



CANNARA BIOTECH INC.

Condensed Interim Consolidated Financial Statements

For the three-month periods ended

November 30, 2024 and 2023

(Unaudited)

CANNARA BIOTECH INC.

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(Unaudited)

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CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Financial Position
As at November 30, 2024 and August 31, 2024
(Unaudited - in Canadian dollars)

	November 30, 2024	August 31, 2024
Assets		
Current assets		
Cash	\$ 10,261,185	\$ 6,620,387
Accounts receivable	12,934,566	13,036,873
Biological assets (note 4)	5,585,666	6,649,591
Inventory (note 5)	36,154,108	33,423,515
Asset held for sale (note 3)	4,897,564	4,897,564
Prepaid expenses and other assets	3,412,118	2,845,914
	<u>73,245,207</u>	<u>67,473,844</u>
Deposits	256,323	256,323
Deposits on property, plant and equipment	391,033	99,381
Property, plant and equipment (note 6)	85,312,566	84,340,705
Right-of-use asset (note 7)	572,360	595,218
Deferred tax asset	1,226,451	1,954,502
	<u>\$ 161,003,940</u>	<u>\$ 154,719,973</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 11,846,966	\$ 9,842,023
Excise tax payable	6,675,433	6,097,043
Sales tax payable	1,593,487	1,423,245
Deferred lease revenue	362,943	85,830
Revolving credit facilities (note 8)	6,759,298	6,259,298
Current portion of convertible debenture (note 8)	6,625,115	1,000,000
Current portion of long-term debt (note 8)	315,121	-
Current portion of deferred grant income	62,416	48,988
Current portion of lease liabilities (note 7)	297,530	279,612
Current portion of term loan (note 8)	1,965,961	1,965,961
	<u>36,504,270</u>	<u>27,002,000</u>
Long-term debt (note 8)	139,872	-
Lease liabilities (note 7)	329,171	368,537
Convertible debenture (note 8)	-	5,442,350
Deferred grant income	915,930	944,962
Term loan (note 8)	32,535,941	33,010,635
	<u>70,425,184</u>	<u>66,768,484</u>
Shareholders' equity		
Share capital	88,523,025	88,523,025
Contributed surplus	12,647,781	12,326,377
Deficit	(10,592,050)	(12,897,913)
Total equity	<u>90,578,756</u>	<u>87,951,489</u>
Contingencies (note 14)		
Subsequent events (note 18)		
	<u>\$ 161,003,940</u>	<u>\$ 154,719,973</u>

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statement of Net Income
For the three-month periods ended November 30, 2024 and 2023
(Unaudited)

	Three-month periods ended	
	November 30, 2024	November 30, 2023
Revenue		
Revenue from sale of goods (note 15)	\$ 34,898,761	\$ 26,329,085
Excise taxes	(10,898,069)	(7,811,953)
Net revenue from sale of goods	24,000,692	18,517,132
Lease revenue (note 15)	954,118	909,396
Other income	115,604	56,766
	25,070,414	19,483,294
Cost of sales		
Cost of goods sold (note 5)	15,203,953	11,475,142
Lease operating costs	84,697	72,435
Gross profit before fair value adjustments	9,781,764	7,935,717
Changes in fair value of inventory sold	(5,918,731)	(6,224,666)
Unrealized gain on changes in fair value of biological assets (note 4)	6,315,852	6,524,305
Gross profit	10,178,885	8,235,356
Operating expenses		
General and administrative (note 11)	2,672,702	2,363,362
Research and development	171,689	210,190
Selling, marketing and promotion	2,228,734	1,293,034
Professional and legal fees	270,355	234,981
Share-based compensation (note 10)	321,404	280,571
Amortization (note 6 and 7)	280,713	409,192
Loss on disposal of property, plant and equipment	1,209	5,380
	5,946,806	4,796,710
Operating income	4,232,079	3,438,646
Net finance expense (note 12)	1,198,165	1,331,367
Net income before income taxes	3,033,914	2,107,279
Deferred income tax expense	728,051	–
Net income	\$ 2,305,863	\$ 2,107,279
Basic and diluted earnings per share (note 9)	\$ 0.03	\$ 0.02
Weighted average number of common shares, basic	90,018,952	90,220,861
Weighted average number of common shares, diluted	91,578,396	91,010,044

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Changes in Equity
 For the three-month periods ended November 30, 2024 and 2023
 (Unaudited - in Canadian dollars)

	Shares	Share capital	Contributed surplus	Deficit	Total equity
As at August 31, 2024	90,018,952	\$ 88,523,025	\$ 12,326,377	\$ (12,897,913)	\$ 87,951,489
Net income	–	–	–	2,305,863	2,305,863
Share-based compensation (note 10)	–	–	321,404	–	321,404
As at November 30, 2024	90,018,952	\$ 88,523,025	\$ 12,647,781	\$ (10,592,050)	\$ 90,578,756

