstanding share options that could be exercised for an equal number of common shares is as follows:

Expiry date range	Average exercise price \$	Number outstanding	Number exercisable	Weighted average number of years remaining
Sept 2025 to Aug 2026	\$ 1.80	122,100	122,100	0.51
Sept 2026 to Aug 2027	1.80	458,500	432,676	1.87
Sept 2027 to Aug 2028	1.80	385,518	257,422	2.61
Sept 2028 to Aug 2029	1.80	512,500	444,994	3.30
Sept 2029 to Aug 2030	1.00 to 1.80	2,060,000	2,049,839	4.08
Sept 2030 and after	1.00 to 1.80	5,119,400	290,613	8.78
		8,658,018	3,597,644	6.57 years

### (b) Restricted Share Units

The Company has established a Restricted Share Units Plan that provides for a maximum number of common shares available and reserved for issuance to 10% of the aggregate number of common shares issued and outstanding from time to time; and (ii) such number of common shares as, when combined with all other common shares subject to grants made under the Company's other share compensation arrangements (including the Share Option Plan) would not exceed 10% of the outstanding common shares. Under the Restricted Share Units Plan, the Company may grant to certain personnel restricted share units without performance conditions ("RSU") or restricted share units with performance conditions ("PSU"). The restricted share units are time-based awards, and the numbers of share units granted will vest upon the continuous employment of the Participants on the second anniversary of the grant or as approved by the Board of Directors, without exceeding five years, and when applicable, if the performance conditions are met. Pursuant to the terms of the Restricted Share Units Plan, Participants will receive for no consideration, upon vesting of the RSUs or PSUs, common shares of the Company issued from treasury.

During the year ended August 31, 2025, the Company granted 257,500 RSUs which are exercisable for no consideration (2024 – 715,000 RSUs).

During the second quarter of 2025, the Company settled 1,414,183 RSUs for common shares. As a result, the book value of the RSUs totalling \$1,241,515 was reclassified from contributed surplus to share capital.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 11. Share-based compensation (continued)

### (b) Restricted Share Units (continued)

The outstanding RSUs for the years ended August 31, 2025 and 2024 are as follows:

	Number	2025 Weighted average fair value	Number	2024 Weighted average fair value
Outstanding, beginning of year	1,504,183	\$ 0.88	789,183	\$ 0.90
Granted	257,500	1.37	715,000	0.85
Settled	(1,414,183)	0.88	–	–
Outstanding, end of year	347,500	\$ 1.24	1,504,183	\$ 0.87

Vesting date	Number outstanding
December 6, 2025	90,000
November 22, 2026	90,000
April 25, 2027	22,500
August 28, 2027	145,000
	347,500

During year ended August 31, 2025, the Company granted 625,000 PSUs which are exercisable for no consideration (2024 – nil).

The outstanding PSUs for the years ended August 31, 2025 and 2024 are as follows:

	Number	2025 Weighted average fair value	Number	2024 Weighted average fair value
Outstanding, beginning of year	–	\$ –	–	\$ –
Granted	625,000	0.68	–	–
Outstanding, end of year	625,000	\$ 0.68	–	\$ –

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 11. Share-based compensation (continued)

### (b) Restricted Share Units (continued)

Vesting date	Number outstanding
January 1, 2026	625,000
	625,000

For the year ended August 31, 2025, the Company recorded a share-based compensation expense of \$765,693 in the consolidated statement of net income and comprehensive income for the RSUs and PSUs (2024 - \$743,720).

## 12. Other income

	2025	2024
Ancillary cannabis revenues <sup>(i)</sup>	\$ 141,427	\$ 39,258
Government grants <sup>(ii)</sup>	114,122	402,032
Other revenue	198,892	53,630
	\$ 454,441	\$ 494,920

(i) As part of its research and development (“R&D”) activities from its cannabis operations (note 13), the Company had generated ancillary cannabis revenues from the sale of cannabis that was recorded as other income. The Company generated these ancillary cannabis revenues from the sale of cannabis lots that were initially used for R&D purpose.

(ii) The Company has received various government grants related to the matters described below.

As part of its environmental initiatives incorporated into the operations at the Farnham facility, the Company received in 2021 a government grant for assets purchased in exchange for a 10-year commitment on its environmental footprint reduction initiatives. The amount has been recognized as deferred income and is being recognized as other income based on the useful life of the assets related to this grant.

