Quebec Grown
Premium Grade Cannabis

MANAGEMENT DISCUSSION & ANALYSIS

For the second quarter and six-month period ended February 28, 2022

April 26, 2022

CANNARA BIOTECH INC.

TSXV: LOVE.V OTCQB: LOVFF FRA: 8CB

This Management Discussion and Analysis ("MD&A") of Cannara Biotech Inc. ("Cannara" or the "Company") has been prepared by management as of April 26, 2022 and should be read in conjunction with the condensed interim consolidated financial statements and related notes thereto of the Company for the three and six-month periods ended February 28, 2022, and 2021. The condensed interim consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Certain information and notes usually provided in the annual financial statements have been omitted or condensed. Therefore, this MD&A should also be read in conjunction with the information contained in the annual audited consolidated financial statements of the Company and the notes thereto for the year ended August 31, 2021.

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

All references in this MD&A to "Q2 2022" and "second quarter of 2022" are to Cannara's fiscal quarter ended February 28, 2022. "Q2 2021" and "second quarter of 2021" are to Cannara's fiscal quarter ended February 28, 2021.

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

NON-GAAP MEASURES

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, 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 non-IFRS 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.

Management employs these measures internally to measure operating and financial performance. Management believes these non-IFRS financial measures, in addition to conventional measures prepared in accordance with IFRS, enable investors and analysts to evaluate the Company's operating results, underlying performance and future prospects in a manner similar to management.

The Company has identified Adjusted Earnings (Loss) before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") as a non-GAAP measure. Management defines Adjusted EBITDA as net income (loss) before net finance expense, tax, depreciation, amortization, impairment, share-based compensation, changes in fair value of inventory sold, unrealized gains and losses on changes in fair value of biological assets, gain on sublease on initial recognition and gains and losses on disposal of property, plant and equipment. The exclusion of net finance expense eliminates the impact on earnings derived from non-operational activities. The exclusion of depreciation, amortization, impairment, share-based compensation, changes in fair value of inventory sold, unrealized gains and losses on changes in fair value of biological assets, gain on sublease in initial recognition and gains and losses on disposal of property, plant and equipment eliminates the non-cash impact of these items.

The Company 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. Although Adjusted EBITDA is frequently used by securities analysts, lenders and others in their evaluation of companies, it has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of the Company's results as reported under IFRS. 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.

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.V", the OTCQB under the symbol "LOVFF" and the Frankfurt Stock Exchange under the symbol "8CB". 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 Quebec and Canadian markets. The Company's main focus is to deliver premium quality "AAAA" products at disruptive retail pricing. Leveraging the province 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 cultivation area and 455,000 square feet of leased warehouse space ("Farnham Facility"). The second facility is a hybrid greenhouse facility that has been redesigned to replicate the indoor cultivation environment, including growing without utilizing the sun. 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.

COMPANY PROFILE (CONTINUED)

Cannara is a leading producer of premium "AAAA" 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 data, unique air-sealed packaging, attention to detail, and community responsiveness, all of which have had a compounded 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 high gross margins. The Cannara platform consists of 2 mega facilities in Quebec, a lean labour force, and a management team dedicated to product innovation, thought 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. Resulting from the Cannara model is a grassroot following in Quebec, Cannara's primary market, as well as daily inquiries for product distribution across all parts of Canada.

The Company officially launched its cannabis products into the retail market in February 2021 and completed its first fiscal year of cannabis retail operations on August 31, 2021 with approximately $14 million in revenues from its cannabis operations. During the first six months of 2022, the Company generated approximately $12.2 million from its cannabis operations at a 33% gross margin before fair value adjustments. Results for the second quarter of 2022 were similar to the results of the first quarter of 2022 with a slight decrease in revenues as the Company utilized some cultivation space at its Farnham Facility to propagate initial clones for its new 25,000 square foot growing zones at the Valleyfield Facility. The Company acquired the Valleyfield Facility in June 2021 and received its license to begin cultivation in September 2021. Since the beginning of 2022, the Company increased its staff, incurred start-up costs and adjusted its production capacity at the Farnham Facility to support the Valleyfield start-up plan, effectively reducing gross margin until products produced from the Valleyfield Facility are sold. The effect of the Valleyfield production on the Company's revenues will start to be reflected in the third quarter of 2022. As of April 26, 2022, 4 out of 24 growing zones are now operational, with two growing zones already being harvested from the Valleyfield Facility, transformed into finished product and being sold into the retail market during the Company's third fiscal quarter of 2022. The Company has initially set a milestone objective to activate 6 growing zones by August 2022 and is currently ahead of schedule. As of February 28, 2022, Cannara's distribution network services 3 provinces (Quebec, Ontario, Saskatchewan) with an estimated 400 retailers reselling its products. The Company plans to expand its sales and distribution network on account of significant increased capacity from the Valleyfield Facility during the next six months.

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

CANNARA FACILITIES

FACILITY	SIZE	CAPACITY	TYPE	ELECTRICITY	FACILITY HIGHLIGHTS
FARNHAM, QUEBEC	Licensed area: 170 000 sf Site: 625,000 sf Land: 1,430,000 sf	8,000 kg phase 1 capacity	Indoor	Power rate of approx. $0.065/kw	• Phase 1 completed in 2019 • State-of-the-art biomonitoring • 18 independent grow rooms • Automated cultivation systems
VALLEYFIELD, QUEBEC	Licensed area: 600,000 sf Roof top greenhouse: 200,000 sf Processing and cannabis 2.0 processing center: 235,000 sf Site: 1,030,000 sf Land: 3,130,000 sf	117,000 kg at full capacity *Cultivation activities started in November 2021, and will scale up alongside market penetration and profitability*	Hybrid Greenhouse	Preferential contracted power rate of approx. $0.035/kw	• Built in 2020 • Onsite Hydro Quebec substation • Fully outfitted and automated • 24 independent grow rooms • Blackout & shading systems • Tempered "smart" glass • Greenhouse converted to indoor facility to replicate Farnham Facility conditions

CANNARA BRAND PORTFOLIO

Our 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 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 "AAAA" genetic strains at entry level pricing.	• Dried Flower • Pre-Rolls • Live Resin Full Spectrum Extract * • Live Resin Vape Cartridges*	Quebec Ontario Saskatchewan
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 • Pre-Rolls • Hash • Rosin*	Quebec Ontario Saskatchewan
ORCHID CBD	Orchid CBD is a wellness brand dedicated to providing premium CBD-dominant cannabis. Orchid CBD offers award winning strains of terpene-rich, trichome covered, oversized dried flowers that deliver softer blissful experiences with no compromise on quality and flavours.	• Dried Flower • Pre-Rolls • Oils*	Quebec Ontario Saskatchewan