	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive gain	Total equity
As at August 31, 2023	90,305,852	\$ 88,803,613	\$ 10,349,568	\$ (19,339,846)	\$ (69,291)	\$ 79,744,044
Net income	–	–	–	2,107,279	–	2,107,279
Share-based compensation (note 10)	–	–	280,571	–	–	280,571
Repurchase and cancellation of common shares under NCIB (note 9)	(281,900)	(275,698)	–	2,871	–	(272,827)
As at November 30, 2023	90,023,952	\$ 88,527,915	\$ 10,630,139	\$ (17,229,696)	\$ (69,291)	\$ 81,859,067

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Cash Flows
For the three-month periods ended November 30, 2024 and 2023
(Unaudited - in Canadian dollars)

	November 30, 2024	November 30, 2023
Cash provided by (used in):		
Operating		
Net income	\$ 2,305,863	\$ 2,107,279
Items not involving cash:		
Changes in fair value of inventory sold	5,918,731	6,224,666
Unrealized gain on changes in fair value of biological assets (note 3)	(6,315,852)	(6,524,305)
Amortization of property, plant and equipment (note 5)	1,483,084	1,557,627
Amortization of right-of-use asset (note 7)	70,494	58,563
Interest expense (note 12)	986,936	993,717
Interest on lease liabilities (note 6)	13,704	12,590
Accretion on financing and amortization of financing costs (note 8)	50,054	201,252
Share-based compensation (note 10)	321,404	280,571
Loss on disposal of property, plant and equipment	1,209	5,380
Interest income (note 12)	(61,415)	(55,460)
Income taxes expense	728,051	-
Net change in non-cash operating working capital items (note 17)	332,200	(4,078,968)
	5,834,463	782,912
Financing		
Net purchase of shares under NCIB (note 9)	-	(272,827)
Proceed from credit facility (note 8)	500,000	2,500,000
Repayment of term loan (note 8)	(491,491)	(491,490)
Repayment of long-term debt (note 8)	(25,007)	-
Interest paid on debt instruments (note 8)	(871,105)	(958,389)
Payment of debt guarantee fees	-	(375,000)
Payment of interest on letter of credit	(49,435)	(53,695)
Lease payments (note 7)	(82,788)	(29,970)
	(1,019,826)	318,629
Investing		
Deposits on property, plant and equipment	(346,193)	(159,969)
Acquisitions of property, plant and equipment (note 5)	(871,076)	(2,613,649)
Disposal of property, plant and equipment	3,068	4,975
Interest received	40,362	35,970
	(1,173,839)	(2,732,673)
Net change in cash	3,640,798	(1,631,132)
Cash, beginning of period	6,620,387	4,270,517
Cash, end of period	\$ 10,261,185	\$ 2,639,385

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements
For the three-month periods ended November 30, 2024 and 2023
(Unaudited - in Canadian dollars)

1. Nature of operations

Cannara Biotech Inc. ("Cannara" or the "Company") is a vertically integrated producer of premium-grade cannabis and cannabis-derivative products for the Canadian market. The Company is domiciled in Canada and was incorporated under the laws of British Columbia on October 19, 2017. Its head office is located at 333 Décarie, Suite 200, Ville St-Laurent, Québec, H4N 3M9. The Company's common shares are listed under the symbol "LOVE" on the TSX Venture Exchange (the "TSXV") in Canada, "LOVFF" on the OTCQB Venture Market in the United States and "8CB0" on the Frankfurt Stock Exchange in Germany.

Cannara owns and operates two Quebec-based mega cultivation facilities spanning over 1,650,000 square feet. Cannara's first purpose-built, modern indoor cultivation facility is located in Farnham, Quebec and measures 625,000 square feet, comprising 170,000 square feet of licensed cultivation area and 414,000 square feet of leased warehouse space ("Farnham Facility"). The second facility, acquired in June 2021, is a hybrid greenhouse facility has been designed to replicate the indoor cultivation environment. The facility is comprised of 24 independent growing zones totaling 600,000 square feet, a 225,000 square feet cannabis 2.0 processing center and a 200,000 square feet rooftop greenhouse located in Valleyfield, Quebec ("Valleyfield Facility"). Cannara operates through its wholly owned subsidiaries, Cannara Biotech (Quebec) Inc. and Cannara Biotech (Valleyfield) Inc., both holding active licenses issued by Health Canada under the Cannabis Act.

The Company continues to invest in capital expenditures at its Valleyfield Facility, activating 10 growing zones to-date, measuring a total of 250,000 square feet of active growing capacity. The Company sells its products under three flagship brands: Tribal, Nugz and Orchid CBD.

The Company generated a net income of approximately \$2.3 million during the three-month period ended November 30, 2024 (2024 – \$2.1 million) and has a deficit of approximately \$10.6 million as at November 30, 2024 (As at August 31, 2024 - \$12.9 million). The Company expects that its existing cash resources of \$10.3 million as at November 30, 2024, along with the forecasted cash flows and available undrawn credit facilities (note 8), will enable it to fund its planned operating expenses for at least the next twelve months from November 30, 2024.