For the year ended August 31, 2025, the total deferred income recognized as other income along with other government incentives, including various tax credits, recognized directly as other income amounted to \$114,122 (2024 - \$402,032). There are no remaining unfulfilled conditions regarding any of the grants recognized directly as other income. As at August 31, 2025, a balance of \$941,756 remains in deferred grant income, of which \$63,536 was presented in current portion of deferred grant income in the consolidated statements of financial position (As at August 31, 2024 – a balance of \$993,950 remains in deferred grant income, of which \$48,988 was presented in current portion).

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 13. Research and development

As part of its Cannabis Operations (note 19), the Company had conducted certain activities related to research and development.

The Company is pursuing its research and development activities in parallel with its commercial activities. The Company's cultivation and compliance staff continuously research, test and develop new genetics and improve cultivation and post-harvest methodologies that are expected to generate increased yield and quality which will facilitate the commercialization of a premium cannabis product in addition to product innovation.

## 14. General and administrative

	2025	2024
Salaries and benefits	\$ 4,871,089	\$ 4,244,537
Administrative and regulatory expenses	4,340,393	3,798,133
Facilities expense	1,681,100	1,793,431
General and administrative	\$ 10,892,582	\$ 9,836,101

## 15. Net finance expense

	2025	2024
Interest income	\$ 280,942	\$ 178,963
Gain on convertible debenture extension	–	11,218
Finance income	280,942	190,181
Interest on term loan	2,350,675	3,221,998
Interest on credit facilities	451,292	524,066
Interest on convertible debenture	643,375	317,692
Interest on lease liabilities	47,903	55,725
Interest on other long-term debt	31,491	–
Fees related to letter of credit	182,845	207,987
Debt guarantee fees	224,914	375,000
Accretion and amortization of financing costs	240,352	727,106
Other finance expense	180,545	233,821
Loss on convertible debenture extension	26,764	–
Foreign exchange loss	9	120,955
Finance expense	4,380,165	5,784,350
Net finance expense	\$ 4,099,223	\$ 5,594,169

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

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## 16. Financial instruments

### (a) Capital management

The Company defines capital as total equity and any other financing instrument it has issued, principally its revolving credit facilities, term loan and convertible debenture. As at August 31, 2025, these financing instruments totalled \$41.0 million (August 31, 2024 – \$47.7 million), while total equity amounted to \$102.2 million (2024 – \$88.0 million), resulting in a net-debt-to-equity ratio of 40% (2024 – 54%). The Company's primary objective when managing capital is to ensure its ability to continue as a going concern while pursuing the development and growth of its businesses and products. Management seeks to maintain a capital structure that provides flexibility to support current operations and future strategic initiatives, while optimizing the cost of capital.

The Company monitors its capital structure on an ongoing basis, taking into account operating results, cash flow forecasts, and market conditions. Cash in excess of immediate working capital requirements is invested in accordance with the Company's investment policy, with a focus on liquidity and capital preservation.

The Company is subject to externally imposed capital requirements arising from its bank financing agreements. These requirements include maintaining certain financial ratios designed to ensure an appropriate capital structure and the ability to meet debt obligations. The Company regularly reviews its forecasted results and capital position to ensure ongoing compliance with these covenants. As at August 31, 2025, the Company was in compliance with all such covenants.

The Company's ability to generate recurring profits from operations depends on the continued success of its product and brand portfolio, and the maintenance of consistent grow operations and an efficient cost structure. Management expects to finance ongoing operations and growth through a combination of operating cash flows, existing cash balances, available undrawn credit facilities, and, if necessary, additional equity or debt financing.

### (b) Fair value measurements

The fair value of cash, accounts receivable, accounts payable, accrued liabilities and revolving credit facilities approximate their carrying amounts due to the short-term maturity of those instruments.

The long-term debt, term loan and convertible debenture are measured at amortized cost. Their fair values approximate their carrying amounts as the instruments bear interest at rates that reflect current market conditions for similar debt with comparable terms and credit risk.

As at August 31, 2025, all of the Company's financial instruments were classified as Level 2, as their fair values were determined using observable market interest rates and discounted cash flow analyses. The Company did not have any Level 3 financial instruments as at August 31, 2025 (August 31, 2024 – none), and there were no transfers between levels during the year.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

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## 16. Financial instruments (continued)

### (c) Credit risk

Credit risk represents the potential for financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk primarily through its cash balances, prepaid expenses, lease and accounts receivable, and deposits.

