Quebec Grown
Premium Grade Cannabis

MANAGEMENT DISCUSSION & ANALYSIS

For the three-month period ended
November 30, 2024

January 27, 2025

CANNARA BIOTECH INC.

TSXV: LOVE OTCQB: LOVFF FRA: 8CB0

This Management Discussion and Analysis ("**MD&A**") of Cannara Biotech Inc. ("**Cannara**", the "**Company**", "**us**", "**we**" or "**our**") has been prepared by management as of January 27, 2025 and should be read in conjunction with the condensed interim consolidated financial statements and related notes thereto of the Company for the three-month periods ended November 30, 2024, and 2023.

Please also refer to the Company's press release announcing its results for the fiscal quarter ended November 30, 2024, issued on January 27, 2025. Quarterly reports, and the Company's Annual Information Form for the year ended August 31, 2024 (the "**AIF**") can be found on SEDAR+ at www.sedarplus.ca and under the "Investor Area" section of our website at https://www.cannara.ca/en/investor-area.

The Company's annual audited consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and the financial information herein was derived from those statements.

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

All references in this MD&A to "Q1 2025" and "first quarter of 2025" are to Cannara's fiscal quarter ended November 30, 2024, and "Q1 2024" and "first quarter of 2024" are to Cannara's fiscal quarter ended November 30, 2023.

Additional information filed by Cannara with the Canadian Securities Administrators, including quarterly reports, the AIF 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, anticipated product offerings, 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.

Forward-looking information is based upon a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those that are disclosed in, or implied by, such forward-looking information. These risks and uncertainties include, but are not limited to, the following risk factors which are discussed in greater detail under "Risk Factors" in the Company's AIF available on SEDAR+ at www.sedarplus.ca and under the "Investor Area" section of our website at https://www.cannara.ca/en/investor-area: compliance with laws, reliance on licenses, costs associated with numerous laws and regulations, change in laws, regulations, and guidelines, competition, competition from the illicit market, risks related to Canadian excise duty framework, insurance and uninsured or uninsurable risk, key personnel, labour costs, labour shortages, and labour relations, liquidity and future financing, conflicts of interest, litigation risk, intellectual property, IT and security risk, agricultural and cannabis operations, third-party transportation disruptions, commodity price risks, fluctuating prices of raw materials, environmental and employee health and safety regulations, restrictions on promotion and marketing, unfavorable publicity or consumer perception, significant ownership interest of management, directors, and employees, speculative nature of investment,

FORWARD-LOOKING STATEMENTS *(continued)*

global economy risk, risks related to the ownership of the common shares, forward-looking statements and risks, volatility of common shares market price, non-payment of dividends, future sales of common shares, unlimited issuance of common shares without shareholder approval, fluctuations in operating results, lack of research analyst coverage, limited control by shareholders over operations and risks related to internal controls over financial reporting.

This is not an exhaustive list of risks that may affect the Company's forward-looking statements. Other risks not presently known to the Company or that the Company believes are not significant could also cause actual results to differ materially from those expressed in its forward-looking statements. Although the forward-looking information contained herein is based upon what we believe are reasonable assumptions, readers are cautioned against placing undue reliance on this information since actual results may vary from the forward-looking information. Certain assumptions were made in preparing the forward-looking information concerning the availability of capital resources, business performance, market conditions, as well as customer demand. Consequently, all of the forward-looking information contained herein is qualified by the foregoing cautionary statements, and there can be no guarantee that the results or developments that we anticipate will be realized or, even if substantially realized, that they will have the expected consequences or effects on our business, financial condition or results of operation. Unless otherwise noted or the context otherwise indicates, the forward-looking information contained herein is provided as of the date hereof, and the Company disclaims any intention to update or amend such forward-looking information whether as a result of new information, future events or otherwise, except as may be required by applicable law.

NON-GAAP AND OTHER FINANCIAL 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 and other supplementary financial ratios;

In this MD&A, the following non-GAAP measures, non-GAAP and other supplementary financial 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 total revenues, segment gross profit as a percentage of segment total revenues, segment operating income as a percentage of segment total revenues, gross profit as a percentage of total revenues and adjusted EBITDA as a percentage of total revenues.

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 non-GAAP and other financial 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 AND OTHER FINANCIAL MEASURES

MEASURE	DEFINITION	COMPARABILITY	UTILITY TO MANAGEMENT AND INVESTORS
Adjusted EBITDA	Adjusted EBITDA is defined as net income before changes in fair value of inventory sold, unrealized gain on changes in fair value of biological assets, amortization including amortization in cost of goods sold, write-down of inventory to net realizable value, gain on disposal of asset held for sale, loss on disposal of property, plant and equipment, share-based compensation, net finance expense and income taxes. The exclusion of net finance expense and income taxes 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, and gains and losses on disposal of property, plant and equipment 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.
Free cash flow	Free cash flow is defined as cash flow from operations less capital expenditures, defined as deposits on property, plant and acquisition of property, plant and equipment.	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 fund business investments or shareholder distributions.
Working Capital	Working capital is defined as total current assets minus total current liabilities for the corresponding quarter ended as at that 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 total revenues	Segment gross profit, before fair value adjustments as a percentage of segment total revenues is defined as segment's gross profit before fair value adjustments divided by segment total revenues.	These percentages are other supplementary financial ratios related to 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 core profitability of operations excluding volatile fair value adjustments.
Segment gross profit as a percentage of segment total revenues	Segment gross profit as a percentage of segment total revenues is defined as segment's gross profit divided by segment total revenues.		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 total revenues	Segment operating income as a percentage of segment total revenues is defined as segment's operating income divided by segment total 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 total revenues	Adjusted EBITDA as a percentage of total revenues is defined as adjusted EBITDA divided by total revenues.	Adjusted EBITDA as a percentage of total 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 non-operational activities and non-cash items.

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 main focus is to deliver premium quality cannabis products at disruptive 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. As of the date of this MD&A, Cannara has achieved 93% penetration across cannabis retail stores in the markets it operates in, with an average of 10.7 Cannara products per listed store. With over 31,000 points of distribution (PODs), Cannara products account for an estimated 2.5% of total cannabis product retail listings nationwide (up from 2.3% in September 2024, a gain of 8.7%) reflecting a strong and growing presence in the highly competitive Canadian cannabis retail market[1].

National Distribution Performance[1]

	September 2024	October 2024	November 2024	December 2024	January 2025
Total Cannara Retail Listings	26,161	29,294	30,135	31,548	**31,588**
Total National Retail Listings Tracked	1.1M	1.2M	1.2M	1.3M	**1.2M**
% Cannara Retail Penetration	2.3%	2.4%	2.4%	2.5%	**2.5%**

[1] As reported by Turff Analytics in September 2024 to January 2025.