**New products to be released during 2022.*

CANNARA GENETIC PORTFOLIO

Cannara has established an extensive bank of genetics which includes some of the rarest strains available in Canada. By undergoing pheno-hunting selection methods, Cannara has the ability to further broaden the product mix for each one of its brands by providing users with dedicated cannabis experiences from carefully selected cultivars for years to come. Our current genetics in the retail market include:

GENETIC	BRAND	LAUNCH DATE	THC – CBD	TYPE	AROMAS & FLAVOURS
GELATO MINT Pheno #5	Tribal	Feb 2021	THC 24% CBD 1%	Indica	Gelato Mint is best known for its overwhelming fresh flavours and aromas. As its name suggests, Gelato Mint smells like a fresh mint dessert with pepper and earthy pine undertones.
CUBAN LINX Pheno #1	Tribal	June 2021	THC 25% CBD 1%	Sativa	Cuban Linx packs a rich lemony aroma accentuated by hints of gassy diesel and a touch of spice.
DO-SI-DOS Pheno #2	Tribal	June 2021	THC 26% CBD 1%	Hybrid - Indica	Do-Si-Dos delivers floral flavours followed by earthy and woody notes. The diversity and richness of this strain's profile will result in diverse fragrances and flavours.
TERPLE Pheno #8	Tribal	Mar 2022	THC 24% CBD 1%	Hybrid - Sativa	Terple's aroma and flavour is complex with elements of sweet oranges, sour citrus, and spicy diesel.
EARLY LEMON BERRY Pheno #92	Nugz	Mar 2021	THC 23% CBD 1%	Sativa	Early Lemon Berry features overwhelming citrus flavours thanks to its higher percentage of myrcene and ocimene terpenes. It smells like a mix of sweet grapefruit, lemons and berries.
CBD RUNTZ Pheno #7	Orchid CBD	June 2021	THC 8% CBD 15%	Hybrid - Sativa	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.

MARKET INSIGHT

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 Quebec, Ontario, and Saskatchewan. The Company's "AAAA" quality cannabis at disruptive pricing has resulted in demand levels that have exceeded current capacity at the Farnham Facility. Additionally, Cannara's attention to detail, transparency, unique packaging, and community responsiveness have collectively added to its value proposition, which in turn has had a compounded effect on customer demand, market penetration and satisfaction.

Cannara's approach to the cannabis market has been driven by its pursuit for customer satisfaction and a commitment to delivering value to the market as a whole, from new entrants to experienced consumer segments. Over the course of the last year, the Company has exemplified thought leadership in bringing disruption and innovation to the Canadian cannabis market.

MARKET INSIGHT (CONTINUED)

Notable examples include:

Innovation in packaging	Cannara delivered best-in-class packaging for its 3.5g product lines, offering air-sealed tuna style cans preserving humidity and product integrity in an ecofriendly format.
Innovation in labeling	Cannara demonstrated innovation through transparency across all product labels by providing consumers with harvest dates, terpene percentages, and strain phenotypes for each lot.
Innovation in products	Cannara continues to innovate with new product launches including its Nugz 4/20 Special 12 x 0.6 gram pre-roll pack, Old School and Ice Water Hash products and soon to launch vape cartridges and concentrates.
Innovation in genetics	Cannara's diligence in its phenotyping process allowed the Company to identify unique THC and CBD cultivars in order to fill whitespaces in the current market resulting in the release of its CBD Runtz product line in a segment previously neglected. Cannara has an extensive genetic bank allowing the Company to release exclusive products into the market.
Continuous improvement	Cannara has taken early feedback from the community and has brought countless changes to its products and packaging methods within days of market feedback including the grind density of its pre-rolls, and the humidity levels of its product.

As a result, market response has opened new opportunities for the Company including the acquisition of Valleyfield Facility in the fourth quarter of 2021, one of Quebec's largest cannabis cultivation and manufacturing facilities. This asset will allow the Company to increase its supply of cannabis products in order to grow market share in existing markets while simultaneously expanding into new markets.

The Quebec market is showing signs of accelerated growth. For the fiscal year ended March 31, 2021, the provincial distributor of Quebec reported over $537 million in revenues, up from $311.6 million in fiscal 2020 and $240 million in 2019. Their retail footprint has expanded from 28 stores in fiscal year 2020 to 87 current locations as of the date of this release and has significant room for growth as Quebec has approximately one store per 100,000 people, as compared to Ontario and British Colombia that have approximately one store per 10,000 people. The Société québécoise du cannabis ("SQDC") plans to increase their store count to 90 stores by the end of 2022. To date, the provincial distributor of Quebec has captured 53% 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. As a result, the Company expects to increase its revenue figures as the market continues to expand in Quebec.

The Ontario market is leading recreational cannabis sales nationally. For the fiscal year ended March 31, 2021, the Ontario Cannabis Store reported $840 million in total sales (average quarterly sales of $210 million). For the nine-month period ended December 31, 2021, the Ontario Cannabis Store posted $1.1 billion in total sales. This achievement is primarily driven by the rapid growth of brick-and-mortar stores which reached over 1,300 retail stores across the province as of December 2021. Increase product supply will enable the Company to penetrate further the Ontario market and gain market share. The Company currently has 6 active SKUs in the Ontario market and 5 new products launching by the end of fiscal 2022.

In addition to further establishing its position in the Quebec and Ontario cannabis markets, Cannara is well positioned for national growth given its production capabilities, brand strategy, superior cannabis products and lower operating costs. Cannara has a significant cost advantage when compared to producers in other parts of the country as Quebec offers some of the lowest electricity and labor rates across Canada; the two largest cost inputs in cannabis cultivation. Growing demand and competitive production costs will enable Cannara and its brands to increase market share by focusing on offering premium-grade cannabis products at competitive prices to the market. The Company is actively working on opening new distributions networks in anticipation of increase supply.