Cash balances and deposits expose the Company to credit risk arising from potential default by the financial institutions that hold its funds or execute currency transactions. This risk is mitigated by placing funds only with large, well-established financial institutions that carry investment-grade credit ratings. All counterparties met these criteria as at August 31, 2025.

The carrying amount of accounts receivable in the consolidated statement of financial position is presented net of an allowance for expected credit losses, which is estimated by management based on the ageing of balances, historical loss experience, and forward-looking information on customer creditworthiness. As at August 31, 2025, none of the receivables were past due, and the allowance for expected credit losses was nominal (August 31, 2024 – nominal).

The Company is subject to a concentration of credit risk, as three customers each accounted for more than 10 % of total revenues and together represented approximately \$11.7 million of accounts receivable at year-end. These customers are provincial government entities, and accordingly, management considers the related credit risk to be minimal given their high credit quality and consistent payment history.

The Company's maximum exposure to credit risk corresponds to the carrying amount of its financial assets recognized on the consolidated statement of financial position. There were no significant changes in the Company's credit-risk management policies or loss-allowance methodology during the year ended August 31, 2025.

### (d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk primarily through its revolving credit facilities and term loan, which bear variable interest rates. Cash balances also expose the Company to interest rate risk, but this exposure is considered insignificant given the short-term nature and low volatility of deposit rates.

Management monitors market interest rates on an ongoing basis and may consider the use of additional strategies to manage exposure should it become significant in the future. As at August 31, 2025, a 1% change in variable interest rates would have affected the Company's annual interest expense by approximately \$0.3 million (August 31, 2024 – \$0.3 million), assuming all other variables remain constant.

The Company believes its current level of exposure to interest rate risk is moderate and appropriately managed within its capital structure.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 16. Financial instruments (continued)

### (e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due or can only do so at an excessive cost. The Company manages this risk by monitoring its compliance with financial covenants (note 9(b)) and assessing capital requirements on an ongoing basis, as well as by maintaining cash flow forecasts and long-term operating and strategic plans.

Because the Company is subject to certain covenants, including maintaining certain financial ratios, non-compliance with these quarterly covenants could result in the term loan (note 9(b)) becoming immediately due and payable in full. Management believes that cash flows from operations, together with the availability of funds under existing credit facilities, will be adequate to support the Company's financial liabilities as they come due. Assessing the Company's liquidity position, including expected future compliance with financial covenants, involves the use of judgment.

The Company does not anticipate any liquidity issues in the foreseeable future; however, as with any forecast, there can be no absolute assurance.

The contractual maturities of financial liabilities as at August 31, 2025 were as follows:

	Carrying amount	Contractual cash flows	Less than 1 year	1 to 3 years
Financial liabilities				
Accounts payable and accrued liabilities	\$ 11,082,834	\$ 11,082,834	\$ 11,082,834	\$ –
Revolving credit facilities	6,758,000	6,758,000	6,758,000	–
Long-term debt	221,319	229,983	229,983	–
Convertible debenture <sup>1</sup>	6,176,555	6,178,936	4,072,270	2,106,666
Term loan	28,029,108	28,454,147	1,965,961	26,488,186
	<b>\$ 52,267,816</b>	<b>\$ 52,703,900</b>	<b>\$ 24,109,048</b>	<b>\$ 28,594,852</b>

The contractual maturities of financial liabilities as at August 31, 2024 were as follows:

	Carrying amount	Contractual cash flows	Less than 1 year	1 to 3 years
Financial liabilities				
Accounts payable and accrued liabilities	\$ 9,842,023	\$ 9,842,023	\$ 9,842,023	\$ –
Revolving credit facilities	6,259,298	6,259,298	6,259,298	–
Convertible debenture <sup>1</sup>	6,442,350	6,535,562	1,000,000	5,535,562
Term loan	34,976,596	35,387,301	1,965,961	33,421,340
	<b>\$ 57,520,267</b>	<b>\$ 58,024,184</b>	<b>\$ 19,067,282</b>	<b>\$ 38,956,902</b>

<sup>1</sup> Included in this amount is the convertible debenture carrying amount and its accrued interests.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 17. Income taxes

Income tax expense (recovery) for the year is as follows:

