cannara

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

CANNARA BIOTECH INC.

MANAGEMENT DISCUSSION & ANALYSIS

For the second quarter and six-month period ended February 28, 2021

April 28, 2021

This Management Discussion and Analysis ("MD&A") of Cannara Biotech Inc. ("Cannara" or the "Company") has been prepared by management as of April 28, 2021 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, 2021 and February 29, 2020. 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, 2020.

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 2021" and "second quarter of 2021" are to Cannara's fiscal quarter ended February 28, 2021. "Q2 2020" and "second quarter of 2020" are to Cannara's fiscal quarter ended February 29, 2020. All references in this MD&A to "YTD 2021" are to Cannara's six-month period ended February 28, 2021, "YTD 2020" are to Cannara's six-month period ended February 29, 2020."

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.

BUSINESS AND MARKET OVERVIEW

Cannara is a vertically integrated producer of premium-grade indoor cannabis and cannabis-derivative products for the Quebec and Canadian markets. The Company operates under The Cannabis Act through its indirect wholly owned subsidiary, Cannara Biotech (Québec) Inc. (hereafter "Cannara QC"). The Company also operates an online e-commerce platform in the U.S. hemp-based CBD market through its wholly owned subsidiary, ShopCBD.com, where it offers a curated selection of top tier products available through a fast, secure and reliable transaction.

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 registered head office of the Company is located at 333 Decarie Blvd, suite 200, Ville St-Laurent, Québec, H4N 3M9 and its facility and cannabis operations are located at 1144 Magenta boul. E. Farnham, Québec, J2N 1C1.

The Company completed the construction of 170,000 square feet of its purpose-built modern indoor cultivation facility in our secure 625,000 square feet facility ("Farnham Facility") and, through its subsidiary, Cannara QC, has obtained its licence from Health Canada to cultivate and process cannabis on January 31, 2020, as further amended on January 6, 2021, to permit Cannara to sell dried cannabis products to provincial retail distributors in Canada ("Licence"). The Company now has the necessary licences to deliver its dried cannabis products to the Société québécoise du cannabis ("SQDC") under its existing Letter of Intent and subsequently launched its three flagship brands – Tribal, Nugz and Orchid CBD – on February 25, 2021 and on March 4, 2021. The Company is in process of obtaining its licence to sell cannabis derivative products.

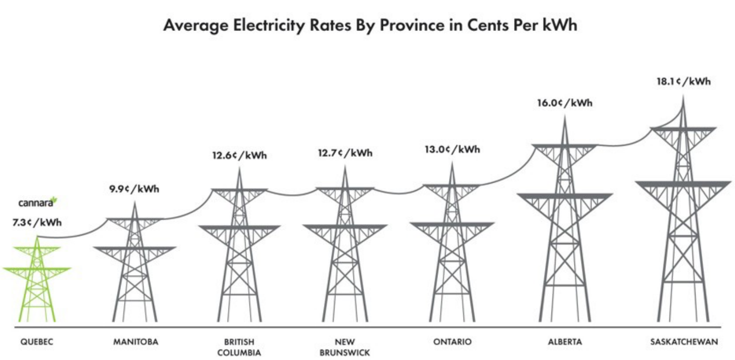
The Farnham Facility is located in the Eastern Townships, less than 45 minutes from downtown Montreal, and is an ideal location in terms of security, electricity, utilities and shipping costs. Leveraging Quebec's low electricity costs, the Farnham Facility has access to 15 megawatts of hydropower at a price significantly less expensive than elsewhere in Canada. As part of its capital management strategy, the Company has also leased out all the currently unused area of the Farnham Facility in order to increase cash flows until future phases are ready to be constructed.

Since its market launch in late-February, Cannara has emerged as one of Quebec's fast-growing licensed producers by delivering a strategic portfolio of brands with premium-grade products at disruptive retail prices. This has allowed Cannara to carve out market share in Quebec within the product categories it currently serves.

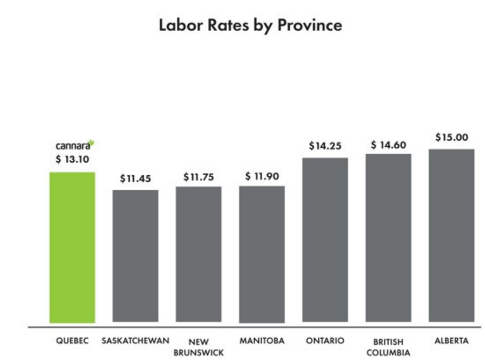
The market in Quebec has experienced rapid growth since legalization, a trend which the Company believes will continue as consumers migrate from the illicit trade in order to experience quality traceable products, competitive pricing, and an improved in-store buying experience.