LOOKING AHEAD

Cannara is consistently monitoring growth opportunities that support its commitment to continue to report positive Adjusted EBITDA. The Company expects to allocate resources to existing and new activities over the course of the next fiscal year which include:

FY 2022 Activities

1. Increased Cannabis Supply
2. New Product Offering: Hash, Rosin, and Live Resin Vape Cartridges
3. New Genetics Releases
4. Increasing market Penetration in Quebec, Ontario, Saskatchewan and Expanding into New Territories
5. Continued positive Adjusted EBITDA

Increased Cannabis Supply

Cannara has committed to activate at least 6 of its 25,000 square foot growing zones in its Valleyfield facility by August 2022 in order to increase supply of dried flower, pre-rolls, and derivative products. To achieve this, 6 of the 24 independent zones will be modified to replicate indoor growing conditions to deliver on its commitment of "AAAA" quality cannabis products. As of April 26, 2022, the Company has activated 4 of its 24 independent zones, achieving 66% of its fiscal 2022 objective and has successfully harvested and selling product from two of its growing zones. Remaining cultivation zones will be redesigned in lockstep with profitability and market penetration.

New Product Offering: Hash, Rosin and Live Resin Vape Cartridges

Cannara launched a line of Hash products, Old School and Ice Water Hash under its Nugz brand in early November 2021 to the Quebec market. The launch of its hash products has been successful and add weekly product revenues, in addition, to fully commercializing all parts of the cannabis plant other than its stems and fan leaves.

The Company will be launching its Fresh Frozen Hash Rosin under the Nugz brand in May 2022 in addition to its Live Resin Vape Cartridge under the Tribal brand in August to the Ontario market.

New Genetics Releases

Canadian cannabis consumers continue to resonate towards new genetic cultivars of cannabis. Cannara will be delivering 3 new genetics to its brand portfolios by August 2022: Terple and Powersherb under Tribal, and Slapz under Nugz. This was accomplished by the Company maintaining a rigorous pheno-hunting program that involves hand selecting only a few winning plants out of hundreds of different varieties of cannabis strains. Strain selection is based on cultivar-brand fit, potency of cannabinoids and terpenes, bud structure, yield, and anticipated market appeal. The first new genetic Terple was released into the Quebec market in April 2022 with immediate positive consumer feedback. Terple will also be available in Ontario as of July 2022.

The second new genetic to be launched under the brand Tribal this year is PowerSherb, a strong indica strain with a consumer favourite gas aroma and flavour profile that will be launched in Quebec in May 2022, followed by Ontario in August 2022.

Nugz will be receiving the indica strain Slapz which will be launched in a bulk 28g format to compliment the sativa Early Lemon Berry 28g that was launched in Quebec early 2021.

Increasing market Penetration in Quebec, Ontario, Saskatchewan and Expanding into New Provinces

Cannara's increase in cannabis supply with the Valleyfield Facility will allow the Company to expand its market share in Quebec, Ontario, Saskatchewan as well as to expand into new provinces by August 2022. More specifically, the increase in available dried flower will permit the Company to shift from a just-in-time delivery model to a more optimal ready-for-sale supply chain model which will bring about multiple benefits to the delivery of finished goods. The Company expects to have a consistent production to meet the high demand for its products. Increased consistency of supply is expected to have a positive effect in market share in the markets the Company currently serves Quebec, Ontario, and Saskatchewan. The Company is in active discussions with other provinces in order to open new distribution channels.

Continued Positive Adjusted EBITDA

Cannara expects to continue to report positive quarterly Adjusted EBITDA throughout FY 2022 resulting from the Company's focus on premium-grade cannabis products at disruptive retail pricing, its lean operational model, and its two mega facilities benefiting from Quebec's low electricity cost and competitive labour rates. Additionally, the development of a hash lab and butane hash oil ("BHO") extraction lab promises a "whole plant" capability making full use of all cannabis raw inputs. Furthermore, the Company's agility and commitment to profitability will drive the Company to pursuing the development of high demand SKUs that will generate healthy gross margins. During the three-month period ended February 28, 2022, the Company generated a positive Adjusted EBITDA of $34,000, marking its fourth consecutive quarter of positive Adjusted EBITDA. Adjusted EBITDA decreased from prior quarters as a result of incurring $678,000 in start up expenses to activate 4 growing zones at the Valleyfield Facility. Adjusted EBITDA is expected to increase in subsequent quarters as the Company begins to sell product from its Valleyfield Facility.

Q2 2022 YEAR-TO-DATE AND SUBSEQUENT EVENT HIGHLIGHTS

OPERATIONAL

September 2021 – License to sell cannabis derivate products and license to cultivate and process in the Valleyfield Facility

In September 2021, Cannara obtained from Health Canada the license necessary to be able to sell cannabis derivative products to retail in addition to receiving its processing and cultivation license at its recently acquired Valleyfield Facility.

October 2021 – Cannara continues its expansion to Ontario market

During the month of October 2021, Cannara started to deliver a selection of products to the Ontario market on a weekly basis and now has five SKUs listed at the Ontario Cannabis Store and more anticipated to come.

November 2021 – First 25,000 square foot growing zone activated in Valleyfield and launch of hash products

In November 2021, the Company propagated its first zone with 9,600 plants which has been redesigned to replicate indoor growing conditions without utilizing the sun.

In addition, Cannara launched at the beginning of November its first two hash products in Quebec retails stores: Old School Hash and Ice Water Hash, under the Nugz brand.

January 2022 – Second growing zone activated in Valleyfield

On January 12, 2022, the Company completed the propagation of its second zone with 9,600 plants.

February 2022 – First Harvest at Valleyfield and third growing zone activated

The Company has successfully harvested its first lot in the newly redesigned Valleyfield Facility. Most of the product will be destined to fulfill current market demand in addition to being prepared for new derivative products that are in the pipeline.

The third growing zone is now operational at Valleyfield.

March 2022 – Second Harvest at Valleyfield

On March 31, 2022, the Company successfully completed its second harvest of 9,600 plants at the Valleyfield Facility.

April 2022 – Introduction of a new genetic in Quebec and fourth growing zone activated

At the beginning of April 2022, the Company introduced a new strain under the brand Tribal to the Quebec market: Terple. The product is available in a 3.5 gram can and in 2.5 gram pre-rolls. Its distribution to the other provinces will be done in the next months.

As of the date of this report, the fourth growing zone is now operational at Valleyfield.

April 2022 – OCS 420 event

The Company was selected as one of the three products by the Ontario Cannabis Store ("OCS") to have a headlining product for the 420 event. 2022 marks 50 years since 4:20 was established as a time to meet and enjoy cannabis, and the OCS prepared a special event to mark it. To support this, the Company created a special edition of its Early Lemon Berry pre-rolls, offering a 12 x 0.6 g joint format.

