cannara

Quebec Grown
Premium Grade Cannabis

MANAGEMENT DISCUSSION & ANALYSIS

For the three and nine-month periods
ended May 31, 2024

July 22, 2024

CANNARA BIOTECH INC.

TSXV: LOVE OTCQB: LOVFF FRA: 8CB0

This Management Discussion and Analysis ("MD&A") of Cannara Biotech Inc. ("Cannara" or the "Company") has been prepared by management as of July 22, 2024, and should be read in conjunction with the condensed interim consolidated financial statements and related notes thereto of the Company for the three and nine-month periods ended May 31, 2024 and 2023. The condensed interim consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Certain information and notes usually provided in the annual financial statements have been omitted or condensed. Therefore, this MD&A should also be read in conjunction with the information contained in the annual audited consolidated financial statements of the Company and the notes thereto for the year ended August 31, 2023.

All dollar amounts referred to in this MD&A are expressed in Canadian dollars unless indicated otherwise.

All references in this MD&A to "Q3 2024" and "third quarter of 2024" are to Cannara's fiscal quarter ended May 31, 2024, and "Q3 2024 YTD" to the nine-month period ended May 31, 2024. References to "Q3 2023" and "third quarter of 2023" are to Cannara's fiscal quarter ended May 31, 2023, and "Q3 2023 YTD" to the nine-month period ended May 31, 2023.

Additional information filed by Cannara with the Canadian Securities Administrators, including quarterly reports, annual reports and other material contracts can be found on-line at www.sedarplus.ca.

FORWARD-LOOKING STATEMENTS

This MD&A may contain "forward-looking information" within the meaning of Canadian securities legislation ("forward-looking statements"). These forward-looking statements are made as of the date of this MD&A and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation. Forward-looking statements relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events and include, but are not limited to, the Company and its operations, its projections or estimates about its future business operations, its planned expansion activities, the adequacy of its financial resources, the ability to adhere to financial and other covenants under lending agreements, future economic performance, and the Company's ability to become a leader in the field of cannabis cultivation, production, and sales.

In certain cases, forward-looking statements can be identified by the use of words such as "plans," "expects" or "does not expect," "is expected," "budget," "scheduled," "estimates," "forecasts," "intends," "anticipates" or "does not anticipate," or "believes," or variations of such words and phrases or statements that certain actions, events or results "may," "could," "would," "might" or "will be taken," "occur" or "be achieved" or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may," "future," "expected," "intends" and "estimates." By their very nature, forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Such factors include, but are not limited to, the factors discussed in the section "Risk Factors" as well as those factors detailed from time to time in the Company's interim and annual financial statements and the related MD&A of those statements. Although the Company has attempted to identify important factors that could cause actual actions, events, or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended.

The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Historical results of operations and trends that may be inferred from the following discussions and analysis may not necessarily indicate future results from operations.

NON-GAAP MEASURES, NON-GAAP RATIOS AND SEGMENT MEASURES

Management has included certain financial performance measures that are not recognized or defined under IFRS ("non-GAAP measures"). There are no standardized methods of calculating these non-GAAP measures, ratios and segment measures, management's methods may differ from those used by others, and accordingly, these measures may not be directly comparable to similarly titled measures used by others. Accordingly, these measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

National Instrument 52-112 respecting Non-GAAP and Other Financial Measures Disclosure ("NI 52-112") prescribes disclosure requirements that apply to the following types of measures used by the Company:

i. non-GAAP financial measures;
ii. non-GAAP ratios;
iii. total of segments measures.

In this MD&A, the following non-GAAP measures, non-GAAP ratios and segment measures are used by the Company: adjusted EBITDA, free cash flow, working capital, segment gross profit before fair value adjustments as a percentage of segment net revenue, segment gross profit as a percentage of segment net revenue, segment operating income as a percentage of segment net revenue, and adjusted EBITDA as a percentage of net revenue.

Management of the Company ("Management") employs these measures internally to measure operating and financial performance. Management believes that these non-GAAP and other financial measures provide useful information to investors and analysts regarding the Company's financial condition and results of operations as they provide additional key metrics of its performance. These non-GAAP and other financial measures are not recognized under IFRS, do not have any standardized meaning prescribed under IFRS and may differ from similarly named measures as reported by other issuers, and accordingly may not be comparable. These measures should not be viewed as a substitute for the related financial information prepared in accordance with IFRS.

These measures are defined in, "Glossary of segment reporting and non-GAAP measures" below and reconciliations to IFRS measures can be found in sections "Selected Financial Information", "Selected Segment Results of Operations" and "Quarterly Financial Position and Results".

GLOSSARY OF NON-GAAP MEASURES AND SEGMENT REPORTING

MEASURE	DEFINITION	COMPARABILITY	UTILITY TO MANAGEMENT AND INVESTORS
Adjusted EBITDA	Adjusted EBITDA is defined as net income before net finance expense, tax, depreciation, amortization, write-down of inventory to net realizable value, share-based compensation, changes in fair value of inventory sold, unrealized gains and losses on changes in fair value of biological assets, gain on sublease on initial recognition and gains and losses on disposal of property, plant, and equipment and asset held for sale. The exclusion of net finance expense eliminates the impact on earnings derived from non-operational activities. The exclusion of depreciation, amortization, write-down of inventory to net realizable value, share-based compensation, changes in fair value of inventory sold, unrealized gains and losses on changes in fair value of biological assets, gain on sublease on initial recognition and gains and losses on disposal of property, plant and equipment and asset held for sale eliminates the non-cash impact of these items.	Adjusted EBITDA is a non-GAAP financial measure that has no standardized definitions under IFRS, and, accordingly, these measures may not be comparable to similar measures used by other issuers.	Management believes that the use of adjusted EBITDA allows investors and analysts to understand the results of operations of the Company by excluding the non-operational activities and non-cash items for the period. Adjusted EBITDA should not be considered either as discretionary cash available to invest in the growth of the business or as a measure of cash that will be available to meet the Company's obligations. From time to time, the Company may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring.

MEASURE	DEFINITION	COMPARABILITY	UTILITY TO MANAGEMENT AND INVESTORS
Adjusted EBITDA	Management has changed the composition of Adjusted EBITDA since the second quarter of 2024 to exclude gains or losses on assets held for sale. This adjustment reflects the gain on the disposal of an asset held for sale related to a parcel of land at the Company's Valleyfield site. This change is intended to allow investors and analysts better to understand the Company's operational performance by excluding non-recurring transactions.		
Free cash flow	Free cash flow is defined as cash flow from operations cash flow from operations less capital expenditures.	Free cash flow is a non-GAAP financial measure that has no standardized definitions under IFRS, and, accordingly, may not be comparable to similar measures used by other issuers.	Management considers free cash flow to be an important indicator of the financial strength and liquidity of its business as it indicates how much cash is available to service debt and to pursue business investments.
Working Capital	Working capital is defined as total current assets minus total current liabilities for the corresponding quarter ended as at that the reporting date.	Working capital is a non-GAAP financial measure that has no standardized definitions under IFRS, and, accordingly, may not be comparable to similar measures used by other issuers.	Management believes that working capital is an important liquidity measure and allows investors and analysts to assess the Company's financial position.
Segment gross profit, before fair value adjustments as a percentage of segment net revenues	Segment gross profit, before fair value adjustments as a percentage of segment net revenues is defined as segment's gross profit before fair value adjustments divided by segment net revenues.		Management believes that the use of this percentage allows investors and analysts to understand the core profitability of operations excluding volatile fair value adjustments.
Segment gross profit as a percentage of segment net revenues	Segment gross profit as a percentage of segment net revenues is defined as segment's gross profit divided by segment net revenues.	These percentages are segment measures that have no standardized definitions under IFRS, and, accordingly, may not be comparable to similar measures used by other issuers.	Management believes that the use of this percentage allows investors and analysts to understand the efficiency of production and the cost management effectiveness.
Segment operating income as a percentage of segment net revenues	Segment operating income as a percentage of segment net revenues is defined as segment's operating income (loss) divided by segment net revenues.		Management believes that the use of this percentage allows investors and analysts to understand the operational efficiency and the profitability from core operations.
Adjusted EBITDA as a percentage of net revenues	Adjusted EBITDA as a percentage of net revenues is defined as adjusted EBITDA divided by net revenues. Adjusted EBITDA is defined as net income before net finance expense, tax, depreciation, amortization, write-down of inventory to net realizable value, share-based compensation, changes in fair value of inventory sold, unrealized gains and losses on changes in fair value of biological assets, gain on disposal of asset held for sale and loss on disposal of property, plant, and equipment.	Adjusted EBITDA as a percentage of net revenues is a non-GAAP financial ratio that has no standardized definitions under IFRS, and, accordingly, these measures may not be comparable to similar measures used by other issuers.	Management believes that the use of this percentage allows investors and analysts to understand the results of operations of the Company by excluding the effects of elements that are not reflective of underlying business performance and other one-time or non-recurring expenses. Management has changed the composition of Adjusted EBITDA since the second quarter of 2024. This adjustment reflects the sale of a parcel of land at the Company's Valleyfield site on April 24, 2024, and ongoing efforts to actively market for sale the building under construction and the related parcel of land on the Valleyfield site. These changes are intended to allow investors and analysts to understand Company's operational performance by excluding non-recurring transactions.

COMPANY PROFILE

Cannara was incorporated under the laws of British Columbia on October 19, 2017, and is currently listed and publicly traded on the TSX Venture Exchange ("TSXV") under the symbol "LOVE", the OTCQB under the symbol "LOVFF" and the Frankfurt Stock Exchange under the symbol "8CB0". The Company's headquarters are located in Montreal, Quebec.

Cannara Biotech Inc. is a vertically integrated producer of premium-grade cannabis and cannabis-derivative products for the Canadian market. The Company's strategic focus is to deliver premium quality products at affordable retail pricing. Leveraging Quebec's low electricity costs, Cannara owns and operates two Quebec-based 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 170,000 square feet of operational licensed area and 455,000 square feet of leased warehouse space ("Farnham Facility").

The second facility ("Valleyfield Facility") is a purpose-built cannabis hybrid greenhouse that is being designed into an indoor facility zone by zone, to ensure consistent and premium flower cultivation. The Valleyfield Facility is over one million square feet and is comprised of 24 independent growing zones totalling 600,000 square feet, a 250,000-square-foot cannabis 2.0 processing center and a 200,000-square-foot rooftop greenhouse located in Valleyfield, Quebec. 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.