As a whole, the Quebec market is showing signs of continued growth. In fiscal 2020, the SQDC in Quebec recorded total sales of $311.6 million up from $240 million from the preceding fiscal year, representing a 30% increase in annual sales. In fiscal 2021 alone, the SQDC has reported over $400 million in revenues in its initial 3 quarters and increased its retail footprint from 28 stores in fiscal year 2020 to 66 current locations as of the date of this release. The SQDC plans to further increase its store count to 70 stores by the end of 2021, and 90 stores by the end of 2022. As a result, the Company expects to increase its revenue figures as the market continues to expand.[1]

In addition to expansion for the Quebec cannabis market, Cannara is positioned for national success given its superior cannabis products and lower operating costs it enjoys in Quebec. The Quebec market is currently supplied by a total of 96 brands made up of 20 licenced producers compared to 220 brands in Ontario and 196 brands in British Columbia.[2] Moreover, 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.



Current electricity rates across Canada[3]



Current minimum wage across Canada[4]

The growing demand, favorable competitive landscape, and optimal 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.

ShopCBD.com Inc., a subsidiary of the Company, operates an online e-commerce platform in the U.S. hemp-based CBD market by offering a curated selection of top tier products in a fast, secure and reliable transaction.

Additional information about Cannara may be found at www.cannara.ca and www.shopcbd.com.

[1] SQDC – Strategic Plan 2021-2023
SQDC – Annual Report 2020
SQDC – Interim Financial Report Q1 Q2 Q3
[2] SQDC – www.sqdc.ca
Ontario Cannabis Store – www.ocs.ca
BC Cannabis Store – www.bccannabisstores.com
[3] Electricity rates in Canada – https://www.energyhub.org/electricity-prices/
[4] Labor rates in Canada – https://www.retailcouncil.org/resources/quick-facts/minimum-wage-by-province/

CANNARA'S BRAND PORTFOLIO

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

BRAND	ETHOS	POSITIONING	PRODUCT MIX
TRIBAL www.tribal.ca	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 flavor profiles, Tribal is a journey not a destination.	Tribal appeals to those who have an affinity for cannabis and enjoy the experiential journey that results from potent cannabis with richer terpene profiles. Tribal not only challenges the status quo of the market by offering AAAA cannabis for a lower price, it moves beyond the common practice of only offering a few genetic strains of cannabis. Tribal offers a continuous rotation of genetic strains, starting with Gelato Mint. Upcoming genetics in the cultivation pipeline include Cuban Linx and Do-Si-Dos.	• Dried Flower • Pre-Rolls
Nugz www.nugz.ca	Nugz is a cult-worthy movement committed to abundance, quality and value. Available in bulk formats only, Nugz offers a disruptive product line designed for cannabis enthusiasts and long-time users who have a sharp sense for product quality on the lookout for a price point that aligns with consumer habits.	Nugz is a brand created for frequent cannabis users who seek exceptional products but are not willing to compromise on price and quality – a rare combination in the current market landscape. Nugz offers high THC and terpene levels, rich flavors, and large, dense nuggets covered in trichomes. Nugz products are offered in 28 gram packages and fourteen 0.6 gram pre-rolls wrapped in RAW cones. The Nugz line-up will also include Ice Water Hash when regulatory approval is received.	• Dried Flower • Pre-Rolls • Hash (in development)
ORCHID CBD www.orchid.ca	Orchid CBD is a wellness brand dedicated to providing premium CBD-dominant cannabis. Orchid CBD offers rare strains of terpene-rich, trichome covered, oversized dried flowers that deliver softer blissful experiences with no compromise on quality and flavours.	Orchid CBD is a CBD-dominant brand of cannabis that over indexes new market entrants that consume sporadically, consume on special occasions, or turn to cannabis as a wellness option. Orchid CBD offers a fuller experience less the effects traditionally associated with THC to deliver wonderful flavor profiles and aromas. Orchid CBD products are offered in 3.5 gram packages and three 0.5 gram pre-rolls wrapped in RAW cones.	• Dried Flower • Pre-Rolls