The ability of the Company to ultimately achieve recurrent profits from operations is dependent upon the continued success of its product and brand pipeline in addition to maintaining the consistency of its grow operations and lean cost structure. The Company expects to finance its operations through its sales, existing cash, available undrawn credit facilities, and/or a combination of public or private equity and debt financing or other sources such as funds from the disposal of assets held for sale.

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Notes to Condensed Interim Consolidated Financial Statements
For the three-month periods ended November 30, 2024 and 2023
(Unaudited - in Canadian dollars)

2. Basis of preparation and significant accounting policies

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") Accounting Standards and International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB").

These condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issuance on January 24, 2025.

(b) Basis of preparation

The condensed interim consolidated financial statements were prepared using the same accounting policies as set forth in Notes 2 and 3 in the audited financial statements of the Company for the year ended August 31, 2024. These condensed interim consolidated financial statements do not include all the notes required in annual consolidated financial statements. Therefore, these condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto of the Company for the year ended August 31, 2024.

The preparation of the Company's condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of expenditures, assets and liabilities. Actual results could differ from those estimates.

On an ongoing basis, estimates and judgements are evaluated. The Company bases its estimates on the most probable set of economic conditions and planned course of action, historical experience, known trends and events, and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Uncertainty about these assumptions and estimates could result in an outcome that requires material adjustments to the carrying amount of the asset or liability affected in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which these estimates are revised and in any future periods affected.

The critical accounting judgments and key sources of estimation uncertainty are consistent with those in the audited consolidated financial statements and notes thereto to the Company for the year ended August 31, 2024.

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Notes to Condensed Interim Consolidated Financial Statements
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(Unaudited - in Canadian dollars)

3. Assets held for sale

In January 2024, management committed to a plan to sell a parcel of land at its Valleyfield site that was unused in addition to the building under construction adjacent to the land parcel that was previously intended to be leased out.

As at November 30, 2024, a total of \$4,897,564 for the building under construction and the land on which it is being constructed remain in assets held for sale and continues to be actively marketed for sale.

4. Biological assets

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

Carrying amount, August 31, 2023	\$	5,774,121
Production costs capitalized		20,128,710
Change in fair value due to biological transformation, less cost to sell		25,550,941
Transferred to inventory upon harvest		(44,804,181)
Carrying amount, August 31, 2024	\$	6,649,591
Production costs capitalized		5,293,387
Change in fair value due to biological transformation, less cost to sell		6,315,852
Transferred to inventory upon harvest		(12,673,164)
Carrying amount, November 30, 2024	\$	5,585,666

As at November 30, 2024, it is expected that the Company's biological assets will yield approximately 8,592 kilograms of dried cannabis when harvested (As at August 31, 2024 - 9,150 kilograms of dried cannabis).

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Notes to Condensed Interim Consolidated Financial Statements
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(Unaudited - in Canadian dollars)

4. Biological assets (continued)

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

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

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

Because there is no actively traded commodity market for cannabis plants and dried product, the valuation of the biological assets is obtained using valuations techniques where the inputs are based upon unobservable market data and are classified as level 3 in the fair market value hierarchy. There has been no transfer between levels as at November 30, 2024.

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Notes to Condensed Interim Consolidated Financial Statements
For the three-month periods ended November 30, 2024 and 2023
(Unaudited - in Canadian dollars)

4. Biological assets (continued)

Management's identified significant unobservable inputs, their values and sensitivity analysis are presented in the table below. The Company's estimates are, by their nature, subject to change, and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods. The income approach calculates the present value of expected future cash flows from the Company's biological assets using the following inputs for the period ended November 30, 2024:

Unobservable inputs	Input values	Sensitivity analysis
<i>Selling price</i> Represents the average expected retail selling price per gram of dried cannabis, excluding excise taxes, where applicable, which is expected to approximate future retail selling prices. The average selling price varies depending on the estimated products. ¹	Weighted average of \$2.98 per gram of dried cannabis packaged (August 31, 2024 – \$2.88 per gram for retail selling price and \$1.50 for wholesale price)	An increase or decrease of 5% applied to the selling price would result in a change of approximately \$611,000 to the valuation.
<i>Yield per plant</i> Represents the average number of grams of dried cannabis expected to be harvested from each cannabis plant from the two facilities.	88 grams per plant (August 31, 2024 – 85 grams per plant)	An increase or decrease of 15% applied to the average yield per plant would result in a change of approximately \$830,000 to the valuation.
<i>Stage of completion</i> Calculated by taking the average number of days in the cultivation cycle over the total estimated duration of a cultivation cycle which is currently approximately 13 to 14 weeks from clone to harvest.	Weighted average stage of completion is 46% (August 31, 2024 - 47%)	An increase or decrease of 5% applied to the average stage of growth per plant would result in a change of approximately \$276,000 to the valuation.

¹ During the three-month period ended November 30, 2024, management reviewed its selling price assumptions used in its model using a unique selling price approach to reflect the expected retail selling price per gram of dried flower for plants to be harvested. This change in estimate was applied prospectively.