Cannara is a leading producer of premium quality cannabis. Cannara is transforming the cannabis buying experience by offering consumers what they have been asking for—high quality at great value, rotating genetics, transparent harvest and quality data, unique air-sealed packaging, attention to detail, and community responsiveness, all of which have a synergistic effect on product demand and market penetration.

Cannara promises a better value proposition for consumers, retailers, and investors alike—consumers save money when purchasing premium Cannara cannabis products, retailers experience a higher volume and velocity of sales, and investors benefit from a sustainable operation generating healthy gross margins. The Cannara platform consists of 2 low-cost facilities in Quebec, a lean labour force, and a passionate management team dedicated to product innovation, thoughtful leadership, and maintaining a low cost-structure, all designed to allow for the highest quality products at some of the most disruptive prices in retail. The Cannara model has resulted in a grassroots following in Quebec, significant brand awareness and affinity amongst Ontario, Alberta, British Columbia, Manitoba and Saskatchewan retailers and consumers, and additional inquiries for product distribution across the rest of Canada. At the date of this MD&A, Cannara products can be found in 100% of Quebec retail stores, in 92% of Ontario stores, in over 84% of Alberta stores and 83% of British Columbia stores[1].

From 2021 to 2022, the Company launched operations at the Valleyfield Facility and activated 6 of its 24 growing zones to grow production capacity to meet the Company's expanding demand. During the year of 2023, the Company expanded its production capacity at the Valleyfield Facility by 50%, activating another 3 new growing zones. The 10th growing zone at Valleyfield was activated in January 2024, bringing Cannara's total active cultivation canopy to 250,000 square feet and plants under cultivation to approximately 100,000 with an additional 11,000 plants under cultivation at the Farnham Facility. Together, both facilities are currently capable of generating approximately 33,500 kg of cannabis per year. Cannara has only completed 42% of its current Valleyfield Facility expansion plans and is focused on continuing to activate more growing zones in line with growing demand for its products. In Q3 2024, the Company generated $19.5 million of net revenue, a gross profit before fair value adjustments of $5.7 million or 29% of net revenues, an adjusted EBITDA of $2.8 million or 14% of net revenues[2], a net income of $2.0 million, free cash flow of $1.2 million [3] and a basic earnings per share of $0.02 for the quarter.

[1] Trellis Distribution Insights, June 2024
[2] Adjusted EBITDA and adjusted EBITDA as a percentage of net revenues are non-GAAP measure. A reconciliation of adjusted EBITDA from net income is included in the section "Selected Financial Information" of this MD&A
[3] Free cash flow is a non-GAAP measure. A reconciliation from operating cash flow is included in the section "Selected Financial Information" of this MD&A

COMPANY PROFILE *(continued)*

As of May 31, 2024, Cannara's distribution network services 7 provinces, Quebec, Ontario, Saskatchewan, Alberta, British Columbia, Nova Scotia and most recently, Manitoba, where sales started at the end of May 2024. Quebec, Ontario and Alberta currently represent the Company's main markets from which the majority of its revenues are generated from.

The Company estimated its Quebec market share to be approximately 9.7% for the third quarter of 2024, a 7.8% increase from the second quarter of 2024 (3rd largest Licensed Producer ("LP") in Quebec by market share) [4]. According to Headset Data for the period of March 2024 to May 2024, in Ontario, the Company held its market share of 2.90% for the third quarter of 2024, comparable to the 2.88% market share in Q2 2024. According to Headset Data, the Company's market share in Alberta decreased slightly from 3.23% to 3.13% from Q2 2024 to Q3 2024 as a result of SKUs being removed from market as part of the province's larger SKU rationalization which saw over 500 SKUs being de-listed. Although this SKU rationalization had a negative impact on the Company's market share in Alberta this quarter, management believes it will create more efficiencies, and allow Alberta to focus more on best-performing and innovative products, providing benefits in subsequent quarters. In British Columbia, the Company's market share decreased from 1.00% to 0.82% for the third quarter of 2024 due to increased competition, according to Headset Data. The Company is currently addressing market share recapture in British Columbia through certain sales and marketing initiatives in addition to increasing SKU portfolio size in the province. In Saskatchewan, according to Headset Data, the Company's market share increased from 0.23% in Q2 2024 to 0.40% in Q3 2024.

Additional information about Cannara may be found at www.cannara.ca.
Investor information may be found at www.investors.cannara.ca.

The Company has designed several lines of branded apparel and accessories available for sale on its online website https://cannaraswag.shop (Quebec excluded due to provincial restrictions).

CANNARA'S FACILITIES

FACILITY	SIZE	CAPACITY	TYPE	ELECTRICITY	FACILITY HIGHLIGHTS
FARNHAM, QUEBEC	Licensed area: 170,000 sf Site: 625,000 sf Land: 1,430,000 sf	Active Grow Area: 28,000 sf 3,500 kg current capacity Active Cloning and Mother Area: 23,000 sf	Indoor	Power rate of approx. $0.065/kw	• Licensed area completed in 2019 • State-of-the-art • 11 independent grow rooms + cloning and mother rooms for both facilities • Automated cultivation systems • Solventless hash laboratory • Pre-roll manufacturing center • Packaging center • R&D facility
VALLEYFIELD, QUEBEC	Licensed area: 600,000 sf Roof top greenhouse: 200,000 sf Processing and cannabis 2.0 processing center: 250,000 sf Site: 1,030,000 sf Land: 3,130,000 sf	Active Grow Area: 250,000 sf (10 zones) 30,000 kg Current capacity 96,500 kg Full capacity	Indoor	Preferential contracted power rate of approx. $0.035/kw	• Purpose-built in 2020 • Onsite Hydro Quebec substation • Fully outfitted and automated • 24 independent grow rooms • Blackout & shading systems • Purpose-built cannabis greenhouse converted to replicate indoor conditions • Processing center (under construction) • BHO extraction laboratory

[4] Based on estimated sales data provided by Weed Crawler and ST Analytics, for the period of March 2024 to May 2024

COMPANY PROFILE *(continued)*

CANNARA'S BRAND PORTFOLIO

Cannara's portfolio consists of three flagship brands with distinctive identity and purpose, each filling a white space in Canada's current cannabis market. All three brands offer premium-grade cannabis, hang-dried, slow cured and trimmed perfectly to preserve the flower's natural properties. Our brand portfolio includes:

BRAND	STORY	PRODUCT MIX	MARKETS
TRIBAL	Tribal delivers uncompromised premium grade cannabis products to consumers who have a deep relationship with cannabis. From pheno-hunting rare genetics to unfolding each strain's lineage and flavour profiles, Tribal offers a continuous rotation of genetic strains at entry level pricing.	Dried Flower Pre-Rolls Live Resin Full Spectrum Extract Live Resin Vape Cartridges Accessories	Quebec Ontario Saskatchewan Alberta British Columbia Manitoba Nova Scotia
Nugz	Nugz is a cult-worthy movement committed to abundance, quality, and value. Nugz offers an exceptional product at disruptive retail prices specifically designed for long-time cannabis enthusiasts who have a sharp sense for quality but are looking for a price break that aligns with consuming habits.	Dried Flower Milled Flower (Grind) Pre-Rolls Infused Pre-Rolls Old School Hash Ice Water Hash Fresh Frozen Hash Rosin Edibles Vape Cartridges Accessories	Quebec Ontario Saskatchewan Alberta British Columbia Manitoba
ORCHID CBD	Orchid CBD is a wellness brand dedicated to providing premium CBD-dominant cannabis. Orchid CBD offers award winning strains of terpene-rich, trichome covered, oversized dried flowers that deliver softer blissful experiences with no compromise on quality and flavours.	Dried Flower Pre-Rolls Oils Live Resin Vape Cartridges	Quebec Ontario Saskatchewan Alberta British Columbia Manitoba

CANNARA'S GENETIC PORTFOLIO

In partnership with Exotic Genetix, Cannara has access to an extensive bank of genetics which includes exclusive strains only available from the Company in the Canadian market. See "Cannara's Competitive Advantage – Innovation in Genetics." By undergoing a rigorous pheno-hunting selection process, Cannara can further broaden the product mix for each one of its brands by providing consumers with unique, dedicated cannabis experiences from carefully selected cultivars for years to come. Our lineup of unique genetics currently available in the retail market are summarized below.

CANNARA'S GENETIC PORTFOLIO (*continued*)

GENETIC	BRAND	LAUNCH DATE	THC – CBD	TYPE	AROMAS & FLAVOURS
GELATO MINT Pheno #5	Tribal	Feb 2021	THC ≈ 22% CBD ≈ 1%	Indica	Gelato Mint is best known for its overwhelming fresh flavours and aromas. As its name suggests, Gelato Mint smells like a fresh mint dessert with pepper and earthy pine undertones.
CUBAN LINX Pheno #1	Tribal	June 2021	THC ≈ 28% CBD ≈ 1%	Sativa	Cuban Linx packs a rich lemony aroma accentuated by hints of gassy diesel and a touch of spice.
TERPLE Pheno #8	Tribal	Mar 2022	THC ≈ 22% CBD ≈ 1%	Hybrid – Sativa	Terple's aroma and flavour is complex with elements of sweet oranges, sour citrus, and spicy diesel.
POWER SHERB Pheno #3	Tribal	May 2022	THC ≈ 24% CBD ≈ 1%	Indica	Power Sherb is silky smooth on the exhale and evokes a truly unique smell and taste of sweet gas and Neapolitan ice cream.
TRIPLE BURGER Pheno # 72	Tribal	Nov 2022	THC ≈ 28% CBD ≈ 1%	Indica	Triple Burger complements Cannara's genetic library with heavy gas aroma and hints of skunk, rubber, and cheese and a touch of sweetness.
GALACTIC RNTZ Pheno #30	Tribal	Nov 2022	THC ≈ 26% CBD ≈ 1%	Indica	Galactic Rntz's complex aroma and flavour provides a strong gas flavour with fruity, sour undertones.
JIGGLERS Pheno #22	Tribal	Oct 2023	THC ≈ 22% CBD ≈ 1%	Indica	Jigglers offers flavours and aromas of strawberries & cream.
DRIP STATION Pheno #15	Tribal	Oct 2023	THC ≈ 25% CBD ≈ 1%	Indica	Drip Station presents gasoline scents blended with dewy earth and black licorice flavours.
NEON SUNSHINE Pheno # 78	Tribal	Apr 2024	THC ≈ 29%	Hybrid	Neon Sunshine leans heavy into citrus flavours and aromas, with a touch of octane to round out the experience.
BUBBLE UP Pheno # 169	Tribal	Apr 2024	THC ≈ 28%	Indica	Bubble Up provides a rare and sought-after champagne-like effervescent sensation with a spicy fresh aroma.
GUAVA JAM Pheno # 18	Nugz	May 2024	THC ≈ 29%	Indica	Guava Jam offers a sweet and creamy flavour with a diesel exhale.
EARLY LEMON BERRY Pheno #92	Nugz	Mar 2021	THC ≈ 23% CBD ≈ 1%	Sativa	Early Lemon Berry features overwhelming citrus flavours thanks to its higher percentage of myrcene and ocimene terpenes. It smells like a mix of sweet grapefruit, lemons, and berries.
SLAPZ Pheno #50	Nugz	May 2022	THC ≈ 24% CBD ≈ 1%	Indica	Slapz delivers incredibly sweet sour-gassy aromas with a mix of light earthy flavours.
CBD RUNTZ Pheno #7	Orchid CBD	June 2021	THC ≈ 8% CBD ≈ 15%	Hybrid - Sativa	Canada's #1 CBD Flower in sales for 2023[5], CBD Runtz is an award-winning CBD strain that offers an abundance of terpenes, a fruity and sweet aroma that delivers a candy-like flavour. A rare combination for a 1:2 CBD flower.