COMPANY PROFILE (continued)

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. The Company has set an objective of activating 2 new growing zones or 50,000 square feet of additional cultivation canopy for Fiscal 2025.

In Q1 2025, the Company generated $25.1 million in total revenues, a gross profit before fair value adjustments of $9.8 million or 39%, an adjusted EBITDA of $6.0 million or 24% of total revenues[2], a net income of $2.3 million, operating cash flow of $5.8 million and free cash flow of $4.6 million [3] in addition to a basic and diluted earning per share of $0.03 for the quarter.

As of November 30, 2024, Cannara's distribution network services 7 provinces: Québec, Ontario, Alberta, British Columbia, Saskatchewan, Manitoba and Nova Scotia. Quebec, Ontario and Alberta currently represent the Company's main markets representing 88% of the Company's cannabis revenues it generated for Q1 2025.

The Company's market share by listed province for the periods of September to November 2024 were as follows, with an average national market share of 4.1% for Q1 2025, up 28.1% from prior quarter and 57.7% from same period of prior year[4]:

Province	Q1 2025	Q4 2024	Q1 2024
National Market Share	**4.1%**	**3.2%**	**2.6%**
Quebec	12.5%	11.9%	8.7%
Ontario	2.6%	2.3%	3.1%
Alberta	2.4%	1.8%	1.4%
British Columbia	1.5%	1.4%	0.9%
Saskatchewan	1.7%	1.5%	0.2%
Manitoba	1.0%	0.8%	-
Nova Scotia	0.4%	0.1%	-

Additional Information

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).

[2] Adjusted EBITDA and adjusted EBITDA as a percentage of total revenues are non-GAAP measures. 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.
[4] As reported by Hifyre data for the periods of September 2023 to November 2023, June 2024 to August 2024 and September 2024 to November 2024 in all listed provinces excluding Quebec where Weed Crawler was deemed more accurate, and Nova Scotia where NSLC wholesale data was deemed to be more accurate.

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: 1,050,000 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

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 Infused Pre-rolls	Québec 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	Québec Ontario Saskatchewan Alberta British Columbia Manitoba
ORCHID CBD	Orchid CBD is a wellness brand dedicated to providing premium CBD-rich 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	Québec Ontario Saskatchewan Alberta British Columbia Manitoba

CANNARA'S GENETIC PORTFOLIO

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 include:

Genetic	Pheno #	Brand	Launch Date	THC	CBD (%)	Type	Aromas and Flavours
GUAVA JAM	18	Nugz	May 2024	29%	-	Indica	Guava Jam offers a sweet and tropical fruit flavour
NEON SUNSHINE	78	Tribal	April 2024	29%	-	Hybrid	Neon Sunshine leans heavy into citrus flavours and aromas, with a touch of octane to round out the experience.
BUBBLE UP	169	Tribal	April 2024	28%	-	Indica	Bubble Up provides a rare and sought-after champagne-like effervescent sensation with a spicy fresh aroma.
JIGGLERS	22	Tribal	October 2023	22%	1%	Indica	Jigglers offers flavours and aromas of strawberries & cream.
DRIP STATION	15	Tribal	October 2023	25%	1%	Indica	Drip Station presents gasoline scents blended with dewy earth and black licorice flavours.
TRIPLE BURGER	72	Tribal	November 2022	28%	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	30	Tribal	November 2022	26%	1%	Indica	Galactic Rntz's complex aroma and flavour provides a strong gas flavour with fruity, sour undertones.
POWER SHERB	3	Tribal	May 2022	24%	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.
SLAPZ	50	Nugz	May 2022	24%	1%	Indica	Slapz delivers incredibly sweet sour-gassy aromas with a mix of light earthy flavours.
TERPLE	8	Tribal	March 2022	22%	1%	Hybrid – Sativa	Terple's aroma and flavour is complex with elements of sweet oranges, sour citrus, and spicy diesel.
CUBAN LINX	1	Tribal	June 2021	28%	1%	Sativa	Cuban Linx packs a rich lemony aroma accentuated by hints of gassy diesel and a touch of spice.
CBD RUNTZ	7	Orchid CBD	June 2021	8%	15%	Hybrid - Sativa	Canada's #1 CBD Flower in sales for 2023, 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.
EARLY LEMON BERRY	92	Nugz	March 2021	23%	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.
GELATO MINT	5	Tribal	February 2021	22%	1%	Indica	Gelato Mint is best known for its fresh mint and cream flavours and aromas. As its name suggests, Gelato Mint smells like a fresh mint dessert with pepper and earthy pine undertones.

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. 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:

Scalable quality

Cannara delivers award winning cannabis flower, sticking true to craft like procedures including hang drying, hand trimming and slow curing its cannabis even as it scales its production capacity significantly. With over 800,000 square feet of fully owned cultivation capacity, divided into over 40 independent growing zones, and its attention to detail across both the product and packaging, Cannara is one of the few that has achieved the ability to produce quality cannabis at scale.

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 with a focus of achieving margins higher than 40%.

Innovation in products

Cannara continues to drive innovation and optimizing its product portfolio across multiple categories, including dried flower, pre-rolls, infused pre-rolls, milled flower, and vapes. In Q1 2025, the Company launched 13 new products into market, including Tribal Trifecta Pre-rolls (Cuban Linx and Gelato Mint), Nugz Bubble Up Fresh Frozen Hash Rosin, Tribal Bubble Up Live Resin Vape Cart, Nugz Shatter (Cuban Linx & Early Lemon Berry) and the Company's first all-in-one cured resin vape (Nugz Lemon Linx).

Innovation in genetics

Cannara's diligence in its pheno-hunting process continues to allow the Company to identify unique THC and CBD cultivars in order to fill whitespaces in the current market. Every quarter, Cannara invests heavily in the research and development of new genetics, performing the pheno-hunt process from cannabis seed, searching through hundreds of phenotypes per year to identify high yielding genetics with high potency and unique characteristics that respond to market needs.

Brand loyalty

Since Cannara's inception, its original flagship brands created in 2019—Tribal, Nugz, and Orchid CBD—have been instrumental in driving growth and establishing a loyal customer base. These brands were crafted with a deep commitment to delivering high-quality cannabis at an affordable price, resonating with consumers and creating lasting connections. Their continued success not only underscores Cannara's value proposition but also highlights the "stickiness" of Cannara's offerings in a competitive market. Beyond cannabis products, Cannara is among the few companies that have successfully expanded into branded accessories and apparel, further deepening brand affinity and loyalty. This positions Cannara and its brands as enduring leaders with significant potential for future growth.