FINANCIAL TRANSACTIONS

November 2021 – Amended mortgage loan agreement on Farnham Facility

On November 30, 2021, the Company amended its existing credit agreement with CIBC, increasing its current installment loan from $5.4 million to $22 million, for which the proceeds were used to repay the existing mortgages payable and for capital expenditures required to redesign and render the Valleyfield Facility operational. The term of the loan is 3 years, renewable for additional 3-year terms at the option of the lender. The mortgage loan is reimbursable monthly by 35 variable installments at an average of $54,000 per month plus the accrued interest and a 36th installment for the residual balance due at term, if renewal option is not exercised. The loan bears an interest rate calculate on prime rate plus 2% or at banker acceptance rate + 3.5%. By entering into a 5-year interest swap agreement with the lender along this the mortgage in January 2022, the Company fixed the interest rate to 4.8% for one year and to 6% for the subsequent four years in order to mitigate the variability of interest rate. The loan is secured by a first ranking mortgage against the Farnham Facility.

CAPITAL TRANSACTIONS

During the second quarter of 2022, the Company granted a total of 7,710,000 stock options to employees and 225,000 to board members at an exercise price of $0.18, subject to certain vesting conditions.

Subsequent to quarter-end, the Company granted a total of 600,000 stock options to employees at an exercise price of $0.18, subject to certain vesting conditions.

Subsequent to quarter-end, a total of 500,000 stock options at an exercise price of $0.10 were exercised for a total proceed of $50,000.

SELECTED FINANCIAL INFORMATION

Selected Financial Highlights	Three-month periods ended February 28, 2022	Three-month periods ended February 28, 2021	Six-month periods ended February 28, 2022	Six-month periods ended February 28, 2021
Gross revenue[1]	$ 7,272,059	$ 1,969,103	$ 13,599,394	$ 3,303,441
Other income	150,295	288,651	387,536	322,494
	7,422,354	2,257,754	13,986,930	3,625,935
Gross profit, before fair value adjustments	2,635,607	1,298,261	5,649,632	1,794,407
%[2]	36%	58%	40%	49%
Gross profit	3,015,577	2,095,208	5,635,619	1,597,849
%[3]	41%	93%	40%	44%
Operating expenses	3,388,404	2,506,013	5,991,691	5,166,575
Net finance expense	772,996	451,951	1,320,250	789,062
Net loss	$ (1,145,823)	$ (862,756)	(1,676,322)	(4,357,788)
%[4]	-15%	-38%	-12%	-120%
Adjusted EBITDA[5]	$ 33,998	$ (850,509)	1,008,319	(2,423,630)
%[5]	0%	-38%	7%	-67%
Basic earnings (loss) per share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)
Diluted earnings (loss) per share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)

	February 28, 2022	August 31, 2021
Cash	$ 8,258,006	$ 8,159,305
Accounts receivable	3,098,917	2,847,725
Biological assets	2,261,997	1,902,206
Inventory	7,753,462	5,508,258
Working capital[6]	14,745,234	12,412,935
Total assets	101,691,030	92,022,613
Total current liabilities	7,910,429	6,833,798
Total non-current liabilities	31,237,792	21,073,003
Net assets	62,542,809	64,115,812

[1] Gross revenue included revenue from sale of goods, net of excise taxes, services revenues and lease revenues.
[2] Gross profit before fair value adjustments % is determined as Gross profit before fair value adjustments divided by Total revenues.
[3] Gross profit % is determined as Gross profit divided by Total revenues.
[4] Net loss % is determined as Net loss divided by Total revenues.
[5] Adjusted EBITDA and working capital are non-GAAP financial performance measures with no standard definition under IFRS.
A reconciliation of these measures is presented elsewhere in this MD&A.
Adjusted EBITDA % a non-GAAP financial ratio and is determined as Adjusted EBITDA divided by total revenues.
[6] Working capital is determined as total current assets minus total current liabilities.

SELECTED FINANCIAL INFORMATION *(continued)*

Adjusted EBITDA		Three-month periods ended February 28, 2022	Three-month periods ended February 28, 2021		Six-month periods ended February 28, 2022	Six-month periods ended February 28, 2021
Net loss	$	(1,145,823) $	(862,756)	$	(1,676,322) $	(4,357,788)
Adjustments:						
Changes in fair value of inventory sold		1,269,679	447,885		3,136,159	651,195
Unrealized gain on changes in fair value of biological assets		(1,649,649)	(1,244,832)		(3,122,146)	(454,637)
Amortization, including amortization in cost of good sold		629,027	251,634		1,221,586	738,290
Loss on disposal of property, plant and equipment		6,444	54,224		31,106	54,224
Gain on sublease		-	-		(12,876)	-
Share-based compensation, including share-based compensation in cost of good sold		151,324	51,385		110,562	156,024
Net finance expense		772,996	451,951		1,320,250	789,062
Adjusted EBITDA[1]	$	33,998 $	(850,509)	$	1,008,319 $	(2,423,630)

[1] Adjusted EBITDA is a non-GAAP financial performance measure with no standard definition under IFRS.

For the second quarter of 2022, adjusted EBITDA amounted to $34,000, compared to $(0.9 million) in the same period of the prior year, an increase of $0.86 million or 96%. The net loss amounted to $1.1 million, compared to $0.9 million in the same period of the prior year, an increase of $0.2 million or 22%. During this quarter, the Company incurred $678,000 in start-up expenses to support the launch of the Valleyfield operations and drastically increase the production capacity of the Company while in prior year, the Company just commenced its retail debut.

For the six-month period of 2022, adjusted EBITDA amounted to $1 million, compared to $(2.4 million) in the same period of the prior year, an increase of $3.4 million or 142%. The net loss amounted to $1.7 million, compared to $4.4 million in the same period of the prior year, a decrease of $2.7 million or 61%. In the prior period, the Company only started to sell to the retail market at the end of the quarter in addition to incurring start-up costs for the Farnham Facility. For the six-month period of 2022, the Company is now selling to provincial distributors its Farnham production on a weekly basis while supporting the cash flow and start-up expenses required for the Valleyfield Facility.

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 for the Canadian market and other cannabis services (“Cannabis operations”) and (2) Real estate operations related to the Farnham and Valleyfield Facility (“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, impairment, net finance expense, gain on sublease on initial recognition, loss on disposal of property, plant and equipment and income tax. Categorized as Other are items related to U.S. hemp-based CBD products revenues and related operating costs.