[5] Based on estimated sales data provided by Headset, for the year 2023

CANNARA'S COMPETITIVE ADVANTAGE

Each of Cannara's market launches has demonstrated positive consumer response to its brand strategy, pricing strategy, product offering, and genetic mix across retail outlets in Canada. The Company's premium quality cannabis at disruptive pricing has resulted in demand levels that keep growing in Canada, which reinforces Cannara's plan to continue to expand production at its Valleyfield Facility. Additionally, Cannara's attention to detail, transparency, unique packaging, and community responsiveness have collectively added to its value proposition, which in turn has had a compounding effect on customer demand, market penetration, and satisfaction. Some notable examples of Cannara's competitive advantage include:

Quality, attention to detail and transparency

Cannara delivers award winning cannabis flower, sticking true to craft like procedures including hang drying and hand trimming cannabis even as it scales its production capacity significantly. Attention to detail in all product line packaging, including offering air-sealed tuna style cans preserving humidity and product integrity in an ecofriendly format and a re-usable tin included in the purchase of its live resin vape cart, purposefully designed to fit into the everyday lives of its consumers. Cannara continues to demonstrate transparency across all product labels by providing consumers with harvest dates, terpene percentages, production details and strain phenotypes for each lot.

Price competitiveness

Cannara has continued to maintain a value-based pricing approach without compromising quality. With significant cost advantages due to Quebec's low cost of electricity, utilities and labor, favorable acquisition cost of its Facilities in addition to being fully vertically integrated achieving economies of scale, Cannara expects to continue its value-based pricing approach while building a sustainable and profitable business.

Innovation in products

During the third quarter of 2024, Cannara launched several new products, including the Nugz Rosinaut Hash Rosin Gummy (Cannara's first edible SKU), as well as the Tribal Drip Station Live Resin Vape (a product line extension for Tribal's live resin vapes lineup which is currently ranked no. 1 in sales in Canada). Early in the fourth quarter, the Company is scheduled to release an infused pre-roll product line (Tribal Trifecta) that will represent one of the most premium and potent offerings available in Canada.

Innovation in genetics

Cannara's diligence in its pheno-hunt process permits the Company to continue to offer trendsetting unique THC and CBD genetics that are highly desirable to consumers searching for new flavours and experiences. In addition to an extensive genetic seed bank allowing the Company to release exclusive products into the market, Cannara signed an exclusive brand partnership with 50-time award-winning US-based cannabis breeder, cultivator and hash maker, Exotic Genetix Ltd., granting Cannara an exclusive license to use, market, sell and distribute Exotic Genetix branded products throughout Canada. Cannara's most recent pheno-hunt resulted in the release of three new genetics in the third quarter (Neon Sunshine, Bubble Up, and Guava Jam).

Community responsiveness

Cannara has taken an active strategy to be very responsive with the community of consumers and retailers to receive timely feedback to continuously improve its products. The Company manages a large exclusive Discord community channel, https://discord.gg/cannara, to further interactions with consumers and retailers.

CANNARA'S COMPETITIVE ADVANTAGE *(continued)*

Thought leadership

Cannara's approach to the cannabis market has been driven by its pursuit for customer satisfaction and a commitment to delivering value to a broad consumer base market, from new entrants to experienced consumer segments. Over the course of the last year, the Company has exemplified thought leadership by bringing disruption and innovation to the Canadian cannabis market. In December 2023, Cannara was awarded four awards at the fourth annual KIND Awards, Canada's largest consumer-facing awards chosen by budtenders for:

- Brand of the Year: Tribal;
- Vape of the Year: Tribal's Cuban Linx Live Resin Vape Cart;
- Concentrate of the Year: Tribal's Cuban Linx Full Spectrum Extract;
- Kindest Person of the Year: Nicholas Sosiak, CPA, CA - Chief Financial Officer.

In addition, a member of its executive leadership team was nominated as one of the Top 50 Cannabis Leaders in Canada by Grow Up Conference Canada (Nicholas Sosiak, CPA, CA - Chief Financial Officer).

MAIN MARKET INSIGHTS

MARKET SHARE

The Canadian cannabis industry continues its rapid evolution, driven by the relatively recent federal legalization of adult-use cannabis just over five years ago. As a result of Cannara's facilities, brand and genetic portfolio, and its competitive advantages, market response has solidified the Company's presence in Canada's four largest markets, Ontario, Alberta, Quebec and British Columbia. The Farnham and Valleyfield facilities can produce up to 100,000 kg of cannabis per year once at full capacity, allowing the Company to increase its supply of quality cannabis products in lockstep with growing in-market demand and entrance into new markets.

Our recent performance across various provinces highlights significant trends and fluctuations within the Canadian cannabis market, indicating both the dynamic nature of the industry and our strategic responses to these changes.

Q3 2024 vs Q2 2024 Market Share by Province[6]

Province	Q3 2024	Q2 2024	Variance
Quebec	9.70%	9.00%	+7.8%
Ontario	2.90%	2.88%	+0.7%
Alberta	3.13%	3.23%	-3.1%
British Columbia	0.82%	1.00%	-18.0%
Saskatchewan	0.40%	0.23%	+73.9%

Q3 2024 vs June 2024 Market Share by Province[7]

Province	June 2024	Q3 2024	Variance
Quebec	11.60%	9.70%	+19.6%
Ontario	2.61%	2.90%	-10.0%
Alberta	2.87%	3.13%	-8.3%
British Columbia	0.91%	0.82%	+11.0%
Saskatchewan	0.99%	0.40%	+147.5%

[6] As reported by Headset data for the periods of March 2024 to May 2024 in all listed provinces excluding Quebec where Weed Crawler and ST Analytics was deemed more accurate.
[7] As reported by Headset data for the periods of June 2024 in all listed provinces excluding Quebec where Weed Crawler and ST Analytics was deemed more accurate.

MAIN MARKET INSIGHTS *(continued)*

QUEBEC

The provincial distributor of Quebec, SQDC, generated estimated revenues of approximately $198 million for the three-month period ending May 31, 2024 [8]. The Company estimated its market share during this period to be approximately 9.70% in Quebec (3rd largest licensed producer in Quebec by market share), representing a 7.8% increase from prior quarter. Subsequent to quarter-end, in June, Cannara's market share increased to 11.6%[9], an increase of 19.6%. Cannara's ongoing success in Quebec, with continuous market share growth each quarter, is due to a strong SKU portfolio of existing SKUs highly appreciated by customers in the region, in addition to having the capacity and expertise to enter into new categories such as infused pre-rolls. The Nugz Infused pre-roll product line has dominated this fast-growing category, with three of its SKUs consistently holding first, second, and third overall SKU rank in sales month over month. Cannara also launched three new genetics in the third quarter of 2024 in the Company's home province: Neon Sunshine, Bubble Up, and Guava Jam.

The SQDC retail footprint has expanded from 28 stores in fiscal year 2020 to 99 current locations as of the date of this MD&A and has significant room for growth as Quebec has approximately one store per 90,000 people, as compared to Ontario and British Colombia that have approximately one store per 10,000. To date, the provincial distributor of Quebec expects to have captured 62.8% of the total cannabis market, a trend which is expected to continue to rise as consumers migrate from the illicit trade to experience quality traceable products, competitive pricing, and an improved in-store buying experience[10].

ONTARIO

The Ontario market is leading recreational cannabis sales nationally. According to Headset Data, from March 2024 to May 2024, Ontario retail stores sold approximately $426 million in cannabis products[11]. The Company estimated that it had a 2.90% market share in Ontario in Q3 2024, marking the Company as the 10th largest licensed producer selling into the OCS, despite some quality issues that affected certain product batches, for which the Company initiated returns during April 2024 and affected Q3 2024 revenues. In June 2024, market share declined to 2.61% as a result of increased competition[12]. The Company listed 22 SKUs in the Ontario market in Q3 2024, and an additional 10 new SKUs were accepted by the OCS to be launched in Q4 of 2024. Cannara products can be found in over 1,500 retail stores across Ontario, representing over 92% of stores in Ontario[13].

ALBERTA

Alberta is Canada's second-largest cannabis market and has been a market that Cannara has been focused on growing in since May of 2023. According to Headset Data, from March 2024 to May 2024, Alberta retail stores sold approximately $204.2 million in cannabis. From March 2024 to May 2024, the Company's market share slightly decreased from 3.23% to 3.13%, and to 2.87% for the month of June 2024. The decrease in market share is the result of a several SKUs no longer being offered as part of the province's larger SKU rationalization which saw over 500 SKUs being de-listed. Although it had a negative impact on market share this quarter, management has secured new SKU swaps to optimize its catalogue offering with higher performing SKUs in subsequent quarters.

BRITISH COLUMBIA

British Columbia represents Canada's fourth-largest cannabis marketplace, generating $174.5 million in revenue from March 2024 to May 2024[14]. Cannara entered the British Columbia market in September 2022. The Company estimates that it had a 0.82% market share in British Columbia for Q3 2024, a decrease of 18% from Q2 2024 due to added competition which is being addressed by strategic sales and marketing initiatives. Subsequent to quarter-end, as of June 2024, the Company increased its market share by 10.7% to 0.91%[15].