Community engagement and customer service

Cannara's commitment to customer service and community engagement sets it apart. The Company ensures direct communication with every customer, promptly addressing and resolving inquiries to build trust and loyalty. Cannara also operates a Discord channel (https://discord.gg/cannara) with over 1,000 active consumers and retailers, enabling real-time feedback and collaboration. This approach fosters innovation, strengthens connections, and reinforces Cannara's leadership in the cannabis industry.

MARKET INSIGHTS

Canada's legal cannabis industry has matured into a multi-billion-dollar market, with an estimated $1.4 billion in retail sales for Cannara's Q1 2025[5]. While growth has slowed from the rapid expansion of early years, opportunity still exists to shape the evolution of this industry and become leading licensed producer across Canada's largest provincial markets: Ontario, Alberta, Quebec, and British Columbia in addition to secondary markets like Saskatchewan, Manitoba and Nova Scotia.

QUEBEC

The provincial distributor of Quebec, SQDC, generated estimated revenues of approximately $213.8 million for the three-month period ending November 30, 2024[6]. The Company estimated its market share during this period to be approximately 12.5% in Quebec (3rd largest licensed producer in Quebec by market share), representing a 5% increase from the prior quarter[6]. Market share increased by 53.7% compared to Q1 2024[7]. The ongoing success in Quebec with quarter over quarter market share increases is attributable to its brands' equity and consistent superior product offerings**.**

The SQDC retail footprint has expanded from 28 stores in fiscal year 2020 to 102 current locations as of the date of this MD&A and has significant room for growth as Quebec has approximately one store per 100,000 people, as compared to Ontario and British Columbia that have approximately one store per 10,000. To date, the provincial distributor of Quebec expects to have captured 62.8% of the illicit 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[8].

ONTARIO

The Ontario market is leading recreational cannabis sales nationally. According to Hifyre, from September 2024 to November 2024, Ontario retail stores sold approximately $552.8 million in cannabis products[5]. The Company estimated that it had a 2.6% market share in Ontario in Q1 2025, marking the Company as the 8th largest licensed producer selling into the OCS. This represents a market share increase of 13% compared to prior quarter. Market share decreased by 16.1% compared to Q1 2024 as a result of the Company focusing on its Quebec growth[7]. The Company listed 10 SKUs in the Ontario market in Q1 2025, and an additional 10 new SKUs were accepted by the OCS to be launched in Q2 of 2025. Cannara products can be found in over 1,546 retail stores across Ontario, representing just over 95% of stores[9].

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 Hifyre, from September 2024 to November 2024, Alberta retail stores sold approximately $239.4 million in cannabis. From Q4 2024 to Q1 2025, the Company's market share increased by 33.3%, to attain 2.4%. Compared to the same period of prior year, market share increased by 71.4% reflecting the growing demand for its products in Alberta as the Company continues to work closely with the Alberta Gaming, Liquor and Cannabis agency to optimize and increase its product offering to maximize revenue growth[7].

[5] Based on Hifyre Data for the period of September 2024 to November 2024.
[6] Based on estimated sales data provided by Weed Crawler, for the period of September 2024 to November 2024.
[7] As reported by Hifyre data for the periods of September 2023 to November 2023 and September 2024 to November 2024 in all listed provinces excluding Quebec where Weed Crawler was deemed more accurate, and Nova Scotia where NSLC wholesale data was deemed to be more accurate.
[8] SQDC, Annual Report 2024.
[9] Turff Analytics, December 2024.

MARKET INSIGHTS *(continued)*

BRITISH COLUMBIA

British Columbia represents Canada's third-largest cannabis market, generating $217.8 million in revenue from September 2024 to November 2024. Cannara entered the British Columbia market in September 2022 with a significant cost advantage compared to producers in other parts of the country as Quebec offers some of the lowest electricity rates and competitive labour rates across Canada; the two largest cost inputs in cannabis cultivation. The Company estimates that it had a 1.5% market share in British Columbia for Q1 2025, an increase of 7.1% from Q4 2024 and an increase of 66.7% compared to Q1 2024, mainly attributable to increased retailer distribution[10].

SASKATCHEWAN

Saskatchewan generated $48.2 million in revenue from September 2024 to November 2024. Cannara entered the Saskatchewan market in September 2021. The Company estimates that it had a 1.7% market share in Saskatchewan for Q1 2025, representing a 13.3% increase. Compared to Q1 2024, market share increased by 750% as a result of increased sales efforts in the province[10].

MANITOBA

Manitoba generated $57.9 million in revenue from September 2024 to November 2024. Cannara entered the Manitoba market in May 2024. The Company estimates that it had a 1.0% market share in Manitoba for Q1 2025, a 25% increase compared to the previous quarter as the Company continues to build brand awareness and product loyalty[10].

NOVA SCOTIA

Nova Scotia generated $30.9 million in revenue from September 2024 to November 2024. Cannara entered the Nova Scotia market in March 2024. The Company estimates that it had a 0.4% market share in Nova Scotia for Q1 2025, up 400% since Q4 2024, with only 2 SKUs (Tribal Cuban Linx Pre-rolls, Tribal Cuban Linx 28g Dried Flower) [10].

CANADIAN CANNABIS MARKET TRENDS

Price Compression

Price compression remains a significant challenge within the Canadian cannabis market, driven by intense competition among over 1,200 Licensed Producers. Despite this competitive pressure, Cannara has demonstrated resilience, recording gross cannabis revenues before excise taxes of $34.9 million in Q1 2025, from $26.3 million in the prior year, an $8.6 million or 33% 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. For Q1 2025, the Company paid $10.9 million in excise tax, representing 31% of gross cannabis revenues compared to $7.8 million in the same period of prior year.

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 material impact on the Company's operations.

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[10] As reported by Hifyre data for the periods of September 2023 and November 2023 and September 2024 to November 2024 in all listed provinces excluding Quebec where Weed Crawler was deemed more accurate, and Nova Scotia where NSLC wholesale data was deemed to be more accurate.

BUSINESS REVIEW & OUTLOOK

Cannara proactively monitors and evaluates product performance and market growth opportunities in an effort to continue to grow market share, revenue, and uphold its commitment to long-term business growth and stability. The Company plans to allocate resources toward both ongoing and new initiatives throughout the 2025 fiscal year, focusing on the following core objectives:

Core Objectives

1. Meet market demand by expanding production capacity and enhancing sales efforts.
2. Expand product portfolio to drive revenue through strong consumer preference and product performance, including the identification and cultivation of new trend-setting flower genetics.
3. Increase national market share and maintain industry stewardship.
4. Grow positive Adjusted EBITDA and operating cash flow.