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Notes to Condensed Interim Consolidated Financial Statements
For the three-month periods ended November 30, 2024 and 2023
(Unaudited - in Canadian dollars)

5. Inventory

Inventory consists of the following:

	November 30, 2024		
	Capitalized cost	Fair value adjustment ¹	Total
Raw materials - cultivation and supplies	\$ 3,813,480	\$ –	\$ 3,813,480
Harvested cannabis			
Dried cannabis and work-in-progress	9,910,534	9,822,020	19,732,554
Finished goods	1,493,119	531,941	2,025,060
Derivative products			
Derivatives products and work-in-progress	6,027,113	2,306,607	8,333,720
Finished goods	1,539,593	208,636	1,748,229
Finished goods – cannabis accessories	501,065	–	501,065
	\$ 23,284,904	\$ 12,869,204	\$ 36,154,108

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

¹ Fair value adjustment represent the fair value adjustment transferred from biological assets at harvest.

The amount of inventory expensed as cost of goods sold during the three-month period ended November 30, 2024 was \$15,203,953 (2024 – \$11,475,142), including an impairment loss on inventory of \$356,665 (2024 – \$723,577) for cannabis where costs exceeds its net realizable value.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements
For the three-month periods ended November 30, 2024 and 2023
(Unaudited - in Canadian dollars)

6. Property, plant and equipment

	Land	Buildings	Facility production equipment	Computer equipment and software	Vehicles	Furniture and fixtures	Construction in progress	Total
Cost								
Balance as at								
August 31, 2024	\$ 2,330,099	\$ 76,710,294	\$ 16,346,551	\$ 1,733,228	\$ 42,140	\$ 2,528,937	\$ 4,708,667	\$ 104,399,916
Additions	–	480,257	1,503,455	168,688	–	3,781	291,682	2,447,863
Transfer	–	102,591	38,048	–	–	–	(140,639)	–
Disposal	–	–	(6,104)	–	–	–	–	(6,104)
Balance as at								
November 30, 2024	\$ 2,330,099	\$ 77,293,142	\$ 17,881,950	\$ 1,901,916	\$ 42,140	\$ 2,532,718	\$ 4,859,710	\$ 106,841,675
Accumulated amortization								
Balance as at								
August 31, 2024	\$ –	\$ (13,193,888)	\$ (4,662,315)	\$ (1,264,345)	\$ (24,865)	\$ (913,798)	\$ –	\$ (20,059,211)
Amortization	–	(881,460)	(443,737)	(82,727)	(2,107)	(61,694)	–	(1,471,725)
Disposal	–	–	1,827	–	–	–	–	1,827
Balance as at								
November 30, 2024	\$ –	\$ (14,075,348)	\$ (5,104,225)	\$ (1,347,072)	\$ (26,972)	\$ (975,492)	\$ –	\$ (21,529,109)
Net book value								
Balance as at								
November 30, 2024	\$ 2,330,099	\$ 63,217,794	\$ 12,777,725	\$ 554,844	\$ 15,168	\$ 1,557,226	\$ 4,859,710	\$ 85,312,566

For the three-month period ended November 30, 2024, the assets included in construction in progress represent the Valleyfield Facility and related capital expenditures for the activation and redesign of two new growing zones and for the construction of additional post-processing area. The costs are transferred to other categories as the assets become available or ready for use. As part of its real estate segment, the Company used the non-cannabis licensed area of the Farnham building to generate lease revenues. As at November 30, 2024, a carrying value of \$10,156,926 related to the Farnham building is recognized as an investment property (As at August 31, 2024 - \$10,156,926).

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Notes to Condensed Interim Consolidated Financial Statements
For the three-month periods ended November 30, 2024 and 2023
(Unaudited - in Canadian dollars)

6. Property, plant and equipment (continued)

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

During the three-month period ended November 30, 2024, the Company recognized \$1,471,725 (2024 - \$1,557,627) as amortization expense, of which \$210,219 have been recognized in the consolidated statement of income and \$1,261,506 have been included in the calculation of the biological assets and inventory valuation and for which some lots were ultimately used for research and development (2024 - \$350,629 and \$1,206,998 respectively).

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Notes to Condensed Interim Consolidated Financial Statements
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(Unaudited - in Canadian dollars)

7. Right-of-use assets and lease liabilities

(a) Right-of-use assets

	November 30, 2024	August 31, 2024
Cost		
Balance, beginning of period	\$ 987,986	\$ 312,974
Additions	47,636	675,012
Balance, end of period	\$ 1,035,622	\$ 987,986
Accumulated depreciation		
Balance, beginning of period	\$ (392,768)	\$ (135,957)
Amortization	(70,494)	(256,811)
Balance, end of period	\$ (463,262)	\$ (392,768)
Net book value		
Balance, end of period	\$ 572,360	\$ 595,218

(b) Lease liabilities

	November 30, 2024	August 31, 2024
Maturity analysis - contractual undiscounted cash flows:		
Less than one year	\$ 340,452	\$ 323,762
One to five years	347,574	390,461
Total undiscounted lease liabilities	\$ 688,026	\$ 714,223
Current	\$ 297,530	\$ 279,612
Non-current	329,171	368,537
Lease liabilities included in the condensed interim consolidated statement of financial position	\$ 626,701	\$ 648,149
Balance as at August 31, 2024		\$ 648,149
Additions		47,636
Lease payments		(82,788)
Interest on lease liabilities		13,704
Balance as at November 30, 2024		\$ 626,701