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[8] Based on estimated sales data provided by Weed Crawler and ST Analytics, for the period of March 2024 to May 2024
[9] Based on estimated sales data provided by Weed Crawler and ST Analytics, for the period of June 2024.
[10] SQDC, Annual Report 2024.
[11] Based on Headset Data for the period of March 2024 to May 2024.
[12] Based on Headset Data for the periods of March 2024 to May 2024 and June 2024.
[13] Trellis Distribution Insights, June 2024.
[14] Based on Headset Data for the period of March 2024 to May 2024.
[15] Based on Headset Data for the periods of March 2024 to May 2024 and June 2024.

MAIN MARKET INSIGHTS *(continued)*

SASKATCHEWAN

Saskatchewan generated $35 million in revenue from March 2024 to May 2024[16]. Cannara entered the Saskatchewan market in September 2021. The Company estimates that it had a 0.40% market share in Saskatchewan for Q3 2024, an increase of 75.6% from Q2 2024 as a result of increased sales focus in the province. Subsequent to quarter-end, as of June 2024, the Company increased its market share by 147.5% to 0.99%[17].

MANITOBA

Cannara accessed a new market at the end of Q3 2024 (May 2024), launching 35 SKUs in Manitoba. Manitoba's Liquor and Lotteries Corporation reported that its Cannabis Operations generated revenue of $130.9 million in the fiscal year 2022-2023[18].

CANADIAN CANNABIS MARKET TRENDS

Price Compression

Price compression remains a significant challenge within the Canadian cannabis market, driven by intense competition among approximately 1,200 Licensed Producers. Despite this competitive pressure, Cannara has demonstrated resilience, recording gross cannabis revenues before excise taxes of $78.8 million for the nine-month period ended May 31, 2024, from $48.8 million for the nine-month period ended May 31, 2023, a $30.0 million or 61.5% increase. Net of excise taxes, Cannara reported $58.7 million in net revenues for the nine-month period ended May 31, 2024, from $39.3 million for the same period of the prior year, a $19.4 million or 49.4% increase.

Current Developments Related to the *Excise Tax Act*

Given the impacts of price compression, excise tax has grown to become a larger component of net revenue, as it is predominantly computed as a fixed price on grams sold rather than as a percentage of the selling price. Currently, excise tax represents over 30% of the Company's gross cannabis revenues, constituting a significant portion of our costs and cash outflows.

It has been reported that the Standing Committee on Finance has recommended to Canada’s Finance Minister that the current excise tax regime be replaced with a 10% ad valorem tax regime. We welcome the possibility of excise tax reform to strengthen the Canadian cannabis industry as a whole. Any changes to Canadian cannabis excise tax policy could have a materially positive impact on the Company’s operations.

[16] Based on Headset Data for the period of March 2024 to May 2024.
[17] Based on Headset Data for the periods of March 2024 to May 2024 and June 2024.
[18] MBLL Annual Report 2022-2023

LOOKING AHEAD

Cannara is constantly monitoring growth opportunities that support its commitment to continue to report increased positive financial results. The Company allocated resources to existing and new activities over the course of the 2024 fiscal year which include:

FY 2024 Activities

1. Respond to market demand by increasing production capabilities and sales initiatives.
2. New product offerings including new formats of dried flower, pre-roll and infused pre-roll products, milled products, live resin full spectrum extracts, live resin vape cartridges, budget-friendly vape carts and cannabis accessories.
3. New genetic releases in partnership with Exotic Genetix.
4. Increase market penetration in Quebec, Ontario, Alberta, British Columbia and Saskatchewan.
5. Entry into Manitoba and Nova Scotia markets.
6. Continued positive Adjusted EBITDA.

Respond to Market Demand

Since the beginning of the Company's retail launch, reaction from consumers have been very positive, requiring the Company to expand its production capacity in order to satisfy demand. During fiscal year 2023, the Company activated 3 additional growing zones of 25,000 square feet at its Valleyfield Facility. The Company had set an objective for fiscal 2024 to have a total of 10 growing zones activated, while focusing on quality, product innovation and achieving cost savings from economies of scale. The 10th growing zone was activated in January 2024, reaching a total of 250,000 square feet of active canopy, or approximately 100,000 plants under cultivation. The Valleyfield Facility has a total of 24 growing zones built out, providing Cannara the ability to organically increase production capacity in lockstep with increasing demand.

New Genetic Releases

The Company is constantly pheno-hunting new genetics to add to its portfolio as unique and exclusive genetic cultivars of cannabis continue to resonate with Canadian consumers and serve to set licensed producers apart from one another. New genetic releases are a result of the Company's rigorous pheno-hunting program that involves hand selecting only a few winning plants out of hundreds of different varieties of cannabis strains and phenotypes. Strain and phenotype selection is based on cultivar-brand fit, potency of cannabinoids and terpenes, bud structure, yield, and anticipated market appeal.

Cannara's brand partnership with 50-time US award-winning seed breeder, Exotic Genetix, grants Cannara an exclusive license to use, sell and distribute Exotic Genetix branded products throughout Canada in addition to providing access to direct breeder's knowledge and insights on Exotic Genetix cannabis strains. As a testament to the quality of its cannabis genetic library, Exotic Genetix strains makes up nine of the fourteen genetics grown by Cannara, including Gelato Mint, Power Sherb, Galactic Runtz, Jigglers, Drip Station, CBD Runtz, Slapz, and most recently, Neon Sunshine and Bubble Up, each of which have received overwhelmingly positive consumer feedback.

Increasing Market Penetration in Current Markets and Expanding into New Provinces

Cannara is committed to growing purposively by maintaining a strategic portfolio of SKUS across Canada's largest provincial markets. In addition, the Company continues to evaluate expansion into new provinces as it did this quarter with Nova Scotia and Manitoba. The Canadian cannabis market is projected to grow significantly, with a total market value expected to reach \$6.39 billion by 2027[19]. This anticipated growth offers Cannara an excellent opportunity to increase revenues by leveraging consumer trends and insights obtained while achieving its strong market position in Canada's largest provincial markets in order to penetrate new markets like Manitoba and Nova Scotia, and eventually continue expansion into smaller provincial markets. Cannabis New Brunswick (Cannabis NB) recently reported fourth quarter results that showed an 11% increase (Q4 2023 vs Q4 2024) in product sales to \$22.8M for the 3-month period ending March 31, 2024[20]. Similarly. Newfoundland and Labrador Liquor Corporation (NLC) announced fourth quarter results ending April 6, 2024 with \$22.7M in product sales, a 22% increase over the fourth quarter of the prior year[21].

[19] Statista Market Insights, March 2024
[20] Cannabis NB, 4th Quarter Results 2023 - 2024
[21] NLC Announces Fourth Quarter (Q4) Performance, June 3, 2024

THIRD QUARTER OF 2024 AND SUBSEQUENT EVENT HIGHLIGHTS

March 2024

Approval and Sale of Cannara Branded Products In Manitoba

In March 2024, the Company secured authorization from the Manitoba Liquor & Lotteries Corporation (MBLL) to introduce its branded cannabis products within the province of Manitoba. This approval marks a significant milestone in Cannara's expansion efforts, allowing the Company to extend its market reach in Canada.

April 2024

Successful Launch of 3 New Genetics for Cannara's House of Brands

Cannara completed its most recent pheno-hunt program, unlocking 3 new high-powered genetics for its house of brands. The Company launched two genetics under Tribal (Neon Sunshine and Bubble Up) and one under Nugz (Guava Jam) in Q3 2024. Cannara is now focused on its FY 2025 pheno-hunt program that will aim to unlock more exotic genetics.

Sale of Parcel of Land at Valleyfield Site

In January 2024, the Company's Board of Directors decided to pursue the sale of a currently unused parcel of land, in addition to an adjacent building under construction at its Valleyfield site, which had previously been intended to be leased out. On April 24, 2024, the Company sold the parcel of land at the Valleyfield Facility for $2.1 million, generating a gain on disposal of asset held for sale of $2.0 million. The building under construction and the land on which it is being constructed remains to be sold and is currently being actively marketed.

Cannara enters Recreational Market in the Maritimes With 4/20-Themed Offer with Nova Scotia Liquor Corporation

Cannara successfully launched its consumer favourite Tribal Cuban Linx pre-rolls with the Nova Scotia Liquor Corporation (NSLC) for a 4/20-themed holiday limited time offer. As a result of its success, the NSLC has now accepted the SKU on a permanent basis, in addition to a 28g offering of Cuban Linx set to launch in early Fall 2024, with more SKUs to be accepted in the quarters to come.

Cannara Sees Bright Future Cannabis Industry Worldwide with Legislative Changes in Germany and Israel

Cannara applauds Germany's recent legislation change, legalizing cannabis for adult use as of April 1, 2024, marking a noteworthy shift within the European market. Simultaneously, the Israeli Ministry of Health's announcement on August 7, 2023, regarding the phased implementation of its medical cannabis reform as of April 1, 2024, despite a three-month delay due to the Israel-Hamas conflict, represents another pivotal moment for the industry.

Together, these developments in Germany and Israel illustrate the dynamic nature of the global cannabis landscape. Although the main focus of revenues for the Company remains its Canadian client base, Germany and Israel's announced cannabis legalization strategy further validates the potential for increased demand in legal cannabis markets and aligns with Cannara's proven capability to navigate and execute international cannabis sales.

THIRD QUARTER OF 2024 AND SUBSEQUENT EVENT HIGHLIGHTS (*continued*)

May 2024 – July 2024

Continued Expansion in Quebec and Other Provinces

Cannara's continued efforts to develop a unique portfolio of brands, tailored to appeal to consumers across various categories, demonstrated positive consumer response in the third quarter of 2024. Notably, in Quebec, according to Weed Crawler data, the Company saw a 7.8% increase in market share, and by June, its market share had risen to 11.6%, marking a 19.6% growth. We believe these gains are driven by our strong portfolio of SKUs, highly appreciated by customers in Quebec, highlighting our ability to continually enhance customer demand, market penetration, and satisfaction. Going forward, Cannara will focus on production expansion, product innovation and ultimately, focusing its sales and marketing efforts on increasing distribution and sales velocity within its portfolio in all provinces.