1. Meet 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. In Fiscal 2022, the Company increased its production by 66%, activating a total of 10 grow zones and reaching 250,000 square feet of cultivation capacity at Valleyfield with an additional 28,000 square feet at Farnham, together, capable of generating 33,500 kilograms of cannabis per year. Over the next 3 years, the Company expects to activate an additional 14 grow zones for a total of 600,000 square feet of cultivation capacity.

For fiscal year 2025, the Company has set an objective of activating 2 additional growing zones which will add a further 50,000 square feet of cultivation capacity. 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. Furthermore, the Company plans to enhance its investment in sales and marketing strategies to deepen its market penetration across Canadian provinces in fiscal year 2025. This initiative aims to expand market share and strengthen brand loyalty among Canadian consumers for its three flagship brands: Tribal, Nugz, and Orchid CBD.

2. Expand Product Portfolio

Fiscal year 2024 marked a period of strategic product portfolio growth for Cannara, as the company focused on refining and expanding its product portfolio within high-growth categories such as dried flower, pre-rolls, infused pre-rolls, milled flower, and vapes. Using a data-driven approach, Cannara continues to optimize its product portfolio consisting of 130 unique products in Q1 2025. By growing successful product lines and strengthening its position within priority categories, Cannara is effectively capturing additional market share and reinforcing its leadership through disciplined category management and targeted innovation. Launch highlights of Cannara's product portfolio for Q1 2025 include:

- Nugz Cured Resin All-in-one Vapes (Lemon Linx Q1 2025; G Sherb Q2 2025 Launch)
- Nugz Shatter concentrates (Early Lemon Berry, Cuban Linx)
- Nugz Stinky Cheese Infused Joints (Quebec specific product line extension, #1 Quebec Infused Pre-roll Brand)
- Tribal Trifecta Infused Pre-rolls (Flower-matched resin and diamond infused pre-roll, Cuban Linx, Gelato Mint; 2 additional product line extensions planned for Q2 2025).

For fiscal year 2025, the Company expects to launch over 20 new products across Canada which includes new products formats such as all-in-one vape devices under the Tribal and Nugz brands, and premium infused pre-rolls under Tribal.

The Company is constantly researching new genetics to support its product portfolio. Unique formats and exclusive genetic cultivars of cannabis continue to resonate with Canadian consumers and serve to set licensed producers apart from one another. The Company's rigorous pheno-hunting program drives its new genetic releases, hand-selecting only a few winning plants out of hundreds of different varieties of cannabis strains and phenotypes. Selection criteria focus on cultivar-brand fit, potency of cannabinoids and terpenes, bud structure, yield potential, and anticipated market appeal. Cannara's fiscal year 2025 pheno-hunt program is ongoing to unlock further exotic genetics to support its product portfolio into fiscal year 2026.

BUSINESS REVIEW & OUTLOOK *(continued)*

3. Increase National Market Share

The Canadian cannabis industry continues its rapid evolution, driven by the relatively recent federal legalization of adult-use cannabis just over six 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 and has established itself in 3 secondary markets. The table below presents the Company's national market share for the most recent completed quarter, along with a comparison to the previous quarter. Cannara's recent performance across various provinces highlights its continued successful performance across all markets demonstrating its ability to capture market share from its competitors.

Q1 2025 vs Q4 2024 National and Provincial Market Share[11]

The table below presents the Company's national and provincial market share for the most recent completed quarter, along with a comparison to the previous quarter.

National Market Share	Q1 2025	Q4 2024	Variance
Cannara Biotech Inc.	4.1%	3.2%	**+28.1%**

Province	Q1 2025	Q4 2024	Variance
Quebec	12.5%	11.9%	**+5.0%**
Ontario	2.6%	2.3%	**+13.0%**
Alberta	2.4%	1.8%	**+33.3%**
British Columbia	1.5%	1.4%	**+7.1%**
Saskatchewan	1.7%	1.5%	**+13.3%**
Manitoba	1.0%	0.8%	**+25.0%**
Nova Scotia	0.4%	0.1%	**+300.0%**

Q1 2025 vs Q1 2024 National and Provincial Market Share[12]

The table below presents the Company's national and provincial market share for the most recent completed quarter, along with a comparison to the same period of prior year.

National Market Share	Q1 2025	Q1 2024	Variance
Cannara Biotech Inc.	4.1%	2.6%	**+57.7%**

Province	Q1 2025	Q1 2024	Variance
Quebec	12.5%	8.7%	**+43.7%**
Ontario	2.6%	3.1%	**-16.1%**
Alberta	2.4%	1.4%	**+71.4%**
British Columbia	1.5%	0.9%	**+66.7%**
Saskatchewan	1.7%	0.2%	**+750.0%**
Manitoba	1.0%	-	-
Nova Scotia	0.4%	-	-

[11] As reported by Hifyre data for the periods of June 2024 to August 2024 and September 2024 to November 2024 in all listed provinces excluding Quebec where Weed Crawler was deemed more accurate, and Nova Scotia where NSLC wholesale data was deemed to be more accurate.
[12] As reported by Hifyre data for the periods of September 2023 to November 2023 and September 2024 to November 2024 all listed provinces excluding Quebec where Weed Crawler and Nova Scotia where NSLC wholesale data was deemed to be more accurate.

BUSINESS REVIEW & OUTLOOK *(continued)*

The Company is also evaluating opportunities to expand into new provinces, as demonstrated by its entry into Nova Scotia and Manitoba in fiscal year 2024. Priority remains to grow market share in existing markets, with the evaluation of entry into the provincial markets of New Brunswick and Newfoundland ongoing.

Cannara remains focused on its core markets, driving growth through expanded distribution, attracting new customers, and launching innovative products to further increase its market share. Supported by strategic entries into emerging secondary markets such as Manitoba and Nova Scotia, Cannara is well-positioned to capitalize on the projected growth of the Canadian cannabis market, which is expected to reach a total value of US$6.58 billion by 2029[13].

4. Grow Positive Adjusted EBITDA and Operating Cash Flow

Cannara's objective is to continue to report increasing positive Adjusted EBITDA and operating cash flow resulting from the Company's focus on premium-grade cannabis products at disruptive retail pricing, permitted by its lean operational model, as well as its two facilities benefiting from Quebec's low electricity cost and competitive labor rates. Additionally, the development of an in-house pre-roll manufacturing center, a solventless hash lab and a butane hash oil ("**BHO**") extraction lab, provides Cannara with a significant competitive advantage by allowing the Company to fully vertically integrate the use of all cannabis raw inputs. Furthermore, the Company's agility and commitment to profitability has driven the Company to pursue the development of high demand SKUs that will generate healthy gross margins. For the three months ended November 30, 2024, the Company reported an adjusted EBITDA of $6.0 million (November 30, 2023 - $5.2 million) and operational cash flows of $5.8 million (November 30, 2023 - $0.8 million).