SELECTED SEGMENT RESULTS OF OPERATIONS (continued)

Selected Segment Financial Highlights	Three-month period ended February 28, 2022				Three-month period ended February 28, 2021			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Gross revenue[1]	$ 6,439,624	$ 827,187	$ 5,248	$ 7,272,059	$ 1,180,800	$ 752,457	$ 35,846	$ 1,969,103
Other income	150,295	-	-	150,295	288,651	-	-	288,651
	6,589,919	827,187	5,248	7,422,354	1,469,451	752,457	35,846	2,257,754
Gross profit (loss), before fair value adjustments	1,887,028	751,323	(2,744)	2,635,607	733,021	558,812	6,428	1,298,261
%[2]	29%	91%	-52%	36%	50%	74%	18%	58%
Gross profit (loss)	2,266,998	751,323	(2,744)	3,015,577	1,529,968	558,812	6,428	2,095,208
%[3]	34%	91%	-52%	41%	104%	74%	18%	93%
Operating expenses	2,898,408	-	27,321	2,925,729	2,050,379	-	99,957	2,150,336
Segment operating income (loss)	(631,410)	751,323	(30,065)	89,848	(520,411)	558,812	(93,529)	(55,128)
%[4]	-10%	91%	-573%	1%	-35%	74%	-261%	-2%
Net finance expense	-	-	772,996	772,996	-	-	451,951	451,951
Other	-	-	462,675	462,675	-	-	355,677	355,677

Selected Segment Financial Highlights	Year ended February 28, 2022				Year ended February 28, 2021			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Gross revenue[1]	$ 11,855,605	$ 1,726,191	$ 17,598	$ 13,599,394	$ 1,859,925	$ 1,309,389	$ 134,127	$ 3,303,441
Other income	387,536	-	-	387,536	322,494	-	-	322,494
	12,243,141	1,726,191	17,598	13,986,930	2,182,419	1,309,389	134,127	3,625,935
Gross profit, before fair value adjustments	4,067,316	1,579,899	2,417	5,649,632	756,035	1,016,897	21,475	1,794,407
%[2]	33%	92%	14%	40%	35%	78%	16%	49%
Gross profit	4,053,303	1,579,899	2,417	5,635,619	559,477	1,016,897	21,475	1,597,849
%[3]	33%	92%	14%	40%	26%	78%	16%	44%
Operating expenses	5,267,112	-	52,341	5,319,453	4,086,700	-	345,988	4,432,688
Segment operating income (loss)	(1,213,809)	1,579,899	(49,924)	316,166	(3,527,223)	1,016,897	(324,513)	(2,834,839)
%[4]	-10%	92%	-284%	2%	-162%	78%	-242%	-78%
Net finance expense	-	-	1,320,250	1,320,250	-	-	789,062	789,062
Other	-	-	672,238	672,238	-	-	733,887	733,887

[1] Gross revenue included revenue from sale of goods, net of excise taxes, services revenues and lease revenues.
[2] Gross profit (loss), before fair value adjustments, % is determined as Gross profit (loss), before fair value adjustments, divided by Total revenues.
[3] Gross profit (loss) % is determined as Gross profit (loss) divided by Total revenues.
[4] Segment operating income (loss) % is determined as Segment operaring income (loss) divided by Total revenues.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Cannabis operations

For the three and six-month periods ended February 28, 2022, the segment generated $6.4 million and $11.9 million in cannabis-related revenues, net of excise taxes, compared to $1.2 million and $1.9 million for the same periods of the prior year.

Revenues, net of excise taxes, from the retail market represented $5.1 million and $10.2 million for the three and six-month periods ended February 28, 2022, compared to $0.1 million and $0.1 million for the same periods of the prior year. The periods are not comparable as the Company only started to sale to the retail market at the end of February 2021 while in 2022, the Company had a full semester of sales. Highlights of the second quarter and six-month period of 2022 are as follows:

- Successful start-up of its Valleyfield Facility operation: three growing zones of 25,000 square feet were propagated since November 2021 and first harvest occurred in February 2022;
- Launch of 2 hash products in the Quebec market during the first quarter of 2022;
- Expansion to weekly reorders on several SKUs in the Ontario market; and
- Approximately 1,278 kg of cannabis or 364,000 units sold across 3 flagship brands during the second quarter of 2022, a decrease of 13% in kg sold compared to the first quarter of 2022 as the Company utilized some cultivation space at its Farnham Facility in order to start the propagation at the Valleyfield Facility.
- Approximately 2,753 kg of cannabis or 708,500 units sold across 3 flagship brands during the first half of 2022, an increase of 38% in number of units sold compared to the second half of 2021.

Revenues from the wholesale market represented $0.1 million and $0.4 million for the three and six-month periods ended February 28, 2022 compared to $1.1 million and $1.8 million for the same periods of the prior year. The decrease is primarily attributable to the fact that the Company focused most of its sales towards the retail market starting February 2021 as it has received all the necessary sale licenses. In the prior year, the Company utilized its wholesale distribution network as leverage to generate revenues while the Company was waiting to obtain the sale licenses.

For the three and six-month periods ended February 28, 2022, the Company generated $1.2 million as service revenues for cannabis manufacturing services rendered to another licensed producer, compared to nil in the prior period.

For the three and six-month periods ended February 28, 2022, the Company generated $0.2 million and $0.4 million as other income related to government incentives, various tax credits granted, and other ancillary revenue compared to $0.3 million $0.3 million for same periods of the prior year.

For the three and six-month periods ended February 28, 2022, the Company incurred $3.7 million and $7.2 million in costs of goods sold, compared to $0.7 million and $1.4 million for the same periods of the prior year as a result of increased revenues. For the three and six-month periods ended February 28, 2022, the Company incurred $1 million in management services cost related to a manufacturing services agreement signed in the second quarter of 2022, compared to nil in the prior period. The segment generated a gross profit before fair value adjustments of $1.9 million or 29% and $4.1 million or 33% for the three and six-month periods compared to $0.7 million or 50% and $0.8 million or 35% for the same periods of the prior year.

Fair value adjustment on sale of inventory includes the fair value of biological assets included in the value of inventory transferred to cost of good sold. The change in fair value of inventory sold recognized during the three and six-month periods ended February 28, 2022 amounted to $1.3 million and $3.1 million compared to $0.5 million and $0.7 million for the same periods of the prior year.