The Company successfully completed its first sale into Manitoba at the end of May 2024 with 35 listings. This development not only diversifies Cannara's geographical footprint but also underscores its commitment to enhancing product accessibility for its customers.

FINANCING

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.

The revolving credit facilities bear variable interest rates based on prime rate or the Canadian overnight repo rate average ("CORRA") plus an applicable margin based on the credit agreement. As at May 31, 2024, the weighted average interest rate on the revolving credit facilities was 8.48%.

During the third quarter of 2024, the Company extended all tranches of the revolving credit facilities that came to expiry for a 30-day period and made a net repayment during the quarter of $240,000 on the revolving credit facilities. On May 31, 2024, the Company amended its credit agreement with the Bank of Montreal to remove an EBITDA covenant requirement in addition to extending the maturity of the term loan and credit facilities from May 31, 2025, to December 31, 2025.

The revolving credit facilities are classified as a current liability as it is being managed and expected to be settled by the Company in its normal operating cycle.

Subsequent to quarter-end, the Company extended all tranches of the revolving credit facilities that came to expiry for a 90-day period.

CAPITAL TRANSACTIONS

On November 11, 2022, Cannara obtained the approval from the TSX-V for a normal course issuer bid (the "NCIB") to be transacted through the facilities of the TSX-V. Pursuant to the NCIB, Cannara may purchase up to 1,500,000 of its common shares, or approximately 1.5% of its float for cancellation over a 12-month period. Purchases will be made at prevailing market prices commencing December 3, 2022, and ending December 2, 2023. In connection with the NCIB, the Company established a share 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.

During the first quarter of 2024, the Company purchased 281,900 common shares having a book value of $275,698 for cash consideration of $272,827. All shares purchased were cancelled.

During the second quarter of 2024, the Company purchased 5,000 common shares having a book value of $4,890 for cash consideration of $4,312. All shares purchased were cancelled.

CAPITAL TRANSACTIONS (*continued*)

During the second quarter of 2024, the Company granted a total of 625,000 stock options at an exercise price of $1.20, 99,000 stock options at an exercise price of $1.80 and 715,000 RSUs to employees and board members, which are subject to certain vesting conditions in accordance with the Company's employee share option and RSU plan. During the second quarter of 2024, the Company also extended the term of 2,435,000 stock options exercisable at $1.80 per share and 750,000 stock options exercisable at $1.00 per share by 2 years.

During the third quarter of 2024, the Company granted 25,000 stock options at an exercise price of $1.80 to employees subject to certain vesting conditions in accordance with the Company's employee share option plan.

SELECTED FINANCIAL INFORMATION

Selected Financial Highlights	Three-month periods ended May 31, 2024	Three-month periods ended May 31, 2023	Nine-month periods ended May 31, 2024	Nine-month periods ended May 31, 2023
Net revenue [1]	$ 19,475,137	$ 15,840,140	$ 58,563,040	$ 38,929,458
Other income	69,779	96,688	148,373	354,731
Total revenues	19,544,916	15,936,828	58,711,413	39,284,189
Gross profit, before fair value adjustments	5,747,047	6,120,878	20,824,040	14,174,905
Gross profit	6,958,256	8,594,235	19,334,110	17,688,552
Operating expenses	3,404,212	4,311,958	14,300,967	11,632,065
Operating income	3,554,044	4,282,277	5,033,143	6,056,487
Net finance expense	1,530,658	1,353,634	4,349,098	3,742,948
Net income	2,023,386	2,928,643	684,045	2,313,539
Adjusted EBITDA [2]	2,776,397	3,887,634	11,447,529	8,825,357
Percentages of Total revenues				
Gross profit, before fair value adjustments as a percentage of Total revenues [3]	29%	38%	35%	36%
Gross profit as a percentage of Total revenues [4]	36%	54%	33%	45%
Operating income as a percentage of Total revenues [5]	18%	27%	9%	15%
Net income as a percentage of Total revenues [6]	10%	18%	1%	6%
Adjusted EBITDA as a percentage of Total revenues [7]	14%	24%	19%	22%
Earnings per share				
Basic earning per share	$ 0.02	$ 0.03	$ 0.01	$ 0.03
Diluted earning per share	$ 0.02	$ 0.03	$ 0.01	$ 0.03

	May 31, 2024	August 31, 2023
Cash	$ 5,464,378	$ 4,270,517
Accounts receivable	11,829,419	10,592,705
Biological assets	4,852,449	5,774,121
Inventory	32,603,729	27,997,589
Working capital [8]	35,242,622	30,513,009
Total assets	148,768,302	141,522,254
Total current liabilities	26,777,902	21,182,827
Total non-current liabilities	40,222,572	40,595,383
Net assets	81,767,828	79,744,044
Free cash flow [9]	1,242,527	1,107,464

1 Net revenue included revenues from sale of goods, net of excise taxes, services revenues and lease revenues.
2 Adjusted EBITDA is a non-GAAP financial measure.
3 Gross profit before fair value adjustments as a percentage of Total revenues is a non-GAAP financial ratio. For more details see the Non-GAAP and Other Financial Measures section of this MD&A.
4 Gross profit as a percentage of Total revenues is a non-GAAP financial ratio. For more details see the Non-GAAP Measures section of this MD&A.
5 Operating income as a percentage of Total revenues is a non-GAAP financial ratio. For more details see the Non-GAAP Measures section of this MD&A.
6 Net income as a percentage of Total revenues is a non-GAAP financial ratio. For more details see the Non-GAAP Measures section of this MD&A.
7 Adjusted EBITDA as a percentage of Total revenues is a non-GAAP financial ratio. For more details see the Non-GAAP Measures section of this MD&A.
8 Working capital is a non-GAAP financial measure. For more details see the Non-GAAP Measures section of this MD&A.
9 Free cash flow is a non-GAAP financial measure. For more details see the Non-GAAP Measures section of this MD&A.

SELECTED FINANCIAL INFORMATION (*continued*)

Reconciliation of adjusted EBITDA

Adjusted EBITDA is a non-GAAP Measure and can be reconciled with net income, the most directly comparable IFRS financial measure, as detailed below.

Adjusted EBITDA as a percentage of Total revenues is a non-GAAP financial ratio, determined as adjusted EBITDA divided by total revenues.

Reconciliation of adjusted EBITDA	Three-month periods ended May 31, 2024	Three-month periods ended May 31, 2023	Nine-month periods ended May 31, 2024	Nine-month periods ended May 31, 2023
Net income	$ 2,023,386	$ 2,928,643	$ 684,045	$ 2,313,539
Adjustments:				
Changes in fair value of inventory sold	5,137,341	4,023,826	17,161,049	9,971,578
Unrealized gain on changes in fair value of biological assets	(6,348,550)	(6,497,183)	(15,671,119)	(13,485,225)
Amortization, including amortization of cost of good sold	1,785,153	1,187,620	4,134,592	2,918,501
Write-down of inventory to net realizable value	283,244	474,654	1,206,613	1,886,363
Gain on disposal of asset held for sale	(2,039,007)	-	(2,039,007)	-
Loss on disposal of property, plant and equipment	-	-	5,380	63,247
Share-based compensation	404,172	416,440	1,616,878	1,414,406
Net finance expense	1,530,658	1,353,634	4,349,098	3,742,948
Adjusted EBITDA*	$ 2,776,397	$ 3,887,634	$ 11,447,529	$ 8,825,357
Adjusted EBITDA as a percentage of Total revenues**	14%	24%	19%	22%

**Non-GAAP financial measure*
***Non-GAAP financial ratio*

Reconciliation of free cash flow

Free cash flow is a non-GAAP measure and can be reconciled with Cash from (used in) operating activities, the most directly comparable IFRS financial measure, as detailed below.

Reconciliation of free cash flow	Three-month periods ended May 31, 2024	Three-month periods ended May 31, 2023	Nine-month periods ended May 31, 2024	Nine-month periods ended May 31, 2023
Cash from operating activities	$ 4,325,380	$ 2,540,852	$ 7,496,392	$ 3,023,289
Adjustment:				
Capital expenditures	3,082,853	2,577,685	6,975,869	8,099,061
Free cash flow*	$ 1,242,527	$ (36,833)	$ 520,523	$ (5,075,772)

**Non-GAAP financial measure*

SELECTED FINANCIAL INFORMATION (*continued*)

Q3 2024 vs Q3 2023 Highlights

- Gross cannabis revenues before excise taxes increased to $26.2 million in Q3 2024 from $20.6 million in Q3 2023, a $5.6 million or 27.6%, increase. The increase is attributable to the sale effort to increase market share and entering new provinces in Canada, as well as the launch of several new SKUs and sales generated from the wholesale market.
- Total revenues, net of excise taxes, increased to $19.5 million in Q3 2024 from $15.9 million in Q3 2023, a $3.6 million or 22.6% increase.
- Gross profit, before fair value adjustments, decreased to $5.7 million in Q3 2024 from $6.1 million in Q3 2023, a 6.1% decrease. This decrease was primarily due to a reduction in yields resulting from cultivation changes implemented during Q2 2024, which impacted the cost of goods sold in Q3 2024. During the quarter, the Company reversed these changes and focused on stabilizing its production yields, successfully restoring them to previous levels. Cannara is dedicated to advancing research and development, harnessing our expertise to strengthen the knowledge and core competencies in large-scale cannabis production. Through these ongoing investments, we aim to consistently elevate our cultivation techniques, maximize production yields, and enhance the overall quality of our products.
- Gross profit percentage before fair value adjustments in Q3 2024 was 29% compared to 38% in Q3 2023.
- Operating income of $3.6 million in Q3 2024 compared to an operating income of $4.3 million in Q3 2023, mainly due to an increased costs of goods sold this quarter as mentioned above, as well as increases in selling and marketing expenses to promote and grow our market share across Canada. These impacts were reduced by a gain of $2 million resulting from the sale of a parcel of land unused at the Valleyfield site.
- Net income of $2.0 million in Q3 2024 compared to $2.9 million in Q3 2023, as a result of the items mentioned above.
- Adjusted EBITDA of $2.8 million in Q3 2024, compared to $3.9 million in Q3 2023.
- The Company generated operating cash flow amounting to $4.3 million in Q3 2024 compared to $2.5 million in Q3 2023.
- Free cash flow for Q3 2024 increased to $1.2 million from ($37,000) in Q3 2023.
- Generated earnings per share of $0.02 in Q3 2024 compared to $0.03 in Q3 2023.