KEY Q1 2025 AND SUBSEQUENT EVENT HIGHLIGHTS

OPERATIONAL

During the quarter, the Company continued to focus on execution, building its operations and supply chain to accommodate increases in sales and market share in Canada. The Company achieved its highest market share and revenue in Q1 2025 and expects its momentum to continue throughout 2025 as it continues to execute its sales and marketing strategies.

FINANCING

The Company has access to a revolving credit facility for working capital purposes. Each tranche drawn on the revolving credit facility has either a 30-day, 60-day 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 a variable interest rate based on prime rate or the Canadian overnight repo rate average ("**CORRA**") plus an applicable margin based on the credit agreement. As at November 30, 2024, the weighted average interest rate on the revolving credit facilities was 7.56%. During Q1 2025, the Company extended all tranches of the revolving credit facilities for a 90-day term and drew an additional $500,000 on the revolving credit facilities. Funds were used for working capital purposes. Subsequent to quarter-end, all tranches were renewed for a 90-day term.

CAPITAL TRANSACTIONS

During Q1 2025, the Company granted a total of 525,000 stock options at an exercise price of $1.00, 115,000 stock options at an exercise price of $1.80 as well as 625,000 PSUs with certain performance conditions and 90,000 RSUs without performance conditions to employees and board members subject to certain vesting conditions in accordance with the Company's employee Share Option plan and Restricted Share Units plan.

On January 6, 2025, the Company issued 625,000 common shares for RSUs that vested.

[13] Statista Market Insights, March 2024, USD$.

SELECTED FINANCIAL INFORMATION

	Three-month periods ended	
Selected Financial Highlights	**November 30, 2024**	**November 30, 2023**
Financial Summary		
Net revenue [1]	$ 24,954,810	$ 19,426,528
Other income	115,604	56,766
Total revenues	25,070,414	19,483,294
Gross profit, before fair value adjustments	9,781,764	7,935,717
Gross profit	10,178,885	8,235,356
Operating expenses	5,946,806	4,796,710
Operating income	4,232,079	3,438,646
Net finance expense	1,198,165	1,331,367
Net income before income taxes	3,033,914	2,107,279
Net income	2,305,863	2,107,279
Adjusted EBITDA [2]	5,997,320	5,170,812
Percentages of Total revenues		
Gross profit, before fair value adjustments as a percentage of Total revenues [3]	39%	41%
Gross profit as a percentage of Total revenues [4]	41%	42%
Operating income as a percentage of Total revenues [5]	17%	18%
Net income before income taxes as a percentage of Total revenues [6]	12%	11%
Net income as a percentage of Total revenues [7]	9%	11%
Adjusted EBITDA as a percentage of Total revenues [8]	24%	27%
Earnings per share		
Basic earning per share	$ 0.03	$ 0.02
Diluted earning per share	$ 0.03	$ 0.02

	November 30, 2024	**August 31, 2024**
Cash	$ 10,261,185	$ 6,620,387
Accounts receivable	12,934,566	13,036,873
Biological assets	5,585,666	6,649,591
Inventory	36,154,108	33,423,515
Working capital [9]	36,740,937	40,471,844
Total assets	161,003,940	154,719,973
Total current liabilities	36,504,270	27,002,000
Total non-current liabilities	33,920,914	39,766,484
Net assets	90,578,756	87,951,489
Free cash flow [10]	4,617,194	2,693,427

1 Net revenue includes revenue from sale of goods, net of excise taxes 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 supplementary 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 supplementary financial ratio. For more details see the Non-GAAP and Other Financial Measures section of this MD&A.
5 Operating income as a percentage of Total revenues is a supplementary financial ratio. For more details see the Non-GAAP and Other Financial Measures section of this MD&A.
6 Net income before income taxes as a percentage of Total revenues is a supplementary financial ratio. For more details see the Non-GAAP and Other Financial Measures section of this MD&A.
7 Net income as a percentage of Total revenues is a supplementary financial ratio. For more details see the Non-GAAP and Other Financial Measures section of this MD&A.
8 Adjusted EBITDA 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.
9 Working capital is a non-GAAP financial measure. For more details see the Non-GAAP and Other Financial Measures section of this MD&A.
10 Free cash flow is a non-GAAP financial measure. For more details see the Non-GAAP and Other Financial 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 November 30, 2024	Three-month periods ended November 30, 2023
Net income	$ 2,305,863	$ 2,107,279
Adjustments:		
Changes in fair value of inventory sold	5,918,731	6,224,666
Unrealized gain on changes in fair value of biological assets	(6,315,852)	(6,524,305)
Amortization, including amortization of cost of good sold	1,483,084	1,022,277
Write-down of inventory to net realizable value	356,665	723,577
Loss on disposal of property, plant and equipment	1,209	5,380
Share-based compensation	321,404	280,571
Net finance expense	1,198,165	1,331,367
Income taxes	728,051	-
Adjusted EBITDA*	5,997,320	5,170,812
Adjusted EBITDA as a percentage of Total revenues**	24%	27%

**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 operating activities, the most directly comparable IFRS financial measure, as detailed below.

Reconciliation of free cash flow	Three-month periods ended November 30, 2024	Three-month periods ended November 30, 2023
Cash from operating activities	$ 5,834,463	$ 782,912
Adjustment:		
Capital expenditures	1,217,269	2,773,618
Free cash flow*	4,617,194	(1,990,706)

**Non-GAAP financial measure*

SELECTED FINANCIAL INFORMATION (*continued*)