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Notes to Condensed Interim Consolidated Financial Statements
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(Unaudited - in Canadian dollars)

8. Financing

(a) Revolving credit facility

	November 30, 2024	August 31, 2024
Net carrying value, beginning of period	\$ 6,259,298	\$ 3,000,000
Proceeds from revolving credit facilities	500,000	5,700,000
Repayment of revolving credit facilities	–	(2,440,702)
Net carrying value, end of period	\$ 6,759,298	\$ 6,259,298

	2024	Expiry date
Revolving credit facility A	\$ 1,298	2024-12-28
Revolving credit facility B	6,258,000	2024-12-26
Revolving credit facility C	500,000	2024-12-08
Net carrying value, end of period	\$ 6,759,298	

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 November 30, 2024, the weighted average interest rate on the revolving credit facilities was 7.56% (As at August 31, 2024 – 8.28%).

The term of the revolving credit facilities is December 31, 2025, and has the same securities, guarantees and covenants to respect as the term loan (note 8 (b)). 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.

For the three-month period ended November 30, 2024, the Company recognized \$129,424 as interest expense for the revolving credit facilities (2024 - \$103,867). As at November 30, 2024, accrued interest of \$92,603 were included in account payables and accrued liabilities (As at August 31, 2024 - \$92,019).

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements
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8. Financing (continued)

(b) Term loan

	November 30, 2024	August 31, 2024
Net carrying value, beginning of period	\$ 34,976,596	\$ 36,854,235
Repayment of term loan	(491,491)	(1,965,961)
Additional of term loan issuance costs	–	(198,267)
Amortization of deferred financing costs	16,797	286,589
Net carrying value, end of period	\$ 34,501,902	\$ 34,976,596
Term loan ⁽ⁱ⁾	\$ 34,895,810	\$ 35,387,301
Less: unamortized financing costs	(393,908)	(410,705)
	34,501,902	34,976,596
Short-term portion of term loan	(1,965,961)	(1,965,961)
	\$ 32,535,941	\$ 33,010,635

- ⁽ⁱ⁾ The term loan bears a variable interest rate based on prime and/or CORRA rates. As at November 30, 2024, the interest on the term loan was 7.70% (As at August 31, 2024 – 8.45%). The term loan is reimbursable quarterly based on an amortization schedule of 80 quarters, beginning November 30, 2022 and the term date is December 31, 2025.

The term loan is secured by a first ranking mortgage against the Farnham and Valleyfield Facility, and is guaranteed with limited recourse, in part, by a related party for a fee based on the amount of the outstanding term loan (note 16 (b)).

As part of the financing agreement, the lender also issued a \$5.7 million letter of credit to a provincial service provider to fund certain deposit requirements part of the Valleyfield acquisition in 2021. A fee is charged in exchange of this services (note 12). In October 2024, the Company obtained a reduction of \$162,543 for the required amount of the letter of credit issued to a provincial service provider to fund certain deposit requirements. The revised amount of the letter of credit is now \$5.5 million.

For the three-month period ended November 30, 2024, the Company recognized \$703,865 as interest expense for the term loan (2024 – \$827,842). As at November 30, 2024, accrued interest of \$230,608 was included in account payables and accrued liabilities (As at August 31, 2024 - \$264,869).

The Company has to respect financial covenants such as (a) maintaining a certain liquidity coverage at all the times, (b) a fixed charge coverage ratio equal to or more than 1.25 to 1.0, (c) a funded debt to EBITDA ratio equal to or less than 3.5 to 1.0 at each quarter-end. As at November 30, 2024, the Company met all of the imposed covenants.

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8. Financing (continued)

(c) Convertible debenture

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

Net carrying value as at August 31, 2023	\$	5,753,133
Gain on modification of convertible debenture		(11,218)
Interest expense		317,692
Accretion and amortization of deferred issuance costs		382,743
Net carrying value, August 31, 2024		6,442,350
Interest expense		149,508
Accretion and amortization of deferred issuance costs		33,257
Net carrying value as at November 30, 2024	\$	6,625,115

The interest rate on the convertible debenture is 9.25% per annum up to January 2025 and will increase 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 settled in cash or in common shares at the choice of the Company. As part of the agreement, the holder has the right to demand payment up to \$1,000,000 in principle on January 30, 2025. The term of the convertible debenture is September 30, 2025.

During the three-month period ended November 30, 2024, the Company recognized \$149,508 as interest expense (2024 - \$62,008). As at November 30, 2024, accrued interest of \$985,070 was included in the carrying amount of the convertible debenture (As at August 31, 2024 - \$835,562).

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8. Financing (continued)

(d) Long-term debt

	November 30, 2024	August 31, 2024
Net carrying value, beginning of period	\$ –	\$ –
Addition of long-term debt	480,000	–
Repayment of long-term debt	(29,146)	–
Interest expense	4,139	–
Net carrying value, end of period	\$ 454,993	\$ –
Short-term portion of long-term debt	(315,121)	–
	\$ 139,872	\$ –

In October 2024, the Company entered into a financing agreement for the purchase of production equipment. The long-term debt is reimbursable monthly over 18 months and hold a 9% interest rate.