CANNARA'S GENETICS PORTFOLIO

Cannara leverages its state-of-the-art Farnham facility to produce premium-grade indoor cannabis for each one of its brands. In addition to bringing to market premium-grade cannabis, 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	EFFECT	PROFILE
Gelato Mint	Tribal	Indica THC 20% - 28% CBD 0% - 1% Terpenes 3% - 4%	Gelato Mint is an indica-dominant strain of cannabis that produces elevated levels of THC and Terpenes. Gelato Mint provides feelings of relaxation, and a numbing sensation with minimal effects on lucidity for a well rounded body-high. As its name suggests, Gelato Mint smells like a fresh mint dessert with strong pepper notes and earthy pine undertones. Due to its rich terpene profile, Gelato Mint's flavors are similar to its aromas and noticeably present from inhale to exhale. Expect dark green buds coated with trichomes, purple sugar leaves, and amber-colored pistils.
Early Lemon Berry	Nugz	Sativa THC 20% - 28% CBD 0% - 1% Terpenes 2% - 4%	Early Lemon Berry is a sativa dominant strain of cannabis. This genetic provides feelings of euphoria leaving you feeling lifted and mentally stimulated, with artistic energy and motivation. True to its name, Early Lemon Berry features rich citrus notes with a distinct lemon flavor thanks to its higher percentage of limonene and myrcene. The bud smells like a mix of sweet lemons, grapefruit and sugary sweet berries. The flavor is quite similar to the smell, but the taste of the exhale is what earned its popularity. The aroma produced by these flowers is strong but not pungent. Expect medium to large nugs, dense, and covered in trichomes.
Critical Mass CBD	Orchid CBD	Indica THC 2%-10% CBD 6%-12% Terpenes 3% - 4%	Critical Mass CBD is indica-dominant strain of cannabis. Its lush green, high-quality buds contain a wonderfully diverse terpene profile, light orange pistils, and surprisingly sticky trichomes for a CBD-dominant strain. Critical Mass CBD's aromas are sweet and floral offering a soothing and relaxing sensation. However, it is truly the taste that makes this strain incredible, as the harmony of sweet flavors and floral undertones produce a unique bubblegum-like taste. Critical Mass CBD's high CBD and low THC levels provide a calming effect with limited impact on lucidity.

2021 SECOND QUARTER AND SUBSEQUENT EVENT HIGHLIGHTS

Operational

- ***January 1, 2021 - Achieved 100% occupancy of unutilized Space at the Farnham Facility***
  Beginning on January 1, 2021, an existing tenant occupied the last remaining space unutilized by the Company at its Farnham facility. The leasing of unoccupied areas of the facility is a strategy designed to generate additional revenue and to maximize returns on the overall facility.

- ***January 8, 2021 - Cannara announced receiving its Sales Licence from Health Canada – an important milestone to start delivering to the retail cannabis market***
  Cannara announced that it has received approval from Health Canada to permit the sale of dried cannabis products to provincially authorized distributors and retailers nationwide.

- ***January 21, 2021 – Initiated significant wholesale agreement for sale of cannabis***
  Cannara completed its first monthly shipment of 201.61 kg of dried cannabis to its wholesale partner under its one-year supply agreement. Contractual monthly shipments are on schedule.

- ***February 25, 2021 and March 4, 2021 – Launched flagship brands and first delivery to the SQDC***
  Marked the launch of Cannara's brands to the Quebec retail market by its first shipment of Cannabis to the SQDC. Cannara's three brands (Tribal, Nugz and Orchid CBD) have a total of six SKU's currently available in all of the SQDC stores online and across Quebec. The positive reception and consumer feedback on the Company's products resulted in immediate increases to the initial forecasted deliveries to the Quebec market. This represents a significant milestone in the achievement of the Company strategic business plan and future profitability on its main cannabis operations. The Company anticipates launching a variety of new products in Q3 2021 to the SQDC.

- ***March 31, 2021 – Achievement of revenue milestone***
  Following the launch of Cannara's products in the SQDC at the end of February 2021, the Company continues to fulfill weekly orders to the SQDC based on increasing demand for its products. At the end of March 31, 2021, the Company posted its first complete month of net revenues from its retail distribution channel of $1.1 million in addition to $0.7 million from wholesale channels, for total March 2021 net revenues of $1.8 million.

- ***April 8, 2021 – Listed on Toronto Stock Exchange Venture ("TSXV")***
  Cannara announced its common shares will be listed on the TSXV resulting in increased investor awareness, and exposure to a larger mix of industry analysts.

- ***April 9, 2021 – Signed significant one-time wholesale agreement for sale of cannabis inventory***
  The Company entered into additional wholesale agreements to sell approximately 1,400 kg of cannabis it had in inventory from previous harvests for a total value of $1,265,000.