Q1 2025 vs Q1 2024 Comparable Period Highlights

- Gross cannabis revenues before excise taxes increased to $34.9 million in Q1 2025 from $26.3 million in Q1 2024, an $8.6 million or 33%, increase. The increase is attributable to increased market penetration in existing markets, entry into new markets and the addition of new genetics and products in its portfolio increasing overall sales generation;
- Total revenues, net of excise taxes, increased to $25.1 million in Q1 2025 from $19.5 million in Q1 2024, a $5.6 million or 29% increase;
- Gross profit, before fair value adjustments, increased to $9.8 million in Q1 2025 from $7.9 million in Q1 2024, a 23% increase. This increase is attributable to increase production capacity with a 10th growing zone activated in Q2 2024, combined with higher yields from production, resulted in lower production costs;
- Gross profit percentage before fair value adjustments in Q1 2025 was 39% was similar to Q1 2024 at 41%;
- Operating income of $4.2 million in Q1 2025 compared to an operating income of $3.4 million in Q1 2024, due to increase in sales and reduction in production costs offset by increased sales and marketing costs compared to the period year period;
- Net income was of $2.3 million in Q1 2025 compared to $2.1 million in Q1 2024. Despite generating higher revenues in Q1 2025, net income was comparable to Q1 2024 as a result of increased selling and marketing expenses to expand Cannara's footprint in the current markets int operates in across Canada;
- Adjusted EBITDA increased by 16%, from $5.2 million in Q1 2024 to $6.0 million in Q1 2025;
- The Company generated operating cash flow amounting to $5.8 million in Q1 2025 compared to $0.8 million in Q1 2024;
- Free cash flow for Q1 2025 increased by $6.6 million, from negative $2.0 million in Q1 2024 to $4.6 million in Q1 2025;
- Generated earnings per share of $0.03 in Q1 2025 compared to $0.02 in Q1 2024.

Q1 2025 vs Q4 2024 Quarter over Quarter ("QoQ") Highlights

- Gross cannabis revenues before excise taxes increased by 11% from $31.4 million in Q4 2024 to $34.9 million in Q1 2025. This increase was achieved through the organic growth of its products in Quebec and other markets in addition to the Company's sales and marketing efforts focused on increasing distribution outside of Quebec to penetrate further market share;
- Total revenues, net of excise taxes, increased by 7% QoQ, from $23.4 million in Q4 2024 to $25.1 million in Q1 2025;
- Gross profit, before fair value adjustments, increased by 39% QoQ, from $7.0 million to $9.8 million in Q1 2025 reflecting increased sales from prior quarter due to the Company increasingly capturing market share quarter over quarter and cost efficiencies due to economies of scale improving its gross margin.
- Gross profit percentage before fair value adjustments increased from 30% in Q4 2024 to 39% in Q1 2025. Gross profit increased as cannabis sold during the period resulted from cannabis harvested with higher cultivation yields compared to the previous quarter where inventory sold was affected by lower overall cultivation yields. The Company continues to invest and improve its efficiency and effectiveness of its cultivation with a goal of maximizing its cultivation yield.
- Operating income of $4.2 million in Q1 2025 compared to an operating income of $5.1 million in Q4 2024, a $0.9 million decrease resulting from the unrealized fair value gain in Q4 2024 of $3.8 million compared to Q1 2025 of $0.4 million;
- Net income decreased by $3.4 million or by 60% to $2.3 million in Q1 2025 compared to a net income of $5.8 million in Q4 2024, as a result of the $2.7 million increase in gross profit offset by the fair value variance of $3.4 million mentioned above, higher sales and marketing costs and the recognition of the deferred taxes assets of $2.0 million in Q4 2024;
- Adjusted EBITDA increased by $2.3 million or 63% to $6.0 million in Q1 2025, compared to $3.7 million in Q4 2024.
- Cash flow from operating activities increased from $3.2 million in Q4 2024 to $5.8 million in Q1 2025 as a result of increased sales and reduction in overall costs improving gross margin, before fair value adjustments, from 30% in Q4 2024 to 39% in Q1 2025.
- Free cash flow for Q1 2025 was $4.6 million compared to $2.7 million in Q4 2024, an increase of $1.9 million.

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 and loss on disposal of property, plant and equipment.

Selected Segment Financial Highlights	Three-month period ended November 30, 2024				Three-month period ended November 30, 2023			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Gross revenue	$ 34,898,761	$ 954,118	$ -	$ 35,852,879	$ 26,329,085	$ 909,396	$ -	$ 27,238,481
Excise taxes	(10,898,069)	-	-	(10,898,069)	(7,811,953)	-	-	(7,811,953)
Net Revenue	24,000,692	954,118	-	24,954,810	18,517,132	909,396	-	19,426,528
Other income	115,604	-	-	115,604	56,766	-	-	56,766
	24,116,296	954,118	-	25,070,414	18,573,898	909,396	-	19,483,294
Gross profit, before fair value adjustments	8,912,343	869,421	-	9,781,764	7,098,756	836,961	-	7,935,717
%[1]	37%	91%	-	39%	38%	92%	-	41%
Gross profit	9,309,464	869,421	-	10,178,885	7,398,395	836,961	-	8,235,356
%[2]	39%	91%	-	41%	40%	92%	-	42%
Operating expenses	5,343,480	-	-	5,343,480	4,101,567	-	-	4,101,567
Segment operating income[3]	3,965,984	869,421	-	4,835,405	3,296,828	836,961	-	4,133,789
%[4]	16%	91%	-	19%	18%	92%	-	21%
Net finance expense	-	-	1,198,165	1,198,165	-	-	1,331,367	1,331,367
Other	-	-	603,326	603,326	-	-	695,143	695,143
Segment net income (loss) before income taxes	3,965,984	869,421	(1,801,491)	3,033,914	3,296,828	836,961	(2,026,510)	2,107,279

1 Segment gross profit, before fair value adjustments, % is determined as segment gross profit, before fair value adjustments, divided by segment total revenues.
2 Segment gross profit % is determined as segment gross profit divided by segment total revenues.
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-month period ended November 30, 2024, the segment generated $24.0 million in cannabis-related and cannabis accessories revenues, net of excise taxes, compared to $18.5 million for the same period of the prior year, an increase of $5.5 million or 30%. The increase in sales is attributable to the increasing demand for its products across the country. Periodically, the Company also utilizes its wholesale distribution network to generate additional revenues.

Compared to Q4 2024, cannabis-related and cannabis accessories revenues, net of excise taxes, increased by $1.9 million, a 8% QoQ variance. Main driver of growth stems from all the sales efforts to increase market share across Canada and increase in distribution network in addition to new product launches and organic growth of its existing products.

For the three-month period ended November 30, 2024, the Company incurred $15.2 million in costs of goods sold, compared to $11.5 million for the same period of the prior year. In Q1 2025, cost of goods sold fell by $1.1 million or 7% compared to Q4 2024 as a result of an improvement in cultivation yields Q4 2024 and Q1 2025 reducing overall cost of inventory sold during the period

The segment generated a gross profit before fair value adjustments of $8.9 million or 37% of segment net revenue for the three-month period ended November 30, 2024, compared to $7.1 million or 38% of segment net revenue for the same period of the prior year. Compared to Q4 2024, gross profit before fair value adjustments increased by $2.7 million or 45%.