For the three-month period ended November 30, 2024, the Company recognized \$4,139 as interest expense for the long-term debt (2024 – nil).

9. Share Capital

(a) Authorized

The Company has authorized an unlimited number of voting and participating common shares.

(b) Transactions on share capital

NCIB

During the first quarter of 2024, under its Normal Course Issuer Bid (“NCIB”), the Company purchased 281,900 common shares having an average book value of \$275,698 for cash consideration of \$272,827. The excess of the book value over the purchase price value of the shares of \$2,871 was charged to deficit. All shares purchased were cancelled.

The 1-year NCIB period ended in December 2023.

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9. Share Capital (continued)

(c) Earnings per share

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

The calculations for basic and diluted earnings per share for the period ended November 30, 2024 and 2023 was as follows:

	November 30, 2024	November 30, 2023
Net income	\$ 2,305,863	\$ 2,107,279
Issued common shares as at September 1, 2024 and 2023	90,018,952	90,305,852
Repurchase and cancellation of common shares under NCIB	–	(84,991)
Weighted average number of common shares, basic	90,018,952	90,220,861
Impact of dilutive securities:		
Restricted share units	1,559,444	789,183
Weighted average number of common shares, diluted	91,578,396	91,010,044
Earning per share – basic	\$ 0.03	\$ 0.02
Earning per share – diluted	\$ 0.03	\$ 0.02

For the three-month ended November 30, 2024, excluded from the weighted average number of diluted common shares calculation as their effect would have been anti-dilutive was 5,133,203 share options, and 3,166,667 shares potentially to be issued under the convertible debentures that may potentially dilute earnings per share in the future (2024 – 3,828,800 share options and 3,166,667 shares as-if the convertible debentures were converted).

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10. Share-based compensation

(a) Stock option plan

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

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

The activity of outstanding share options for the three-month ended November 30, 2024 and 2023 was as follows:

	November 30, 2024		November 30, 2023	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of period	4,539,687	\$ 1.59	3,831,945	\$ 1.65
Granted	640,000	1.14	–	–
Forfeited	(29,897)	1.80	(2,500)	1.80
Expired	(16,587)	1.80	(645)	1.80
Outstanding, end of period	5,133,203	1.53	3,828,800	1.65
Exercisable, end of period	3,350,467	\$ 1.62	2,194,121	\$ 1.64

During the three-month period ended November 30, 2024, the Company recorded a share-based compensation expense of \$94,723 in the consolidated statement of income (2024 – \$192,276).

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10. Share-based compensation (continued)

(a) Stock option plan (continued)

During the first quarter of 2025, the Company granted 525,000 options at an exercise price of \$1.00 and 115,000 options at an exercise price of \$1.80 to certain employees subject to certain vesting conditions in accordance with the employee share option plan (2024 – nil).

The share options forfeited relate to the share options held by directors and/or employees that are no longer part of the Company and by consultants that do not continue to provide services to the Company. The estimated fair value of the share options at the grant date was measured using the Black-Scholes option pricing model and the following weighted average inputs and assumptions:

	Three-month periods ended	
	November 30, 2024	November 30, 2023
Share price ⁽ⁱ⁾	\$ 0.68	\$ –
Exercise price	\$ 1.14	\$ –
Risk-free interest rate ⁽ⁱⁱ⁾	3.18%	–
Expected life ⁽ⁱⁱⁱ⁾	7 years	–
Expected price volatility ^(iv)	73%	–
Fair value of the option	\$ 0.44	\$ –
Expected dividend yield ^(v)	Nil	–

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

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

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

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

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

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10. Share-based compensation (continued)

(a) Stock option plan (continued)

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

Expiry date	Exercise price \$	Number outstanding	Number exercisable
December 17, 2023	\$ 1.80	65,000	65,000
May 1, 2024	1.80	60,000	60,000
January 16, 2025	1.80	42,000	42,000
April 14, 2025	1.80	8,000	8,000
May 4, 2025	1.80	40,000	40,000
July 24, 2025	1.80	347,500	347,500
November 10, 2025	1.80	25,000	25,000
December 15, 2025	1.80	25,600	25,062
February 1, 2026	1.80	50,000	46,871
July 27, 2026	1.80	22,500	18,749
December 7, 2026	1.80	578,500	427,902
April 26, 2027	1.80	7,500	4,839
July 26, 2027	1.80	105,000	61,243
September 29, 2027	1.76	2,150,000	2,091,546
November 24, 2027	1.80	10,000	4,996
January 20, 2028	1.80	15,000	6,870
April 21, 2028	1.80	10,937	4,893
July 26, 2028	1.80	206,666	69,996
December 6, 2030	1.70	699,000	–
April 29, 2031	1.80	25,000	–
November 22, 2031	1.14	640,000	–
		5,133,203	3,350,467