2021 SECOND QUARTER AND SUBSEQUENT EVENT HIGHLIGHTS *(continued)*

Financial

- During the second quarter of 2021, the Company drew down $3,000,000 from the credit facilities to support operations, including the launch of retail activities. As of the date of the MD&A, the Company did not make any further withdrawal on its credit facilities and $1,000,000 remain available for future needs.
- On March 2, 2021, the Company obtained a letter to extend the maturity date of the mortgage held with a related party from March 6, 2022 to March 6, 2023.

Capital transactions

- During the second quarter of 2021, the Company granted a total of 2,207,000 stock options to employees at an exercise price of $0.18, subject to certain vesting conditions.
- On February 1, 2021, the Company issued a total of 16,786 shares to settle a liability to a third party in the amount of $1,678.
- Subsequent to quarter-end, a total of 3,625,000 options at an exercise price of $0.10 were exercised for a total consideration of $362,500.
- Subsequent to quarter-end, the Company granted a total of 110,000 stock options to employees at an exercise price of $0.18, subject to certain vesting conditions.

SUMMARY OF FINANCIAL INFORMATION

Consolidated statement of financial position

	February 28, 2021	November 30, 2020	August 31, 2020	May 31, 2020	February 29, 2020	November 30, 2019	August 31, 2019	May 31, 2019
Current assets	$ 10,524,748	$ 7,229,559	$ 10,529,856	$ 13,358,400	$ 15,743,534	$ 18,907,512	$ 27,828,255	$ 32,671,723
Non-current assets	43,679,577	44,335,430	44,320,572	44,509,845	43,476,215	42,968,691	40,274,883	35,119,971
Total assets	54,204,325	51,564,989	54,850,428	57,868,245	59,219,749	61,876,203	68,103,138	67,791,694
Current liabilities	3,101,290	2,761,325	3,476,952	9,747,671	8,310,185	7,548,974	5,090,627	4,240,736
Non-current liabilities	16,868,088	13,774,253	13,008,615	6,519,482	7,075,879	7,090,591	13,083,995	13,122,476
Total liabilities	19,969,378	16,535,578	16,485,567	16,267,153	15,386,064	14,639,565	18,174,622	17,363,212
Net assets	$ 34,234,947	$ 35,029,411	$ 38,364,861	$ 41,601,092	$ 43,833,685	$ 47,236,638	$ 49,928,516	$ 50,428,482

Consolidated statement of net loss

	Three-month periods ended		Six-month periods ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
Revenue				
Revenue from sale of goods	$ 1,239,778	$ 7,354	$ 2,017,184	$ 13,075
Excise taxes	(23,132)	-	(23,132)	-
Net revenue from sale of goods	1,216,646	7,354	1,994,052	13,075
Lease revenue	752,457	641,480	1,309,389	1,169,008
Other income	288,651	19,599	322,494	19,599
	2,257,754	668,433	3,625,935	1,201,682
Cost of revenues				
Cost of goods sold	765,848	7,947	1,539,036	11,870
Lease operating costs	193,645	190,352	292,492	219,984
Gross profit before fair value adjustments	1,298,261	470,134	1,794,407	969,828
Changes in fair value of inventory sold	(447,885)	-	(651,195)	-
Unrealized gain on changes in fair value of biological assets	1,244,832	-	454,637	-
Gross profit	2,095,208	470,134	1,597,849	969,828
Operating expenses	2,150,336	3,188,823	4,432,688	5,645,806
Share-based compensation	49,819	46,453	153,540	278,808
Amortization	251,634	725,074	526,123	1,253,502
Loss on disposal of property, plant and equipment	54,224	-	54,224	-
Operating loss	(410,805)	(3,490,216)	(3,568,726)	(6,208,288)
Net finance expense	451,951	246,856	789,062	469,784
Net loss	$ (862,756)	$ (3,737,072)	$ (4,357,788)	$ (6,678,072)
Net loss attributable to:				
Shareholders of the Company	$ (862,756)	$ (3,529,035)	$ (4,357,788)	$ (6,248,267)
Non-controlling interest	-	(208,037)	-	(429,805)
Basic and diluted loss per share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)

RESULTS OF OPERATIONS

The Company operates in two segments: (1) Indoor cannabis operations which encompasses the cultivation, processing and sale of dried cannabis and cannabis derivatives exclusively for the Quebec and 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. Categorized as Other are items related to U.S. hemp-based CBD products revenues and related operating costs.