	2025	2024
Deferred income tax expense (recovery)		
Recognition of previously unrecognized tax benefits related to tax losses and other temporary differences	\$ –	\$ (1,954,502)
Variation of tax benefits on tax losses and other temporary differences	5,020,539	–
<b>Income tax expense (recovery)</b>	<b>\$ 5,020,539</b>	<b>\$ (1,954,502)</b>

The effective tax rate on the Company's net income differs from the expected amount that would arise using the statutory income tax rates. A reconciliation of the difference is as follows:

	2025	2024
Income before income taxes	\$ 18,096,732	\$ 4,483,982
Statutory income tax rate	26.5 %	27 %
Combined federal and provincial income tax	4,795,634	1,210,675
Adjustment in income taxes resulting from:		
Variation of unrecorded tax benefits on tax losses and other deductible temporary differences	(11,187)	(3,301,125)
Non-deductible expenses and other items	236,305	410,488
Non-taxable gain on asset held for sale	(73,476)	(274,540)
True-up book to filing adjustments	73,263	–
<b>Income taxes expense (recovery)</b>	<b>\$ 5,020,539</b>	<b>\$ (1,954,502)</b>

### Deferred income tax assets and liabilities

The amounts recognized in the consolidated statement of financial position consist of:

	2025	2024
Deferred tax assets (liabilities)	\$ (3,066,037)	\$ 1,954,502
	<b>\$ (3,066,037)</b>	<b>\$ 1,954,502</b>

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 17. Income taxes (continued)

Movements in temporary differences during the year were as follows:

	Opening balance	Recognized in earnings	Total
<b>Deferred taxes assets</b>			
Net operating loss carry forwards	\$ 8,701,606	\$ (2,933,373)	\$ 5,768,233
Financing costs	162,348	(30,068)	132,280
Other tax attributes	479,926	196,224	676,150
Right of use liabilities	171,759	(66,829)	104,930
Deferred grant income	263,397	(13,832)	249,565
	9,779,036	(2,847,878)	6,931,158
<b>Deferred taxes liabilities</b>			
Biological assets and inventory	(4,079,826)	(727,564)	(4,807,390)
Property, plant and equipment	(3,586,975)	(1,383,254)	(4,970,229)
Right of use assets	(157,733)	65,247	(92,486)
Convertible debenture and term loan	–	(127,090)	(127,090)
	(7,824,534)	(2,172,661)	(9,997,195)
<b>Net deferred taxes assets (liabilities)</b>	<b>\$ 1,954,502</b>	<b>\$ (5,020,539)</b>	<b>\$ (3,066,037)</b>

Deferred tax assets (liabilities) have not been recognized in respect of the following tax attributes and temporary differences:

	Balance August 31, 2025	Balance August 31, 2024
<b>Unrecognizes in profit or loss:</b>		
Net operating loss carry forwards	\$ 1,197,339	\$ 4,007,732
Other tax attributes	575	5,000
	\$ 1,197,914	\$ 4,012,732

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 17. Income taxes (continued)

Losses available for carry forward for which no deferred tax asset was recognized:

	Jurisdiction
Non capital losses carried forward, expiring:	<b>Canada</b>
August 31, 2039	\$ 56,398
August 31, 2041	12,210
August 31, 2042	11,799
August 31, 2043	20,315
August 31, 2044	11,108
August 31, 2045	6,991
	<u>\$ 118,821</u>
Net operating losses carried forward – US State, expiring:	<b>USA</b>
August 31, 2039	\$ 1,535,266
August 31, 2040	1,800,860
August 31, 2041	497,330
August 31, 2042	63,347
August 31, 2043	10,207
	<u>\$ 3,907,010</u>

## 18. Contingencies

In the normal course of business, the Company may be involved in various legal and regulatory proceedings. The Company believes that the resolution of these proceedings will not have a material favourable or unfavourable effect on its consolidated statement of financial position or financial performance. As at August 31, 2025, there are no material claims in favor or against the Company.

## 19. Segment disclosures

### (a) Reportable segments

The Company operates in two segments: (1) Indoor cannabis operations which encompasses the cultivation, processing and sale of dried cannabis and cannabis derivatives ("Cannabis operations") and (2) Real estate operations related to the Farnham and Valleyfield building ("Real estate operations").