Quarter over Quarter ("QoQ") Highlights – Q3 2024 vs Q2 2024

- Gross cannabis revenues before excise taxes remained similar from $26.3 million in Q2 2024 to $26.2 million in Q3 2024.
- Total revenues, net of excise taxes, decreased by 1.1% QoQ, from $19.7 million in Q2 2024 to $19.5 million in Q3 2024.
- Gross profit, before fair value adjustments, fell by 19.5% QoQ, from $7.1 million to $5.7 million in Q3 2024.
- Gross profit percentage before fair value adjustments fell from 36% in Q2 2024 to 29% in Q3 2024. The resulting decrease in gross profit percentage before fair value adjustments was caused by the prior quarter issues on certain lots that generated a lower yield than usual.
- Operating income of $3.6 million in Q3 2024 compared to an operating loss of ($2.0 million) in Q2 2024, a $5.6 million increase resulting from the gain of $2 million on the sale of asset for sale and the prior quarter net impact of the change in fair value of inventory sold and unrealized gain on change in fair value of biological assets.
- Net income of $2.0 million in Q3 2024 compared to a net loss of ($3.4 million) in Q2 2024, an increase of $5.4 million, as a result of the items mentioned above.
- Adjusted EBITDA of $2.8 million in Q3 2024, compared to $3.5 million in Q2 2024.
- Cash flow from operating activities increased from $2.4 million in Q2 2024 to $4.3 million in Q3 2024.
- Free cash flow for Q3 2024 was $1.2 million compared to $1.3 million in Q2 2024.

SELECTED SEGMENT RESULTS OF OPERATIONS

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

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

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Selected Segment Financial Highlights	Three-month period ended May 31, 2024				Three-month period ended May 31, 2023			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Gross revenue	$ 26,240,815	$ 1,253,615	$ -	$ 27,494,430	$ 20,565,849	$ 896,054	$ -	$ 21,461,903
Excise taxes	(8,019,293)	-	-	(8,019,293)	(5,621,763)	-	-	(5,621,763)
Net Revenue	18,221,522	1,253,615	-	19,475,137	14,944,086	896,054	-	15,840,140
Other income	69,779	-	-	69,779	96,688	-	-	96,688
	18,291,301	1,253,615	-	19,544,916	15,040,774	896,054	-	15,936,828
Gross profit, before fair value adjustments	4,580,911	1,166,136	-	5,747,047	5,320,071	800,807	-	6,120,878
%[1]	25%	93%	-	29%	35%	89%	-	38%
Gross profit	5,792,120	1,166,136	-	6,958,256	7,793,428	800,807	-	8,594,235
%[2]	32%	93%	-	36%	52%	89%	-	54%
Operating expenses	4,799,942	-	-	4,799,942	3,635,064	-	-	3,635,064
Segment operating income[3]	992,178	1,166,136	-	2,158,314	4,158,364	800,807	-	4,959,171
%[4]	5%	93%	-	11%	28%	89%	-	31%
Net finance expense	-	-	1,530,658	1,530,658	-	-	1,353,634	1,353,634
Other	-	-	(1,395,730)	(1,395,730)	-	-	676,894	676,894
Segment net income (loss)	992,178	1,166,136	(134,928)	2,023,386	4,158,364	800,807	(2,030,528)	2,928,643

1 Segment gross profit before fair value adjustments % is determined as segment gross profit before fair value adjustments divided by segment net revenue.
2 Segment gross profit % is determined as segment gross profit divided by segment net revenue.
3 Segment operating income is determined as segment operating income before non-cash and other items which are included in “Other” segment.
4 Segment operating income % is determined as segment operating income divided by segment net revenue.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Selected Segment Financial Highlights	Nine-month period May 31, 2024				Nine-month period May 31, 2023			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Gross revenue	$ 78,844,064	$ 3,077,321	$ -	$ 81,921,385	$ 48,825,769	$ 2,660,019	$ -	$ 51,485,788
Excise taxes	(23,358,345)	-	-	(23,358,345)	(12,556,330)	-	-	(12,556,330)
Net Revenue	55,485,719	3,077,321	-	58,563,040	36,269,439	2,660,019	-	38,929,458
Other income	148,373	-	-	148,373	354,731	-	-	354,731
	55,634,092	3,077,321	-	58,711,413	36,624,170	2,660,019	-	39,284,189
Gross profit, before fair value adjustments	18,006,315	2,817,725	-	20,824,040	11,812,108	2,362,797	-	14,174,905
%[1]	32%	92%	-	35%	32%	89%	-	36%
Gross profit	16,516,385	2,817,725	-	19,334,110	15,325,755	2,362,797	-	17,688,552
%[2]	30%	92%	-	33%	42%	89%	-	45%
Operating expenses	13,842,819	-	-	13,842,819	9,320,961	-	-	9,320,961
Segment operating income[3]	2,673,566	2,817,725	-	5,491,291	6,004,794	2,362,797	-	8,367,591
%[4]	5%	92%	-	9%	16%	89%	-	21%
Net finance expense	-	-	4,349,098	4,349,098	-	-	3,742,948	3,742,948
Other	-	-	458,148	458,148	-	-	2,311,104	2,311,104
Segment net income (loss)	2,673,566	2,817,725	(4,807,246)	684,045	6,004,794	2,362,797	(6,054,052)	2,313,539

1 Segment gross profit before fair value adjustments % is determined as segment gross profit before fair value adjustments divided by segment net revenue.
2 Segment gross profit % is determined as segment gross profit divided by segment net revenue.
3 Segment operating income is determined as segment operating income before non-cash and other items which are included in “Other” segment.
4 Segment operating income is determined as segment operating income divided by segment net revenue.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Cannabis operations

For the three and nine-month periods ended May 31, 2024, the segment generated $18.2 million and $55.5 million in cannabis-related and cannabis accessories revenues, net of excise taxes, compared to $14.9 million and $36.3 million for the same periods of the prior year, an increase of $3.3 million or 21.9% and $19.2 million and 53% for the respective three and nine-month periods. The increase in sales is attributable to the increased production at the Company's Valleyfield Facility and increasing demand for its products across the country. Periodically, the Company also utilizes its wholesale distribution network to generate additional revenues.

Compared to Q2 2024, cannabis-related and cannabis accessories revenues, net of excise taxes, decreased by $0.5 million, a -2.8% QoQ variance. The Company has stabilized its revenues for the past three quarters as it focused on increasing its production supply and building its SKU portfolio for each of its brands. Going forward, the Company continues to focus on production expansion, product innovation and ultimately, building its sales and marketing campaign to increase distribution and awareness of its products.

Highlights of the third quarter of 2024 are as follows:

- First sales generated into 2 new provinces: Manitoba and Nova Scotia. Cannara products are now distributed in 7 of the 10 provinces of Cannada.
- 1,364,000 units were sold during Q3 2024 across 3 flagship brands, which compares to 1,254,000 units sold in Q2 2024, a 9% increase QoQ;
- Units sold during Q3 2024 represent approximately 3,227 kg in cannabis flower and 2,888 kg of estimated equivalent of cannabis flower used for derivative products. This compares to 3,211 kg of cannabis flower and 3,528 kg of estimated equivalent of cannabis flower used for derivative products sold in Q2 2024.

For the three and nine-month period ended May 31, 2024, the Company incurred $13.7 million and $37.6 million in costs of goods sold, compared to $9.7 million and $23.9 million for the same periods of the prior year due to increased labor and operating costs to support increase in revenues. Q3 2024 cost of goods sold increased by $1.3 million or 10.2% compared to Q2 2024, which is attributable to the sale of products that came from certain harvests of the prior quarter that had a lower yield than average yield.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Cannabis operations *(continued)*

The segment generated a gross profit before fair value adjustments of $4.6 million and $18.0 million or 25% and 32% of segment net revenue for the three and nine-month periods ended May 31, 2024, compared to $5.3 million and $11.8 million or 35% and 32% of segment net revenue for the same periods of the prior year, due to higher production costs on certain lots sold during Q3 2024. Compared to Q2 2024, gross profit before fair value adjustments decreased by $1.7 million or -27.6% due to reasons previously explained.

Fair value adjustment on sale of inventory includes the fair value of biological assets in the value of inventory transferred to cost of goods sold.

The change in fair value of inventory sold recognized during the three and nine-month periods ended May 31, 2024, amounted to $5.1 million and $17.2 million compared to $4.0 million and $10.0 million for the same periods of the prior year. The increase in the fair value adjustment on sale of inventory is aligned with the increase in sales.

For the three and nine-month periods ended May 31, 2024, the Company recognized an unrealized gain on changes in fair value of biological assets of $6.3 million and $15.7 million on the lots in the cultivation cycle that have not yet been harvested compared to $6.5 million and $13.5 million for the same periods of the prior year. Compared to Q2 2024, the unrealized gain on changes in fair value of biological assets in Q2 2024 increased by $3.6 million as a result of increased yield assumptions used in the fair value model compared to Q2 2024.

The segment generated $5.8 million or 32% and $16.5 million or 30% in gross profit for the three and nine-month periods ended May 31, 2024, compared to $7.8 million or 52% and $15.3 million or 42% for the same periods of the prior year. This change is attributable to the net impact of the changes in fair value of inventory sold and the unrealized gain on biological assets in addition to increased costs during the period which is expected to reduce as the Company optimizes its operations. Compared to Q2 2024, gross profit in Q2 2024 increased by $2.5 million as a result of the fluctuations in the assumptions used in the fair value model.

For the three and nine-month periods ended May 31, 2024, the segment incurred $4.8 million and $13.8 million in operating expenses compared to $3.6 million and $9.3 million for the same periods of the prior year resulting in an increase of $1.2 million or 32% and $4.5 million or 48%. The increase in operating compared to prior year is mainly due to the increase in sales and marketing efforts put to growth the Company’s revenues and market share across Canada. Operating expenses for the current quarter were comparable to the previous quarter.

Overall, the segment generated net income of $1.0 million and $2.7 million for the three and nine-month periods ended May 31, 2024, compared to $4.2 million and $6.0 million for the same periods of the prior year.

Real estate operations

As part of the Company’s capital management strategy, the Company has leased out all unoccupied space in the Farnham Facility. As of May 31, 2024, the Company leased 414,114 square feet of the total 625,000 available square feet to two tenants.