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-months period ended November 30, 2024, amounted to negative $5.9 million compared to negative $6.2 million for the same period of the prior year. Compared to Q4 2024, the change in fair value of inventory sold recognized slightly decreased by $0.1 million.

For the three-month period ended November 30, 2024, the Company recognized an unrealized gain on changes in fair value of biological assets of $6.3 million on the lots in the cultivation cycle that have not yet been harvested compared to $6.5 million for the same period of the prior year. Compared to Q4 2024, the unrealized gain on changes in fair value of biological assets in Q1 2025 decreased by $3.6 million. The decrease in fair value of biological assets is the result of the revision of the assumptions used in the fair value model and the difference in the genetics in the growing cycle at that time.

The segment generated $9.3 million or 39% in gross profit for the three-month period compared to $7.4 million or 40% for the same period of the prior year. This change is attributable to the increased sales combined with a reduction in the production cost. Compared to Q4 2024, gross profit was comparable to Q1 2025, with a slight decrease of $0.7 million , which included a net fair value adjustments of $3.8 million compared to $0.4 million in Q1 2025.

For the three-month period ended November 30, 2024, the segment incurred $5.3 million in operating expenses compared to $4.1 million for the same period of the prior year resulting in an increase of $1.2 million or 30%. The increase in operating expenses in mainly attributable to increase sales and marketing initiatives in addition to salaries and facility expenses to support growth of the Company. Compared to Q4 2024, operating expenses in Q1 2025 slightly increased by $0.4 million or 8%.

Overall, the segment generated net income of $4.0 million for the three-month period ended November 30, 2024, compared to $3.3 million for the same period of the prior year and $5.0 million in Q4 2024.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

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 November 30, 2024, the Company leased 414,114 square feet of the total 625,000 available square feet to two tenants.

For the three-month period ended November 30, 2024, the Company generated lease revenues of $1.0 million compared to $0.9 million for the same period of the prior year. To realize these lease revenues during the three-month period ended November 30, 2024, the Company incurred $0.1 million in lease operating costs compared to $0.1 million in the same periods of the prior year. Comparable results were achieved in Q4 2024.

Other

For the three-month period ended November 30, 2024, the segment incurred $1.2 million in net finance expense, compared to $1.3 million for the same period of the prior year. Compared to Q4 2024, the net finance expense of Q1 2025 remained consistent.

For the three-month period ended November 30, 2024, the segment incurred $0.6 million in other expenses, compared to $0.7 million for the same period of the prior year. Compared to Q4 2024, other expenses of Q1 2025 decreased by $0.3 million, attributable to lower amortization expense.

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 provided by operating activities and free cash flow for the eight completed fiscal quarters to date:

	November 30, 2024	August 31, 2024	May 31, 2024	February 29, 2024	November 30, 2023	August 31, 2023	May 31, 2023	February 28, 2023
Current assets	$ 73,245,207	$ 67,473,844	$ 62,020,524	$ 58,224,875	$ 52,762,707	$ 51,695,836	$ 45,657,986	$ 40,820,665
Non-current assets	87,758,733	87,246,129	86,747,778	87,599,787	92,059,206	89,826,418	89,716,638	88,326,738
Total assets	161,003,940	154,719,973	148,768,302	145,824,662	144,821,913	141,522,254	135,374,624	129,147,403
Current liabilities	$ 36,504,270	$ 27,002,000	26,777,902	60,090,241	22,261,932	21,182,827	18,522,090	15,227,812
Non-current liabilities	33,920,914	39,766,484	40,222,572	6,394,151	40,700,914	40,595,383	41,876,538	42,146,726
Total liabilities	70,425,184	66,768,484	67,000,474	66,484,392	62,962,846	61,778,210	60,398,628	57,374,538
Net assets	$ 90,578,756	$ 87,951,489	$ 81,767,828	$ 79,340,270	$ 81,859,067	$ 79,744,044	$ 74,975,996	$ 71,772,865

	November 30, 2024	August 31, 2024	May 31, 2024	February 29, 2024	November 30, 2023	August 31, 2023	May 31, 2023	February 28, 2023
Total revenues	$ 25,070,414	$ 23,438,170	$ 19,544,916	$ 19,683,203	$ 19,483,294	$ 18,278,613	$ 15,936,828	$ 13,035,756
Gross profit before fair value adjustments	9,781,764	7,040,411	5,747,047	7,141,276	7,935,717	6,894,634	6,120,878	4,030,629
%[1]	39%	30%	29%	36%	41%	38%	38%	31%
Gross profit	10,178,885	10,854,593	6,958,256	4,140,498	8,235,356	9,844,782	8,594,235	4,261,722
Operating income (loss)	4,232,079	5,045,008	3,554,044	(1,959,547)	3,438,646	5,831,306	4,282,277	631,335
Net income (loss)	2,305,863	5,754,439	2,023,386	(3,446,620)	2,107,279	4,631,879	2,928,643	(618,055)
Basic and diluted income (loss) per share	$ 0.03	$ 0.06	$ 0.02	$ (0.04)	$ 0.02	$ 0.05	$ 0.03	$ (0.01)
Adjusted EBITDA[2]	5,997,320	3,688,234	2,776,397	3,500,320	5,170,812	4,906,640	3,887,634	3,220,890
%[3]	24%	16%	14%	18%	27%	27%	24%	25%
Cash provided by operating activities	5,834,463	3,186,518	4,325,380	2,388,100	782,912	2,887,872	2,540,852	482,017
Free cash flow[4]	4,617,194	2,693,427	1,242,527	1,268,702	(1,990,706)	1,107,464	(36,833)	(1,213,391)

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.

CASH FLOW ANALYSIS

	Three-month periods ended	
	November 30, 2024	November 30, 2023
Cash provided by operating activities	$ 5,834,463	$ 782,912
Cash used in financing activities	(1,019,826)	318,629
Cash used in investing activities	(1,173,839)	(2,732,673)

Operating activities

For the three-month period ended November 30, 2024, the Company generated positive operating cash flow of $5.8 million, compared to $0.8 million. The increase in operating cash flow is attributable to the increase cash flow generated from increasing sales and reduction in costs of goods sold.

Financing activities

For the three-month period ended November 30, 2024, cash used in financing activities was $1.0 million compared to cash from financing activities of $0.3 million in the same period of prior year, as a result of the cash drawn on the credit facilities in the same period of prior year.