For the three and six-months period ended February 28, 2022, the Company has recognized an unrealized gain on changes in fair value of biological assets of $1.7 million and $3.1 million on the lots in the cultivation cycle that have not yet been harvested compared to $1.2 million and $0.5 million for the same periods of the prior year. The increase in fair value of biological assets is the direct result of increased plant count in cultivation as a result of the Valleyfield Facility.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Cannabis operations (continued)

The segment generated $2.3 million and $4.1 million in gross profit for the three and six-month periods ended February 28, 2022 compared to $1.5 million and $0.6 million in the same periods of the prior year, representing a favorable increase of $0.8 million and $3.5 million. The increase results primarily from gross profit generated from its retail and wholesale cannabis sales and unrealized gains in the fair value of biological assets as previously explained above.

For the three and six-month periods ended February 28, 2022, the segment incurred $2.9 million and $5.3 million in operating expenses compared to $2.1 million and $4.1 million in the same periods of the prior year resulting in an increase of $0.8 million or 38% and $1.2 million or 29%**,** respectively.

For the second quarter and six-month period of 2022, the increase in operating expenses is mainly attributable to:

- An increase of $1.1 million and $1.6 million in general and administrative expenses, which is mainly attributable to the start-up cost of $678,000 and $1.1 million incurred for the Valleyfield Facility for the three and six-month periods of 2022;
- An increase of $0.1 million and $0.3 million in selling, marketing and promotion, which is aligned with the increase in revenues generated; offset by
- A decrease of $0.4 million and $0.7 million in research and development due to the reduction of testing performed on different genetics. In the prior year, the Company performed additional research and development activities in anticipation of the launch of the first brands to the retail market. In 2021, it is a continuous investment in research and development with less waste and with the ability to monetize experiments as cannabis derivative products.

Overall, the segment generated operating loss of $0.6 million and $1.2 million for the second quarter and six-month period of 2022, compared to $0.5 million and $3.5 million in the same periods of the prior year, representing a favorable decrease in operating loss of $2.3 million for the six-month period.

Real estate operations

As part of the Company's capital management strategy, the Company has leased out all currently unoccupied space in the Farnham facility. The Company leased 425,480 square feet of the total 625,000 available square feet currently to two tenants.

For the three and six-month periods ended February 28, 2022, the Company generated lease revenues of $0.8 million and $1.7 million compared to $0.8 million $1.3 million in the same periods of the prior year. This represents a favorable increase of $0.4 million or 31% over the six-month period due to the additional space lease out and a higher rate per square foot charged compared to same period of the prior year. To realize these lease revenues during the three and six-month periods ended February 28, 2022, the Company incurred $76,000 and $146,000 in lease operating costs compared to $194,000 and $293,000 in the same periods of the prior year. The lease operating expenses incurred in the second quarter of 2022 are similar to the same period of the prior year but where higher in the prior six-month period due to costs incurred to accommodate a new tenant.

For the three and six-month periods ended February 28, 2022, the segment generated operating income of $0.8 million and $1.6 million compared to $0.6 million and $1 million for the same periods of the prior year.

Other

For the three and six-month periods ended February 28, 2022, the Company generated hemp-based CBD product revenues of $5,000 and $18,000 compared to $36,000 and $134,000 in the same periods of the prior year and incurred $8,000 and $15,000 in costs of goods sold compared to $29,000 and $113,000 in the same periods of the prior year, resulting in a loss of $3,000 for the second quarter of 2022 and a gross profit of $2,000 for the six-month period of 2022 compared to a gross profit of $6,000 and $22,000 for the same periods of the prior year. In the second quarter and six-month period of 2022, the segment incurred $27,000 and $52,000 in operating expenses compared to $100,000 and $346,000 in the same periods of the prior year resulting in a decrease in operating expenses of $63,000 and $294,000 . The Company has decided to limit its investment in the U.S. market since there has been no evolution in the regulation and operational uncertainties within the hemp-derived CBD industry in the U.S. For the second quarter and six-month period of 2022, the segment generated an operating loss of $30,000 and $50,000 compared to $94,000 and $325,000 for the same periods of the prior year.

SELECTED SEGMENT RESULTS OF OPERATIONS *(continued)*

Other *(continued)*

For the second quarter of 2022, the segment incurred $0.8 million in net finance and $0.5 million in other expenses, compared to $0.5 million and $0.4 million for the same period of the prior year.

For the six-month period of 2022, the segment incurred $1.3 million in net finance and $0.7 million in other expenses, compared to $0.8 million and $0.7 million for the same period of the prior year.

For the second quarter and six-month period of 2022, the results are mainly attributable to the following items:

- An increase of $0.3 million and $0.5 million in finance expenses as a result of the upsize of the mortgage loan from $12 million to $22 million in the first quarter of 2022 to support the capital investment project at the Valleyfield Facility and due to the change of $0.1 million in fair value of the derivative financial instrument; and
- An increase of $0.1 million in share-based compensation expense for the second quarter of 2022 due to new stock options issued. The share-based compensation expense for the six-month period of 2022 were similar to the prior period of last year.

QUARTERLY FINANCIAL POSITION AND RESULTS

The following table sets forth, for the quarter indicated, selected information relating to the Company's consolidated financial position as well as revenues, gross profit, net income (loss) attributable to Shareholders of the Company, related basic and diluted income (loss) per share attributable to Shareholders of the Company and adjusted EBITDA for the eight completed fiscal quarters to date:

	February 28, 2022	November 30, 2021	August 31, 2021	May 31, 2021	February 28, 2021	November 30, 2020	August 31, 2020	May 31, 2020
Current assets	$ 22,655,663	$ 26,801,623	$ 19,246,733	$ 13,863,004	$ 10,524,748	$ 7,229,559	$ 10,529,856	$ 13,358,400
Non-current assets	79,035,367	75,338,952	72,775,880	44,062,718	43,679,577	44,335,430	44,320,572	44,509,845
Total assets	101,691,030	102,140,575	92,022,613	57,925,722	54,204,325	51,564,989	54,850,428	57,868,245
Current liabilities	7,910,429	8,100,090	6,833,798	4,697,602	3,101,290	2,761,325	3,476,952	9,747,671
Non-current liabilities	31,237,792	30,518,676	21,073,003	16,732,890	16,868,088	13,774,253	13,008,615	6,519,482
Total liabilities	39,148,221	38,618,766	27,906,801	21,430,492	19,969,378	16,535,578	16,485,567	16,267,153
Net assets	$ 62,542,809	$ 63,521,809	$ 64,115,812	$ 36,495,230	$ 34,234,947	$ 35,029,411	$ 38,364,861	$ 41,601,092