The chief operating decision-maker assesses performance based on segment operating results which were defined as segment operating income (loss) before share-based compensation, amortization, net finance expense, gain on disposal of asset held for sale, loss on disposal of property, plant and equipment, gain on disposal of right-of-use assets and income tax.

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 19. Segment disclosures (continued)

### (a) Reportable segments (continued)

	2025				2024			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
<b>Revenue</b>								
Revenue from sale of goods	\$ 148,629,092	\$ –	\$ –	\$ 148,629,092	\$ 110,227,370	\$ –	\$ –	\$ 110,227,370
Excise taxes	(45,610,842)	–	–	(45,610,842)	(32,593,976)	–	–	(32,593,976)
Net revenue from sale of goods	103,018,250	–	–	103,018,250	77,633,394	–	–	77,633,394
Lease revenue	–	3,843,966	–	3,843,966	–	4,021,269	–	4,021,269
Other income	454,441	–	–	454,441	494,920	–	–	494,920
	103,472,691	3,843,966	–	107,316,657	78,128,314	4,021,269	–	82,149,583
<b>Cost of revenues</b>								
Cost of goods sold	62,471,640	–	–	62,471,640	53,958,398	–	–	53,958,398
Lease operating costs	–	373,557	–	373,557	–	326,734	–	326,734
Segment gross profit before fair value adjustments	41,001,051	3,470,409	–	44,471,460	24,169,916	3,694,535	–	27,864,451
Changes in fair value of inventory sold	(26,876,495)	–	–	(26,876,495)	(23,226,689)	–	–	(23,226,689)
Unrealized gain on changes in fair value of biological assets	29,622,019	–	–	29,622,019	25,550,941	–	–	25,550,941
Segment gross profit	43,746,575	3,470,409	–	47,216,984	26,494,168	3,694,535	–	30,188,703
Operating expenses	22,686,962	–	–	22,686,962	18,791,795	–	–	18,791,795
Segment operating income	21,059,613	3,470,409	–	24,530,022	7,702,373	3,694,535	–	11,396,908
Share-based compensation	–	–	1,193,295	1,193,295	–	–	1,976,809	1,976,809
Depreciation	–	–	1,563,241	1,563,241	–	–	1,375,575	1,375,575
Gain on disposal of asset held for sale	–	–	(548,835)	(548,835)	–	–	(2,039,007)	(2,039,007)
Gain on disposal of right-of-use asset	–	–	(3,861)	(3,861)	–	–	–	–
Loss on disposal of property, plant and equipment	–	–	130,227	130,227	–	–	5,380	5,380
Net finance expense	–	–	4,099,223	4,099,223	–	–	5,594,169	5,594,169
Net income (loss) before income taxes	\$ 21,059,613	\$ 3,470,409	\$ (6,433,290)	\$ 18,096,732	\$ 7,702,373	\$ 3,694,535	\$ (6,912,926)	\$ 4,483,982

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 19. Segment disclosures (continued)

### (b) Entity-wide disclosures

All property, plant and equipment are located in Canada.

### (c) Sources of lease revenues

As at August 31, 2025, the Company leased 414,114 square feet of the total 625,000 available square feet at its Farnham Facility and realized 100% of its lease revenue with two lessees:

- During the fourth quarter of 2025, Tenant A exercised its renewal option to extend the lease up to September 30, 2032. Lease revenues from this tenant for the year ended August 31, 2025 amounted to \$721,066 (2024 - \$959,409).
- The lease term for Tenant B extends to October 31, 2026 and could be renewed for another period of two years at the option of the tenant at the end of the term. Lease revenues from this tenant for the year ended August 31, 2025 amounted to \$3,122,900 (2024 - \$3,061,860).

Income is generated from customers domiciled in Canada.

### (d) Source of cannabis and cannabis accessories revenues

	2025	2024
Revenue from Canadian retailers	\$ 140,380,152	\$ 104,359,168
Excise taxes	(45,610,842)	(32,593,976)
	94,769,310	71,765,192
Revenue from wholesale	8,016,109	5,289,225
Revenue from online merchandise	232,831	335,630
Revenue from Israel wholesale	–	243,347
	\$ 103,018,250	\$ 77,633,394

For the year ended August 31, 2025, the Company has 3 provincial distributors customers that each represent more than 10% of the cannabis revenues. Customer A accounted approximately for 46% of the revenues (2024 – 42%), Customer B for approximately 28% (2024 – 33%) and Customer C for approximately 11% (2024 – 11%).