For the three and nine-month periods ended May 31, 2024, the Company generated lease revenues of $1.3 million and $3.1 million compared to $0.9 million and $2.7 million for the same periods of the prior year. The increase in lease revenues during Q3 2024 is due to certain chargeback to a tenant. To realize these lease revenues during the three and nine-month periods ended May 31, 2024, the Company incurred $0.1 million and $0.3 million in lease operating costs compared to $0.1 million and $0.3 million in the same periods of the prior year. Compared to Q2 2024, the leases revenues increased by $0.4 million as a result of expense chargebacks, and lease operating costs remained consistent with prior quarter.

For the three and nine-month periods ended May 31, 2024, the segment generated operating income of $1.2 million and $2.8 million, compared to $0.8 million and $2.4 million for the same periods of the prior year.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Other

For the three and nine-month periods ended May 31, 2024, the segment incurred $1.5 million and $4.3 million in net finance expense, compared to $1.4 million and $3.7 million for the same periods of the prior year. The increase in net finance expense is mainly explained by the interest incurred on the credit facilities. Net finance expense for Q3 2024 was comparable to Q2 2024, as there were no significant capital or interest rate changes.

For the three and nine-month periods ended May 31, 2024, the segment generated a gain of $1.4 million and incurred $0.5 million in other expenses, compared to $0.7 million and $2.3 million for the same periods of the prior year. The gain in Q3 2024 is due to a one-time gain of $2.0 million on the sale of the unused land parcel at the Valleyfield Facility. Compared to Q2 2024, other expenses of Q3 2024 were lower by $0.4 million, after the exclusion of the one-time gain of $2.0 million. Other expenses variations are mostly explained by the share-based compensation expense, as a result of new options and RSU grants.

QUARTERLY FINANCIAL POSITION AND RESULTS

The following table sets forth, for the quarter indicated, information relating to the Company's consolidated financial position as well as total revenues, gross profit before fair value adjustments, operating income (loss), net income (loss) attributable to Shareholders of the Company, related basic and diluted income (loss) per share attributable to Shareholders of the Company, adjusted EBITDA and cash from (used) in operating activities and free cash flow for the eight completed fiscal quarters to date:

	May 31, 2024	February 29, 2024	November 30, 2023	August 31, 2023	May 31, 2023	February 28, 2023	November 30, 2022	August 31, 2022
Current assets	$ 62,020,524	$ 58,224,875	$ 52,762,707	$ 51,695,836	$ 45,657,986	$ 40,820,665	$ 38,393,438	$ 40,988,684
Non-current assets	86,747,778	87,599,787	92,059,206	89,826,418	89,716,638	88,326,738	87,032,849	84,628,363
Total assets	148,768,302	145,824,662	144,821,913	141,522,254	135,374,624	129,147,403	125,426,287	125,617,047
Current liabilities	26,777,902	60,090,241	22,261,932	21,182,827	18,522,090	15,227,812	11,262,823	11,861,085
Non-current liabilities	40,222,572	6,394,151	40,700,914	40,595,383	41,876,538	42,146,726	46,880,581	47,020,201
Total liabilities	67,000,474	66,484,392	62,962,846	61,778,210	60,398,628	57,374,538	58,143,404	58,881,286
Net assets	$ 81,767,828	$ 79,340,270	$ 81,859,067	$ 79,744,044	$ 74,975,996	$ 71,772,865	$ 67,282,883	$ 66,735,761

	May 31, 2024	February 29, 2024	November 30, 2023	August 31, 2023	May 31, 2023	February 28, 2023	November 30, 2022	August 31, 2022
Total revenues	$ 19,544,916	$ 19,683,203	$ 19,483,294	$ 18,278,613	$ 15,936,828	$ 13,035,756	$ 10,311,605	$ 11,947,112
Gross profit before fair value adjustments	5,747,047	7,141,276	7,935,717	6,894,634	6,120,878	4,030,629	4,023,398	4,759,816
%[1]	29%	36%	41%	38%	38%	31%	39%	40%
Gross profit	6,958,256	4,140,498	8,235,356	9,844,782	8,594,235	4,261,722	4,832,595	7,103,374
Operating income (loss)	3,554,044	(1,959,547)	3,438,646	5,831,306	4,282,277	631,335	1,142,875	3,762,721
Net income (loss) attributable to Shareholders of the Company	2,023,386	(3,446,620)	2,107,279	4,631,879	2,928,643	(618,055)	2,951	2,553,444
Basic and diluted income (loss) per share	$ 0.02	$ (0.04)	$ 0.02	$ 0.05	$ 0.03	$ (0.01)	$ -	$ 0.01
Adjusted EBITDA[2]	2,776,397	3,500,320	5,170,812	4,906,640	3,887,634	3,220,890	1,716,833	2,566,590
%[3]	14%	18%	27%	27%	24%	25%	17%	21%
Cash provided by (used in) operating activities	4,325,380	2,388,100	782,912	2,887,872	2,540,852	482,017	420	(3,157,570)
Free cash flow[4]	1,242,527	1,268,702	(1,990,706)	1,107,464	(36,833)	(1,213,391)	(3,825,548)	(8,312,000)

1 Gross profit before fair value adjustments % is determined as Gross profit before fair value adjustments divided by Total revenues.

2 Adjusted EBITDA is a non-GAAP financial performance measure with no standard definition under IFRS. A reconciliation of this amount for the applicable period is presented in the table below.

3 Adjusted EBITDA % is a non-GAAP financial ratio and is determined as Adjusted EBITDA divided by Total revenues.

4 Free cash flow is a non-GAAP financial performance measure with no standard definition under IFRS and is defined as cash flow from operations less capital expenditures.

QUARTERLY FINANCIAL POSITION AND RESULTS (*continued)*

	Three-month periods ended							
	May 31, 2024	February 29, 2024	November 30, 2023	August 31, 2023	May 31, 2023	February 28, 2023	November 30, 2022	August 31, 2022
Adjusted EBITDA reconciliation								
Net income (loss)	$ 2,023,386	$ (3,446,620)	$ 2,107,279	$ 4,631,879	$ 2,928,643	$ (618,055)	$ 2,951	$ 2,553,444
Adjustments:								
Changes in fair value of inventory sold	5,137,341	5,799,042	6,224,666	4,666,241	4,023,826	3,948,425	1,999,327	2,427,690
Unrealized gain on changes in fair value of biological assets	(6,348,550)	(2,798,264)	(6,524,305)	(7,616,389)	(6,497,183)	(4,179,518)	(2,808,524)	(4,771,248)
Amortization, including amortization in cost of good sold	1,785,153	1,327,162	1,022,277	890,248	1,187,620	972,614	758,267	980,816
Write-down of inventory to net realizable value	283,244	199,792	723,577	725,814	474,654	1,375,360	36,349	73,337
Gain on disposal of asset held for sale	(2,039,007)	-	-	-	-	-	-	-
Loss on disposal of property, plant and equipment	-	-	5,380	69,841	-	37,267	25,980	8,227
Share-based compensation, including share-based compensation in cost of good sold	404,172	932,135	280,571	339,579	416,440	435,407	562,559	85,047
Net finance expense	1,530,658	1,487,073	1,331,367	1,199,427	1,353,634	1,249,390	1,139,924	1,209,277
Adjusted EBITDA[1]	$ 2,776,397	$ 3,500,320	$ 5,170,812	$ 4,906,640	$ 3,887,634	$ 3,220,890	$ 1,716,833	$ 2,566,590
Free cash flow reconciliation								
Cash provided by (used in) operating activities	$ 4,325,380	$ 2,388,100	$ 782,912	$ 2,887,872	$ 2,540,852	$ 482,017	$ 420	$ (3,157,570)
Adjustment:								
Capital expenditure	3,082,853	1,119,398	2,773,618	1,780,408	2,577,685	1,695,408	3,825,968	5,154,430
Free cash flow[2]	$ 1,242,527	$ 1,268,702	$ (1,990,706)	$ 1,107,464	$ (36,833)	$ (1,213,391)	$ (3,825,548)	$ (8,312,000)

1 Adjusted EBITDA is a non-GAAP financial performance measure with no standard definition under IFRS. A reconciliation of this amount for the applicable period is presented in the table above.

2 Free cash flow is a non-GAAP financial performance measure with no standard definition under IFRS and is defined as cash flow from operations less capital expenditures.

Factors Affecting the Variability of Quarterly Results

There is positive growth in total revenues, gross profit before fair value adjustments and free cash flow because of the ramp up of the Company's cannabis operations since sales began in February 2021.The Company acquired a second facility, the Valleyfield Facility, in June 2021 and invested significantly in the months that followed to redesign the growing zone and prepare for the start of its expanded cultivation activities. Higher expenses are associated with business growth and the development of Cannara's product pipeline. First revenues generated from the sale of harvested cannabis from the Valleyfield Facility occurred in the third quarter of 2022 and continues to this day. Other factors affecting the variability of quarterly results are changes in inventory levels and, from time to time, the variation on the yield of cannabis harvested, the average net selling price changes or inventory write-down to its realizable net value. The Company is also subject to the changes in the inflation rate that could impact cost of cultivation and packaging materials in addition to the cost of labor.

QUARTERLY FINANCIAL POSITION AND RESULTS (*continued*)

CASH FLOW ANALYSIS

	Three-month periods ended		Nine-month periods ended	
	May 31, 2024	May 31, 2023	May 31, 2024	May 31, 2023
Cash provided by operating activities	$ 4,325,380	$ 2,540,852	$ 7,496,392	$ 3,023,289
Cash used in financing activities	(1,047,432)	(107,645)	(1,550,399)	(3,166,316)
Cash used in investing activities	(944,199)	(2,546,407)	(4,752,132)	(7,859,274)

Operating activities

For the third quarter of 2024, the Company generated positive operating cash flow of $4.3 million, which is explained by the increase in cannabis gross profits compared to the prior year resulting from the growth in operations, and the timing of investing in biological assets and inventory and the collection of receivables from cannabis sales generated. The operations are continuously adjusted and can be increased as need to meet the high demand of the Company's products and to support its market share expansion to other provinces.

Financing activities

For the third quarter of 2024, cash used in financing activities was $1.0 million which was mainly attributable to the payment of the capital and interest on its debt instruments for $0.6 million and the net repayment of the credit facilities of $0.2 million.

Investing activities

For the third quarter of 2024, cash used in investing activities was $0.9 million which was mainly attributable to the payment of the investment made on the building in construction, net of the proceed received from the sale of the parcel of land at the Valleyfield site. Interest received relating to interest earned on cash balances held at a Canadian financial institution amounted to $39,000 for the third quarter of 2024. There is no restriction on the Company's ability to use its cash for its operational needs while it earns interest on the unused balance.