	Three-month periods ended February 28, 2021				Three-month periods ended February 29, 2020			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Revenue								
Revenue from sale of goods	$ 1,203,932	$ -	$ 35,846	$ 1,239,778	$ -	$ -	$ 7,354	$ 7,354
Excise taxes	(23,132)	-	-	(23,132)	-	-	-	-
Net revenue from sale of goods	1,180,800	-	35,846	1,216,646	-	-	7,354	7,354
Lease revenue	-	752,457	-	752,457	-	641,480	-	641,480
Other income	288,651	-	-	288,651	19,599	-	-	19,599
	1,469,451	752,457	35,846	2,257,754	19,599	641,480	7,354	668,433
Cost of revenues								
Cost of goods sold	736,430	-	29,418	765,848	-	-	7,947	7,947
Lease operating costs	-	193,645	-	193,645	-	190,352	-	190,352
Segment gross profit before fair value adjustments	733,021	558,812	6,428	1,298,261	19,599	451,128	(593)	470,134
Changes in fair value of inventory sold	(447,885)	-	-	(447,885)	-	-	-	-
Unrealized gain on changes in fair value of biological assets	1,244,832	-	-	1,244,832	-	-	-	-
Segment gross profit (loss)	1,529,968	558,812	6,428	2,095,208	19,599	451,128	(593)	470,134
Operating expenses	2,050,379	-	99,957	2,150,336	2,587,854	-	600,969	3,188,823
Segment operating income (loss)	(520,411)	558,812	(93,529)	(55,128)	(2,568,255)	451,128	(601,562)	(2,718,689)
Share-based compensation	-	-	49,819	49,819	-	-	46,453	46,453
Amortization	-	-	251,634	251,634	-	-	725,074	725,074
Net finance expense	-	-	451,951	451,951	-	-	246,856	246,856
Loss on disposal of property, plant and equipment	-	-	54,224	54,224	-	-	-	-
Segment gain (loss) before income taxes	(520,411)	558,812	(901,157)	(862,756)	(2,568,255)	451,128	(1,619,945)	(3,737,072)
Net income (loss)	$ (520,411)	$ 558,812	$ (901,157)	$ (862,756)	$ (2,568,255)	$ 451,128	$ (1,619,945)	$ (3,737,072)
Segment net income (loss) attributable to:								
Shareholders of the Company	$ (520,411)	$ 558,812	$ (901,157)	$ (862,756)	$ (2,568,255)	$ 451,128	$ (1,411,908)	$ (3,529,035)
Non-controlling interest	-	-	-	-	-	-	(208,037)	(208,037)

RESULTS OF OPERATIONS *(continued)*

	Six-month periods ended February 28, 2021				Six-month periods ended February 29, 2020			
	Cannabis Operations	Real estate Operations	Other	Total	Cannabis Operations	Real estate Operations	Other	Total
Revenue								
Revenue from sale of goods	$ 1,883,057	$ -	$ 134,127	$ 2,017,184	$ -	$ -	$ 13,075	$ 13,075
Excise taxes	(23,132)	-	-	(23,132)	-	-	-	-
Net revenue from sale of goods	1,859,925	-	134,127	1,994,052	-	-	13,075	13,075
Lease revenue	-	1,309,389	-	1,309,389	-	1,169,008	-	1,169,008
Other income	322,494	-	-	322,494	19,599	-	-	19,599
	2,182,419	1,309,389	134,127	3,625,935	19,599	1,169,008	13,075	1,201,682
Cost of revenues								
Cost of goods sold	1,426,384	-	112,652	1,539,036	-	-	11,870	11,870
Lease operating costs	-	292,492	-	292,492	-	219,984	-	219,984
Segment gross profit before fair value adjustments	756,035	1,016,897	21,475	1,794,407	19,599	949,024	1,205	969,828
Changes in fair value of inventory sold	(651,195)	-	-	(651,195)	-	-	-	-
Unrealized gain on changes in fair value of biological assets	454,637	-	-	454,637	-	-	-	-
Segment gross profit	559,477	1,016,897	21,475	1,597,849	19,599	949,024	1,205	969,828
Operating expenses	4,086,700	-	345,988	4,432,688	4,522,784	-	1,123,022	5,645,806
Segment operating income (loss)	(3,527,223)	1,016,897	(324,513)	(2,834,839)	(4,503,185)	949,024	(1,121,817)	(4,675,978)
Share-based compensation	-	-	153,540	153,540	-	-	278,808	278,808
Amortization	-	-	526,123	526,123	-	-	1,253,502	1,253,502
Net finance expense	-	-	789,062	789,062	-	-	469,784	469,784
Loss on disposal of property, plant and equipment	-	-	54,224	54,224	-	-	-	-
Segment loss before income taxes	(3,527,223)	1,016,897	(1,847,462)	(4,357,788)	(4,503,185)	949,024	(3,123,911)	(6,678,072)
Net income (loss)	$ (3,527,223)	$ 1,016,897	$ (1,847,462)	$ (4,357,788)	$ (4,503,185)	$ 949,024	$ (3,123,911)	$ (6,678,072)
Segment net income (loss) attributable to:								
Shareholders of the Company	$ (3,527,223)	$ 1,016,897	$ (1,847,462)	$ (4,357,788)	$ (4,503,185)	$ 949,024	$ (2,694,106)	$ (6,248,267)
Non-controlling interest	-	-	-	-	-	-	(429,805)	(429,805)