Investing activities

For the three-month period ended November 30, 2024, cash used in investing activities was $1.1 million compared to $2.7 million in the same period of prior year. The fluctuation is attributable to timing of construction and capital expenditures spent for facility expansion at Valleyfield and production equipment for post-processing at Farnham. Interest received relating to interest earned on cash balances held at a Canadian financial institution amounted to $41,000 for the first quarter of 2025. 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 and government grants to support the Company's cash flow. 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 $36.7 million as at November 30, 2024 (August 31, 2024 - $40.5 million).

As at November 30, 2024, the Company's working capital was composed of:

- cash on hand of $10.2 million (August 31, 2024- $6.6 million); and
- accounts receivable, biological assets, inventory, assets held for sale, prepaid expenses and other assets of $63 million. (August 31, 2024 - $60.9 million)
- accounts payable and accrued liabilities, excise tax payable, sales tax payable, deferred revenue, deferred lease revenue and deferred grant income of $20.5 million (August 31, 2024- $17.5 million) and;
- credit facilities, convertible debenture and current portion of long-term debt, lease liabilities and term loan of $16 million (August 31, 2024 - $9.5 million).

LIQUIDITY AND CAPITAL RESOURCES (*continued*)

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 November 30, 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 November 30, 2024.

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.

		As at
Reconciliation of working capital	**November 30, 2024**	**August 31, 2024**
Total current assets	$ 73,245,207	$ 67,473,844
Total current liabilities	36,504,270	27,002,000
Working capital*	$ 36,740,937	$ 40,471,844

**Non-IFRS financial measure*

Financing

Type of loan	Interest Rate	Maturity	Balance as at November 30, 2024	Balance as at August 31, 2024
Revolving credit facility A[(1)]	7.70%	December 28, 2024	$ 1,298	$ 1,298
Revolving credit facility B[(1)]	7.55%	December 26, 2024	6,258,000	6,258,000
Revolving credit facility C[(1)]	7.70%	December 8, 2024	500,000	-
Term loan [(1)]	7.70%	December 31, 2025 [(2)]	34,501,902	34,976,596
Convertible debenture A [(2)]	9.25%	September 30, 2025	6,625,115	6,442,350

1 The credit facilities terms are 30, 60 or 90 days depending on management's decision and can be renewed at the end of the period. The credit facilities and the term loan bear a variable interest rate or CORRA plus an applicable margin based on the credit agreement. As at November 30, 2024, the average interest rate was 7.56 % on the credit facilities and 7.7 % on the term loan. The Company has to respect financial covenants including (a) maintaining a certain liquidity coverage at all the times, (b) a fixed charge coverage ratio equal to or more than 1.25 to 1.0 and (c) a funded debt to EBITDA ratio equal to or less than 3.5 to 1.0 at each quarter-end. As at November 30, 2024, the Company met all of the imposed covenants.

2 The $5,700,000 convertible debenture bears interest at 9.25% until January 31, 2025, and will be increased to 10.75% afterwards for the remaining period of the term. Interest is payable at term or at conversion if it occurs and can be paid in cash or in common shares at the choice of the Company. The holder has the right to demand payment up to $1,000,000 in principal on January 31, 2025.

LIQUIDITY AND CAPITAL RESOURCES (*continued*)

Other contractual obligations

	Carrying amount	Less than one year	One to three years	Total contractual amount
Accounts payable and accrued liabilities	$ 11,846,966	$ 11,846,966	$ -	$ 11,846,966
Revolving credit facilities	6,759,298	6,759,298	-	6,759,298
Lease liabilities [2]	626,701	340,452	347,574	688,026
Convertible debenture	6,625,115	6,685,070	-	6,685,070
Term loan [1]	34,501,902	1,965,961	32,929,849	34,895,810

1 The contractual obligations relating to the term loan has been presented based on the contractual repayment term which is set to mature on December 31, 2025.

2 The Company is committed to future minimum annual lease with respect to a lease for the head office, several car leases and 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 $5.5 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-month period ended November 30, 2024, the Company recognized $243,000 as interest expense on the convertible debentures and debt financing guarantee fees compared to $156,000 for the same period of the prior year. The Company also paid $61,000 in rent and incurred $7,000 in other expenses for the three-month period ended November 30, 2024, compared to $51,000 in rent and $9,000 in other expenses for the same period of the prior year.

As at November 30, 2024, accrued interest of $985,000 on the $5.7 million convertible debenture was included in the carrying amount of the convertible debenture (as at August 31, 2024 – accrued interest of $836,000), and accrued fees on the debt financing guarantee fees amounted to $156,000 were included in accounts payable and accrued liabilities (as at August 31, 2024 - $63,000). The Company also recognized $504,000 as lease liabilities as at November 30, 2024, regarding a lease arrangement for the head office (August 31, 2024 – $562,000).

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-month period ended November 30, 2024, salaries and benefits incurred for key management personnel amounted to $244,000 (2024 - $210,000); share-based compensation attributable to key management and directors was $294,000 (2024 - $232,000) and director fees were $42,500 (2024 - $25,000). As at November 30, 2024, the Company owed $153,000 (August 31, 2024 - $102,000) to key management personnel and $42,500 (August 31, 2024 – $21,000) to directors for accrued salaries and vacation expenses.

TRANSACTIONS AND BALANCES WITH RELATED PARTIES (*continued*)

Key management personnel compensation *(continued)*

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 November 30, 2024, none of the receivables were past due. The allowance for expected credit loss was nominal as at November 30, 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 November 30, 2024, the Company had current assets of $73.2 million and current liabilities of $36.5 million, for a working capital balance of $36.7 million. The Company expects that its existing cash resources of $10.3 million as at November 30, 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 November 30, 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. During the first quarter of 2025, the Company generated 88% of its cannabis revenues from three provincial distributors, compared to 87% of its cannabis revenues earned from three provincial distributors during fiscal 2024.

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 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 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 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, 2024.

RISK FACTORS

For a detailed discussion of business risk factors, please refer to the Company's AIF, available on SEDAR+ at www.sedarplus.ca and under the "Investor Area" section of our website at https://www.cannara.ca/en/investor-area.

MATERIAL ACCOUNTING POLICIES

The financial information presented in this MD&A has been prepared in accordance with IFRS Accounting Standards. Our material accounting policies are set out in note 3 of the audited consolidated financial statements for the year ended August 31, 2024.

SUMMARY OF OUTSTANDING SHARE DATA

Summary of Outstanding Share Data as of January 24, 2024:

Authorized:	Unlimited number of voting and participating common shares without par value.
Issued and outstanding:	90,643,952 common shares
	5,089,384 stock options
	969,183 RSUs
	625,000 PSUs
	3,166,667 contingently issuable common shares upon conversion of convertible debentures

TSXV: LOVE OTCQB: LOVFF FRA: 8CB0

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