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10. Share-based compensation (continued)

(b) Restricted Share Units

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

The outstanding RSUs for the three-month periods ended November 30, 2024 and 2023 are as follows:

	November 30, 2024		November 30, 2023	
	Number	Weighted average fair value	Number	Weighted average fair value
Outstanding, beginning of period	1,504,183	\$ 0.88	789,183	\$ 0.90
Granted	90,000	0.68	–	–
Outstanding, end of period	1,594,183	\$ 0.87	789,183	\$ 0.90

Vesting date	Number outstanding
January 6, 2025	625,000
February 10, 2025	789,183
December 6, 2025	90,000
November 22, 2026	90,000
	1,594,183

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10. Share-based compensation (continued)

(b) Restricted Share Units (continued)

The outstanding PSUs for the three-month periods ended November 30, 2024 and 2023 are as follows:

	November 30, 2024		November 30, 2023	
	Number	Weighted average fair value	Number	Weighted average fair value
Outstanding, beginning of period	–	\$ –	–	\$ –
Granted	625,000	0.68	–	–
Outstanding, end of period	625,000	\$ 0.68	–	\$ –

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

During the three-month period ended November 30, 2024, the Company granted 90,000 RSUs without performance conditions and 625,000 PSUs with performance conditions which are exercisable for no consideration (2024 – nil).

During the three-month period ended November 30, 2024, the Company recorded a share-based compensation expense of \$226,681 in the consolidated statement of income (2024 – \$88,295).

11. General and administrative

	Three-month periods ended	
	November 30, 2024	November 30, 2023
Salaries and benefits	\$ 1,151,895	\$ 1,100,232
Administrative and regulatory expense	1,016,700	994,641
Facility expense	504,107	268,489
General and administrative	\$ 2,672,702	\$ 2,363,362

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12. Net finance expense

	Three-month periods ended	
	November 30, 2024	November 30, 2023
Interest income	\$ 61,415	\$ 55,460
Foreign exchange gain	–	72
Finance income	61,415	55,532
Interest on term loan	703,865	827,842
Interest on revolving credit facilities	129,424	103,867
Interest on convertible debentures	149,508	62,008
Interest on lease liabilities	13,704	12,590
Interest on other long-term debt	4,139	–
Fees related to letter of credit	50,350	53,111
Debt guarantee fees	93,750	93,750
Accretion and amortization of financing costs	50,054	201,252
Other finance expense	51,815	32,479
Foreign exchange loss	12,971	–
Finance expense	1,259,580	1,386,899
Net finance expense	\$ 1,198,165	\$ 1,331,367

13. Financial instruments

Fair value measurements

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

The fair value of the revolving credit facilities, long-term debt, convertible debentures and term loan approximate their carrying amounts, as the interest rate approximates the current market rate.

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14. Contingencies

In the normal course of business, the Company may be involved in various legal and regulatory proceedings. The Company believes that the resolution of these proceedings will not have a material favourable or unfavourable effect on its condensed interim consolidated statement of financial position or financial performance. As at November 30, 2024, there are no material claims in favor or against the Company.

15. Segment disclosures

(a) Reportable segments

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

The chief operating decision-maker assesses performance based on segment operating results which were defined as segment operating income (loss) before share-based compensation, amortization, net finance expense, loss on disposal of property, plant and equipment and income tax. The accounting policies of the segments are the same as those described in Note 3 of the audited financial statements of the Company for the year ended August 31, 2024.

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15. Segment disclosures (continued)

(a) Reportable segments (continued)

	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
Revenue								
Revenue from sale of goods	\$ 34,898,761	\$ –	\$ –	\$ 34,898,761	\$26,329,085	\$ –	\$ –	\$26,329,085
Excise taxes	(10,898,069)	–	–	(10,898,069)	(7,811,953)	–	–	(7,811,953)
Net revenue from sale of goods	24,000,692	–	–	24,000,692	18,517,132	–	–	18,517,132
Lease revenue	–	954,118	–	954,118	–	909,396	–	909,396
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
Cost of revenues								
Cost of goods sold	15,203,953	–	–	15,203,953	11,475,142	–	–	11,475,142
Lease operating costs	–	84,697	–	84,697	–	72,435	–	72,435
Segment gross profit before fair value adjustments	8,912,343	869,421	–	9,781,764	7,098,756	836,961	–	7,935,717
Changes in fair value of inventory sold	(5,918,731)	–	–	(5,918,731)	(6,224,666)	–	–	(6,224,666)
Unrealized gain on changes in fair value of biological assets	6,315,852	–	–	6,315,852	6,524,305	–	–	6,524,305
Segment gross profit	9,309,464	869,421	–	10,178,885	7,398,395	836,961	–	8,235,356
Operating expenses	5,343,480	–	–	5,343,480	4,101,567	–	–	4,101,567
Segment operating income	3,965,984	869,421	–	4,835,405	3,296,828	836,961	–	4,133,789
Share-based compensation	–	–	321,404	321,404	–	–	280,571	280,571
Amortization	–	–	280,713	280,713	–	–	409,192	409,192
Loss on disposal of property, plant and equipment	–	–	1,209	1,209	–	–	5,380	5,380
Net finance expense	–	–	1,198,165	1,198,165	–	–	1,331,367	1,331,367
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

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15. Segment disclosures (continued)

(b) Entity-wide disclosures

All property, plant and equipment are located in Canada.