	February 28, 2022	November 30, 2021	August 31, 2021	May 31, 2021	February 28, 2021	November 30, 2020	August 31, 2020	May 31, 2020
Total revenues	$ 7,422,354	$ 6,564,576	$ 6,481,739	$ 7,159,331	$ 2,257,754	$ 1,368,181	$ 613,355	$ 763,906
Gross profit before fair value adjustments	2,635,607	3,014,025	3,440,799	3,506,278	1,298,261	496,145	49,368	646,628
%[2]	36%	46%	53%	49%	58%	36%	8%	85%
Gross profit (loss)	3,015,577	2,620,042	4,526,126	4,419,124	2,095,208	(497,360)	(433,060)	715,741
Net income (loss) attributable to Shareholders of the Company	(1,145,823)	(530,499)	1,131,843	1,697,802	(862,756)	(3,495,032)	(3,859,502)	(2,374,841)
Basic and diluted income (loss) per share	$ (0.01)	$ (0.01)	$ 0.01	$ 0.01	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)
Adjusted EBITDA[1]	33,998	974,320	1,364,415	2,562,835	(716,750)	(1,706,881)	(1,426,734)	(2,215,049)
Cash from (used) in operating activities	(1,325,035)	113,460	1,394,724	1,508,662	(1,504,916)	(3,491,377)	(2,463,405)	(2,051,183)

[1] Adjusted EBITDA is a non-GAAP financial performance measure with no standard definition under IFRS. A reconciliation of this amount for the applicable period is presented in the table below.
[2] Gross profit before fair value adjustments % is determined as Gross profit before fair value adjustments divided by Total revenues.

	Three-month periods ended							
Adjusted EBITDA	February 28, 2022	November 30, 2021	August 31, 2021	May 31, 2021	February 28, 2021	November 30, 2020	August 31, 2020	May 31, 2020
Net income (loss)	$ (1,145,823)	$ (530,499)	$ 1,131,843	$ 1,697,802	$ (862,756)	$ (3,495,033)	$ (3,909,180)	$ (2,507,103)
Adjustments:								
Changes in fair value of inventory sold	1,269,679	1,866,480	2,036,305	1,526,050	447,885	203,310	-	-
Unrealized (gain) loss on changes in fair value of biological assets	(1,649,649)	(1,472,497)	(3,121,632)	(2,438,896)	(1,244,832)	790,195	482,428	(69,113)
Amortization, including amortization in cost of good sold	629,027	592,559	807,266	1,117,260	385,393	352,897	1,053,956	113,654
Impairment	-	-	-	-	-	-	35,194	-
Loss on disposal of property, plant and equipment	6,444	24,662	12,136	-	54,224	-	13,791	-
Gain on sublease	-	(12,876)	(24,442)	-	-	-	-	(25,894)
Share-based compensation, including share-based compensation in cost of good sold	151,324	(40,762)	88,088	99,106	51,385	104,639	473,179	25,064
Net finance expense	772,996	547,254	434,851	561,513	451,951	337,111	423,898	248,343
Adjusted EBITDA	$ 33,998	$ 974,320	$ 1,364,415	$ 2,562,835	$ (716,750)	$ (1,706,881)	$ (1,426,734)	$ (2,215,049)

CASH FLOW ANALYSIS

		Three-month periods ended			Six-month periods ended	
		February 28, 2022	February 28, 2021		February 28, 2022	February 28, 2021
Cash from (used) in operating activities	$	(1,325,035)	$ (1,504,916)	$	(1,211,575)	$ (4,996,293)
Cash from (used) in financing activities		(416,383)	2,491,228		9,092,943	3,112,622
Cash used in investing activities		(4,159,388)	(367,800)		(7,768,786)	(1,212,083)

Operating activities

For the three and six-month periods of 2022, cash from (used in) operating activities was $(1.3 million) and $(1.2 million). While generating sales from the retail and wholesale market, the Company is funding the start-up costs of the Valleyfield Facility which results in negative cash flow from operations. This is expected to become positive in subsequent quarters as product is available for sale subsequent to quarter end.

Financing activities

For the second quarter of 2022, cash flow used in financing activities was $0.4 million which was mainly attributable to the payment of interest on the mortgage for $55,000, $289,000 in interest-related payments and $72,000 in lease-related payments.

For the six-month period of 2022, cash from financing activities was $9.1 million which was mainly attributable to the proceeds received from the upsized mortgage loan agreement of $22 million, net of the reimbursement of the two other mortgage loans of $12 million and payment of transaction costs of $98,000. In addition, the Company made $560,000 in interest-related payments, $144,000 in lease-related payments and $50,000 in transaction costs-related payment for prior year financings.

Investing activities

For the three and six-month periods of 2022, cash used in investing activities was $4.2 million and $7.8 million which was mainly attributable to the redesign of the Valleyfield Facility growing zones into an indoor environment, in addition to capital expenditures incurred resulting from the expected increased post-harvest requirements to process harvested cannabis from the Valleyfield Facility into finished products. Interest received relating to interest earned on cash balances held at a Canadian financial institution amounted to $18,000 and $23,000 for the three and six-month periods of 2022. 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, funds raised in equity financings secured in previous quarters, debt raised against immoveable assets, government grants and recurrent lease revenues which continue 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 has a working capital of $14.8 million as at February 28, 2022 (August 31, 2021 - $12.4 million). The Company has been able to increase its working capital compared to prior year due to the liquidities generated through the sale of its cannabis products and the financing closed during the prior quarter.

As at February 28, 2022, the Company's working capital was composed of:

- cash on hand of $8.3 million (August 31, 2021 - $8.2 million); and
- accounts receivable, lease receivable, biological assets, inventory and prepaid expenses and other assets of $14.4 million (August 31, 2021 - $11.1 million); less
- accounts payable and accrued liabilities, sales tax payable, deferred lease revenue and deferred grant income of $7 million (August 31, 2021 - $6.3 million); and
- current portion of long-term debt, lease liabilities and mortgage payable of $0.9 million (August 31, 2021 - $0.5 million).