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
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## 20. Related parties

### (a) Key management personnel compensation

Key management personnel are those people having the authority and responsibility for planning, directing and controlling the business activities of the Company and include all of its directors and its chief executives.

The compensation of key management personnel, including directors' fees, salaries and benefits and share-based compensation for the year ended August 31, 2025, was as follows:

	2025	2024
Salaries and benefits	\$ 975,000	\$ 900,000
Share-based compensation	977,426	1,712,915
Board of director fees	152,500	100,000
	\$ 2,104,926	\$ 2,712,915

### (b) Other transactions with related parties

Related parties include entities related by virtue of key management personnel and directors exercising significant influence or control over the entities' financial and operating policies.

The following provides the transaction amounts by nature with related parties:

	2025	2024
Nature of transactions		
Other expenses	14,502	21,600
Acquisition of property, plant and equipment <sup>(i)</sup>	123,739	–
Debt financing guarantee fees <sup>(iii)</sup>	224,914	375,000
Interest on debt financing <sup>(i)</sup>	643,375	317,692
	1,006,530	714,292
Balance with related parties are as follows:		
Accounts payable and accrued interests <sup>(i)</sup>	–	(62,500)
Accounts payable to key management personnel <sup>(ii)</sup>	(551,524)	(102,211)
Accounts payable to Board of Directors	(40,000)	(20,730)
Convertible debentures, including accrued interest <sup>(i)</sup>	(6,178,936)	(6,535,562)
Lease liabilities <sup>(i)</sup>	(323,988)	(562,206)

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 20. Related parties (continued)

### (b) Other transactions with related parties (continued)

- (i) The Company has a Board of Director member who is a shareholder in an entity with which the Company entered into various transactions with for the financing of the Farnham and Valleyfield Facilities in addition to a head office lease arrangement. For the year ended August 31, 2025, the Company paid \$248,718 in rent for the head office lease (2024 - \$234,995).
- (ii) Accounts payable relate to accrued salary and vacation for key management personnel. Related party transactions are recognized at the amounts of consideration established under contractual terms.
- (iii) A related party had provided certain guarantees on the debt financing (Note 9) for a fee. As of March 1, 2025, the Company met covenant thresholds to remove these guarantees.

## 21. Cash flow information

Net change in non-cash working capital items:

	2025	2024
Accounts receivable	\$ (1,037,879)	\$ (2,429,360)
Biological assets	(17,553,780)	(20,128,710)
Inventory	9,080,648	16,151,566
Prepaid expenses and other assets	485,811	197,721
Deposits	97,163	111
Accounts payable and accrued liabilities	528,193	2,219,288
Excise tax payable	1,349,293	1,056,571
Sales tax receivable	814,451	372,219
Deferred lease revenue	(16,110)	(92,953)
Deferred grant income	(52,194)	178,053
Deferred revenue	–	(23,020)
	<u>\$ (6,304,404)</u>	<u>\$ (2,498,514)</u>

# CANNARA BIOTECH INC.

Notes to Consolidated Financial Statements  
Years ended August 31, 2025 and 2024

## 21. Cash flow information (continued)

Supplemental information in the statement of cash flows:

	2025	2024
Reclass to asset held from sale from property, plant and equipment	\$ —	\$ 4,958,557
Variation of property, plant and equipment included in accounts payable and accrued liabilities	(1,419,218)	1,287,642
Addition to right-of-use assets and lease liabilities	47,636	675,012
Financed Property, plant and equipment	480,000	—
Settlement of RSUs for common shares	1,241,515	—
Proceed from disposal of asset held for sale used directly to reimburse the term loan and certain expenses	5,500,000	—

## 22. Subsequent events

### *Convertible debenture conversion*

Subsequent to year-end, the Company extinguished its convertible debenture and all accrued interest without cash outlay. The debenture holder elected to convert the \$4.7 million principal into common shares, and the Company settled \$1.5 million of accrued interest in common shares. In total, 3,462,763 common shares were issued at \$1.80 per share.

### *Share options*

Subsequent to year-end, the Company granted 44,600 share options to employees and member of the board of directors at an exercise price of \$1.80 per share, vesting in one year and expiring after seven years.

### *Revolving credit facilities*

Subsequent to year-end, the Company extended the tranche of the revolving credit facilities that came to expiry for a 30-day period.