LIQUIDITY AND CAPITAL RESOURCES

As of the date of this MD&A, the operations were financed primarily through cash generated from the sales of cannabis products, recurrent leases revenues along with funds raised in equity financings secured in previous quarters, debt raised against immoveable assets, government grants to support the Company's cash flow and cash flows generated from assets held for sale. The Company's objectives when managing its liquidity, its capital resources and to meet its capital requirements is to generate sufficient cash to fund the Company's operations and working capital requirements.

The Company had a working capital of $35.2 million as at May 31, 2024 (August 31, 2023 - $30.5 million).

As at May 31, 2024, the Company's working capital was composed of:

- cash on hand of $5.4 million (August 31, 2023- $4.3 million); and
- accounts receivable, biological assets, inventory and prepaid expenses and other assets of $56.5 million (August 31, 2023 - $47.4 million)
- accounts payable and accrued liabilities, excise tax payable, sales tax payable, deferred revenue, deferred lease revenue and deferred grant income of $17.2 million (August 31, 2023- $15.1 million) and;
- credit facilities, current portion of the convertible debenture, lease liabilities and current portion of term loan of $9.5 million (August 31, 2023 - $6.1 million).

The Company may continue to have capital requirements more than its currently available resources. In the event the Company's plans or its assumptions change or prove inaccurate, or its capital resources in addition to projected cash flow, if any, prove to be insufficient to fund operations, the Company may be required to seek additional financing. The Company expects that its existing cash resources as at May 31, 2024 along with its forecasted cashflows, undrawn credit facilities and other sources such as proceeds from the disposal of assets held for sale, will be able to fund its planned operating expenses for at least the next twelve months from May 31, 2024.

QUARTERLY FINANCIAL POSITION AND RESULTS (*continued*)

Reconciliation of working capital

Working capital is a non-IFRS Measure and can be reconciled with total current assets and total current liabilities, the most directly comparable IFRS financial measure, as detailed below.

Reconciliation of working capital		As at May 31, 2024		As at August 31, 2023
Total current assets	$	62,020,524	$	51,695,836
Total current liabilities		26,777,902		21,182,827
Working capital*	$	35,242,622	$	30,513,009

**Non-IFRS financial measure*

LIQUIDITY AND CAPITAL RESOURCES

Financing

Type of loan	Interest Rate	Maturity		Balance as at May 31, 2024		Balance as at August 31, 2023
Revolving credit facility A(1)	8.48%	June 27, 2024	$	1,070,000	$	2,000,000
Revolving credit facility B(1)	8.47%	June 27, 2024		600,000		600,000
Revolving credit facility C(1)	8.48%	June 27, 2024		400,000		400,000
Revolving credit facility D(1)	8.47%	June 27, 2024		1,500,000		-
Revolving credit facility E(1)	8.48%	June 27, 2024		489,298		-
Revolving credit facility F(1)	8.48%	June 27, 2024		1,200,000		-
Revolving credit facility G(1)	8.47%	June 27, 2024		1,000,000		
Term loan (1)	8.95%	December 31, 2025 (2)		35,478,078		36,854,235
Convertible debenture A (2)	4%	September 30, 2025		6,435,566		5,753,133

1 The credit facilities terms are of 30, 60 or 90 days depending on management's decision and can be renewed at the end of the period. The base term of the term loan was for 3 years ending on May 31, 2025, which was extended during the period to December 31, 2025. The credit facilities and the term loan bear a variable interest rate based on prime and/or CORRA rates plus an acceptable margin. As at May 31, 2024, the average interest rate was 8.48% on the credit facilities and 8.95% on the term loan. The Company has to respect financial covenants including (a) maintaining a certain liquidity coverage at all the times, and, starting on September 2023, to maintain (b) a fixed charge coverage ratio equal to or more than 1.25 to 1.0, and (c) a funded debt to EBITDA ratio equal to or less than 3.5 to 1.0 at each quarter-end. As at May 31, 2024, the Company met all of the imposed covenants.

2 The $5,700,000 convertible debenture bears interest at 4% per annum until June 21, 2024, and will increase to 9.25% until January 31, 2025. 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% effective January 31, 2025. Interest is payable at term or at conversion if it occurs. The holder has the right to demand payment up to $1,000,000 in principal on January 31, 2025.

LIQUIDITY AND CAPITAL RESOURCES

Other contractual obligations

	Carrying amount	Less than one year	One to five years	Thereafter	Total contractual amount
Accounts payable and accrued liabilities	$ 9,751,677	$ 9,751,677	$ -	$ -	$ 9,751,677
Revolving credit facilities	6,259,298	6,259,298	-	-	6,259,298
Lease liabilities [2]	706,732	319,011	469,504	-	788,515
Convertible debenture	6,435,566	1,000,000	5,405,961	-	6,405,961
Term loan [1]	35,478,078	1,965,961	33,912,830	-	35,878,791

1 The contractual obligations relating to the term loan has been presented based on the contractual repayment term.
2 The Company is committed to future minimum annual lease, convertible debentures payments and debt payments with respect to a lease for the head office, a car lease and several pieces of production equipment. These figures are undiscounted future payments.

OFF-BALANCE SHEET ARRANGEMENTS

At the date of this MD&A, the Company had no material off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of the Company, other than a letter of credit of $5.7 million that was issued to cover certain deposit requirements with a provincial supplier. The letter of credit is expected to gradually reduce as the Company consumes electricity at its Valleyfield Facility.

TRANSACTIONS AND BALANCES 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.

Transaction with a related party

For the three and nine-month periods ended May 31, 2024, the Company recognized $0.2 million and $0.5 million as interest expense on the convertible debentures and debt financing guarantee fees compared to $0.2 million and $0.6 million for the same periods of the prior year. The Company also incurred $7,200 and $14,400 in other expenses for the three and nine-month periods ended May 31, 2024, compared to nil for the same periods of the prior year. In addition, the Company paid $61,000 and $174,000 in rent for the head office lease for the same respective periods, compared to $45,000 and $135,000 for the same periods of the prior year. The Company is also committed to $621,000 as undiscounted future payments as at May 31, 2024, regarding a lease arrangement for the head office (August 31, 2023 – nil).

As at May 31, 2024, accrued interest of $706,000 on the $5.7 million convertible debenture was included in the carrying amount of the convertible debenture (as at August 31, 2023 – accrued interest of $518,000 on the $5.7 million was included in the carrying amount of the convertible debentures) and accrued fees on the debt financing guarantee fees amounted to $250,000 were included in accounts payable and accrued liabilities (as at August 31, 2023 - $344,000).

These transactions are considered related to the Company as the shareholder of the related party is also a director on the Company's Board of Directors.

Key management personnel compensation

For the three and nine-month periods of 2024, salaries and benefits incurred for key management personnel amounted to $225,000 and $675,000 (2023 - $210,000 and $630,000); share-based compensation attributable to key management and directors was $357,000 and $1,4 million (2023 - $369,000 and $1.3 million) and director fees were $25,000 and $75,000 (2023 - $17,500 and $52,500). As at May 31, 2024, the Company owed $106,000 (August 31, 2023 - $66,000) to key management personnel and $19,000 (August 31, 2023 – $15,000) to directors for accrued salaries and vacation expenses.

Related party transactions have been recorded at the exchange amount, which is the amount agreed to and established by the related parties.

FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Company is exposed in varying degrees to a variety of financial instruments related to risks. The Board approves and monitors the risk management processes.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash balances, lease receivables from customers and deposits.

Cash balances in an asset position exposes the Company to credit risk arising from the potential default by counterparties that carry the Company's cash balances or agree to deliver currencies. The Company attempts to mitigate this risk by dealing only with large financial institutions with good credit ratings. The financial institution providing the Company's credit facility meet these qualifications.

The carrying amount of the accounts receivable is presented net of an allowance for expected credit losses, estimated by the Company's management based, in part, on the age of the specific receivable balance and the current and expected collection trends.

As at May 31, 2024, a marginal number of the receivables were past due. The allowance for expected credit loss was minimal as at May 31, 2024. The Company's maximum credit exposure corresponds to the carrying amount of these financial assets.

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 reviewing its capital requirements on an ongoing basis by maintaining cash flow forecasts and long-term operating and strategic plans.

As at May 31, 2024, the Company had current assets of $62.0 million and current liabilities of $26.8 million, for a working capital balance of $35.2 million. The Company expects that its existing cash resources of $5.5 million as at May 31, 2024, along with its forecasted cashflows, undrawn credit facilities and other sources like proceeds from the disposal of assets held for sale, will be able to fund its planned operating expenses for at least the next twelve months from May 31, 2024.

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 does not use derivative financial instruments to reduce its interest rate exposure as management does not believe the Company's exposure is significant.

Concentration risk

The Company has a significant concentration of its revenues generated from customers that, if eliminated, would have a significant impact on the Company's operations. For the three and nine-month periods ended May 31, 2024, the Company generated 89% and 88% of its cannabis revenues from three provincial distributors (Quebec, Ontario and Alberta) (2023 – 92% and 94% from two provincial distributors (Quebec and Ontario)).

CRITICAL ACCOUNTING ESTIMATES

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 these condensed interim consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates, judgments, and assumptions. The carrying amounts of assets, liabilities, and other financial obligations, as well as the determination of fair values and reported income and expense in these condensed interim consolidated financial statements, depend on the use of estimates and judgments. IFRS also requires 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 condensed interim 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.

Disclosure of the Company's critical accounting estimates and assumptions is presented in note 3 of the audited consolidated financial statements for the year ended August 31, 2023.

SIGNIFICANT ACCOUNTING POLICIES

The financial information presented in this MD&A has been prepared in accordance with IFRS Accounting Standards. Our significant accounting policies are set out in note 3 of the audited consolidated financial statements for the year ended August 31, 2023.

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates and judgments made by the Company that may result in a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are discussed below.

Assets held for sale

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

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 reclassed as current asset.

SUMMARY OF OUTSTANDING SHARE DATA

Summary of Outstanding Share Data as of July 22, 2024:

Authorized:	Unlimited number of voting and participating common shares without par value.
Issued and outstanding:	90,018,952 common shares
	4,549,927 stock options
	1,504,183 RSUs
	3,166,667 contingently issuable common shares upon conversion of convertible debentures

cannara

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