(c) Sources of lease revenues

As at November 30, 2024, the Company leased 414,114 square feet of the total 625,000 available square feet at its Farnham Facility and realized 100% of its lease revenue with two lessees:

- The lease term for Tenant A is up to September 30, 2027. Lease revenues from this tenant for the three-month period ended November 30, 2024 amounted to \$181,072 (2024 - \$147,658).
- The lease term for Tenant B is up to October 31, 2026 and could be extended for another period of two years at the option of the tenant at the end of the term. Lease revenues from this tenant for the three-month period ended November 30, 2024 amounted to \$773,046 (2024 - \$761,738).

Income is generated from customers domiciled in Canada.

(d) Source of cannabis and cannabis accessories revenues

	Three-month periods ended	
	November 30, 2024	November 30, 2023
Revenue from Canadian retailers	\$ 34,101,768	\$ 25,377,366
Excise taxes	(10,898,069)	(7,811,953)
	23,203,699	17,565,413
Revenue from Canadian wholesale	739,692	645,533
Revenue from online merchandise	57,301	62,839
Revenue from Israeli wholesale	–	243,347
	\$ 24,000,692	\$ 18,517,132

For the three-month period ended November 30, 2024, the Company has generated 88% of its cannabis revenues from three provincial distributors (Quebec, Ontario and Alberta) (2024 – 76% with two provincial distributors – Quebec and Ontario).

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16. Related parties

(a) Key management personnel compensation

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

The compensations of key management personnel, including directors' fees, salaries and benefits were as follows:

	Three-month periods ended	
	November 30, 2024	November 30, 2023
Salaries and benefits	\$ 243,750	\$ 210,000
Shared-based compensation	294,427	231,927
Board of Directors' fees	42,500	25,000
	<u>\$ 580,677</u>	<u>\$ 466,927</u>

(b) Other transactions with related parties

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

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

Nature of transactions:	Three-month periods ended	
	November 30, 2024	November 30, 2023
Other expenses	\$ 7,200	\$ 9,134
Debt financing guarantee fees ⁽ⁱⁱⁱ⁾	93,750	93,750
Interest on debt financing ⁽ⁱ⁾	149,508	62,008
	<u>\$ 250,458</u>	<u>\$ 164,892</u>

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16. Related parties (continued)

(b) Other transactions with related parties (continued)

	November 30, 2024	August 31, 2024
Balances due to related parties are as follows:		
Accounts payable and accrued interests ⁽ⁱⁱ⁾	\$ (156,250)	\$ (62,500)
Accounts payable to key management personnel ⁽ⁱⁱ⁾	(152,966)	(102,211)
Accounts payable to Board of Directors members	(42,500)	(20,730)
Convertible debentures, including accrued interest ⁽ⁱ⁾	(6,685,070)	(6,535,562)
Lease liabilities ⁽ⁱ⁾	(503,386)	(562,206)

- (i) The Company has a Board of Director member who is a shareholder in an entity with which the Company entered into various transactions with for the financing of the Farnham and Valleyfield Facilities in addition to a head office lease arrangement. For the three-month period ended November 30, 2024, the Company paid \$61,445 in rent for the head office lease (2024 - \$50,660).
- (ii) Accounts payable relate to accrued salary and vacation for key management personnel. Related party transactions have been recorded at the exchange amount, which is the amount agreed to and established by the related parties.
- (iii) As part of the financing agreement, a related party is providing certain guarantees to the lenders on the debt financing (note 8) and is charging the Company a fee in exchange.

17. Cash flow information

Net change in non-cash working capital items:

	Three-month periods ended	
	November 30, 2024	November 30, 2023
Accounts receivable	\$ 123,360	\$ 731,342
Sales tax payable	170,242	(302,498)
Biological assets	(4,102,375)	(4,851,285)
Inventory	2,821,469	2,168,891
Prepaid expenses and other assets	(566,204)	(393,370)
Accounts payable and accrued liabilities	1,045,809	(1,007,192)
Excise tax payable	578,390	(696,565)
Deferred lease revenue	277,113	173,120
Deferred revenue	—	108,274
Deferred grant income	(15,604)	(9,685)
	\$ 332,200	\$ (4,078,968)

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17. Cash flow information (continued)

Supplemental information in the condensed interim consolidated statement of cash flows:

	Three-month periods ended	
	November 30, 2024	November 30, 2023
Variation of property, plant and equipment included in accounts payable and accrued liabilities	\$ (1,042,246)	\$ (468,797)
Financed property, plant and equipment purchase	480,000	–
Addition to right-of-use assets and lease liabilities	47,636	616,918

18. Subsequent events

Revolving credit facilities

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

Issuance of new common shares for vested RSUs

Subsequent to quarter-end, the Company issued 625,000 common shares for RSUs that vested.