LIQUIDITY AND CAPITAL RESOURCES *(continued)*

The Company may continue to have capital requirements in excess of its currently available resources. In the event the Company's plans change, 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 of $8.3 million as at February 28, 2022, along with the forecasted cashflows that occurred subsequent to quarter-end, will enable it to fund its planned operating expenses for at least the next twelve months from February 28, 2022.

Financing

Type of loan	Interest Rate	Maturity	Balance as at February 28, 2022	Balance as at August 31, 2021
Secured mortgage loan (1)	4.04%	November 30, 2024 (2)	$ 21,945,229	$ -
Secured mortgage loan (2)	13%	-	-	6,550,000
Secured mortgage loan (2)	3.91%	-	-	5,750,000
Convertible debenture A	4%	June 21, 2024	4,812,064	-
Convertible debenture B	4%	July 12, 2024	4,193,911	-

(1) The base term of the loan is 3 years ending November 30, 2024, renewable for additional 3-year terms at the option of the lender. In the event of default of the covenant, the secured mortgage loan can be repayable on demand. The financial covenant requires the Company to maintain a debt service ratio of not less than 1.25 to 1.0 at each year-end, relating to its Real estate segment. The interest rate of the mortgage is a variable rate and in order to mitigate the fluctuation of interests, the Company entered into a 5-year interest swap agreement to lock the interest rate to 4.8% in the first year and to 6% afterwards.

(2) As part of the upsized secured mortgage loan closed in November 2021, the Company used the proceeds to reimburse the two other secured mortgage loans totaling $12 million at the date of the reimbursement.

Other contractual obligations

	Carrying amount	Less than one year	One to five years	Thereafter	Total contractual amount
Accounts payable and accrued liabilities	$ 6,646,637	$ 6,646,637	$ -	$ -	$ 6,646,637
Long-term debt (2)	4,303	3,546	886	-	4,432
Lease liabilities (2)	360,456	305,232	273,017	-	578,249
Derivative financial liabilities	130,447	-	130,447	-	130,447
Mortgage payable (1)	21,945,229	669,815	21,275,414	-	21,945,229
Convertible debentures (2)	9,005,975	-	10,700,000	-	10,700,000

(1) The contractual obligations relating to the secured mortgage loan has been presented based on the contractual repayment term of 3 years since the renewal options are at the option of the lender.

(2) The Company is committed to future minimum annual lease, convertible debentures payments and debt payments with respect to its office premises located in Ville St-Laurent, expiring May 31, 2023, a car lease and several items of production equipment. These figures are undiscounted future payments.

OFF-BALANCE SHEET ARRANGEMENTS

As 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.

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.

Financing with a related party

For the three and six-month periods of 2022, the Company recognized $0.2 and $0.5 million as interest expense and other related expenses on the mortgage and on the convertible debentures compared to $0.3 and $0.5 million in the same periods of the prior year. As at February 28, 2022, accrued interest on the convertible debentures of $0.4 were included in accounts payable and accrued liabilities (as at August 31, 2021 - $72,000) and total convertible debentures amounted to $10.7 million (as at August 31, 2021 – mortgage payable amounted to $6.55 million and convertible debentures amounted to $10.7 million). The mortgage payable of $6.55 million along with accrued interest of $74,000 were reimbursed in November 2021 as part of the revised loan agreement with the Company's existing creditor.

Along with the Valleyfield Facility acquisition in June 2021, another related party funded certain deposit requirements by a provincial service provider of approximately $5.7 million by the issuance of a letter of credit.

Other

For the second quarter and six-month period of 2022, the Company received a credit of nil and $1,000 from a related party (2021 – incurred expenses of $2,000 and $35,000). The Company also incurred construction expenses of $40,000 in the second quarter of 2022 that were capitalized in property, plant and equipment. These related parties 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 second quarter and six-month period of 2022, salaries and benefits incurred for key management personnel amounted to $107,500 and $215,000 (2021 - $50,000 and $134,000); share-based compensation attributable to key management and directors was $50,000 and $77,000 (2021 - $45,000 and $48,000) and director fees were $17,500 and $35,000 (2021 - $17,500 and $29,000). As at February 28, 2022, the Company owed $25,000 (August 31, 2021 - $28,000) to key management personnel for accrued salaries and vacation expenses and $15,000 to directors (August 31, 2021 – $15,000).

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 instrument 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 expose 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 in the consolidated statement of financial position 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 February 28, 2022, none of the receivables were past due. The allowance for expected credit loss was nil as at February 28, 2022. The Company's maximum credit exposure corresponds to the carrying amount of these financial assets.

FINANCIAL INSTRUMENTS RISK MANAGEMENT *(continued)*

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 February 28, 2022, the Company had current assets of $22.7 million and current liabilities of $7.9 million, for a working capital balance of $14.8 million. The Company expects that its existing cash as at February 28, 2022, along with the forecasted cashflows that occurred subsequent to quarter-end, will enable it to fund its planned operating expenses for at least the next 12 months.

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 use derivative financial instruments to manage risks related to interest rate exposures. The Company does not utilize derivative financial instrument for speculative or trading purpose. In January 2022, the Company entered into an off-balance sheet interest rate swap with a notional amount of $22,000,000 to pay fixed rate of 4.8% for the first year and 6% for the four subsequent years and receive an amount based on the variable interest rate as defined in the swap contract. The interest rate swap and matures on April 21, 2025. The notional amount is reduced monthly based on the balance of the mortgage debt. As at February 28, 2022, the notional amount was $21,945,229. The fair value of the swap as at February 28, 2022, was $130,447 and is included in derivative financial liabilities in the consolidated statement of financial position. During the period, a loss of $130,447 related to the change in fair value of the derivative financial instrument was recognized within net finance expenses.

Concentration risk

The Company has a significant concentration of its revenues generated from a customer that, if eliminated, would have a significant impact on the Company's operations.

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, 2021.

SIGNIFICANT ACCOUNTING POLICIES

The financial information presented in this MD&A has been prepared in accordance with International Financial Reporting Standards. Our significant accounting policies are set out note 3 of the audited consolidated financial statements for the year ended August 31, 2021 and in note 2 of the condensed interim consolidated financial statements of the Company, as at and for the three and six-month periods ended February 28, 2022 and 2021.

SUMMARY OF OUTSTANDING SHARE DATA

Summary of Outstanding Share Data as of April 26, 2022:

Authorized:	Unlimited number of voting and participating common shares without par value.
Issued and outstanding:	876,981,321 common shares
	40,645,781 stock options
	59,444,444 contingently issuable common shares upon conversion of convertible debentures

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