RESULTS OF OPERATIONS *(continued)*

Cannabis operations

For the three and six-month periods ended February 28, 2021, the segment generated $1,180,800 and $1,859,925 in cannabis-related revenues, net of excise taxes, mainly from its wholesale clients, compared to nil for the same periods of the prior year. The increase in wholesale revenue is attributable to the 1-year wholesale agreement signed with a client, where the Company intends to deliver 200kg of cannabis per month, starting January 2021. Revenues from retail were limited since the first retail sale occurred on February 25, 2021. For the three and six-month periods ended February 28, 2021, the Company incurred $736,430 and $1,426,384 in costs of goods sold. The amount recognized in cost of goods sold includes an impairment loss on inventory of $225,333 and $428,643, realized on cannabis inventory that will no longer be sold in retail channels to ensure Cannara meets its commitment for specific quality criteria requested by its customers. Excluding the impairment loss, the segment generated a gross profit before fair value adjustments of $669,703 or 56.7% and $862,184 or 46.4% for the three and six-month periods on cannabis-related revenues compared to nil for the same periods of the prior year.

The Company generated ancillary cannabis revenues of $204,676 and $232,675 for the three and six-month periods ended February 28, 2021 from the sale of cannabis lots that were grown during a period where the Company was only performing research and development activities on its cultivation process. The Company continued to test new genetics, including pheno-hunting to select the best phenotype of a genetic, and related cultivation methodologies and techniques that are expected to generate increased yield and quality consistent with the Company's mission to provide premium cannabis products to the retail market. These costs are presented as research and development.

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, 2021 amounted to $447,885 and $651,195 compared to nil for the same periods of the prior year.

For the three and six-month periods ended February 28, 2021, the Company has recognized an unrealized gain on changes in fair value of biological assets of $1,244,832 and $454,637 on lots currently in the cultivation cycle that have not yet been harvested compared to nil for the same periods of the prior year.

For the three and six-month periods ended February 28, 2021, the Company recognized $83,975 and $89,819 as other income for government incentives granted compared to nil for same periods of the prior year. The Company has been awarded various grants in the prior year as well as a new grant amounting to $233,844 in the second quarter of 2021 which are mainly related to the energy efficient, eco-friendly and pollution reducing technology implemented at the Farnham Facility. The amount has been recognized as deferred income and will be recognized as other income based on the useful life of the related assets. In addition, in the second quarter of 2021, the Company has been provided a grant on the property taxes of its Farnham facility totalling $76,920 that was recognized as other income.

RESULTS OF OPERATIONS *(continued)*

Cannabis operations *(continued)*

For the three and six-month periods ended February 28, 2021, the segment generated $1,529,968 and $559,477 in gross profit compared to $19,599 in the same periods of the prior year, representing a favorable increase of $1,510,369 and $539,878, respectively. The increases result primarily from gross profit from increased sales during the periods and, for the quarter, an unrealized gain in the fair value of biological assets of $1,244,832 as previously explained.

For the three and six-month periods ended February 28, 2021, the segment incurred $2,050,379 and $4,086,700 in operating expenses compared to $2,587,854 and $4,522,784 in the same periods of the prior year resulting in a favorable decrease of $537,475 and $436,084, respectively.

The decrease in operating expenses is mainly attributable to:

- A decrease of $860,133 and $1,117,483 in general and administrative expenses for the three and six-month periods ended February 28, 2021. In the same period of the prior year, those expenses included the costs to prepare the Farnham facility for the start of the cultivation activities that were officially launched on February 1, 2020. Compared to the same period of the prior year, there has been costs reduction on administrative expense, including salaries, in order to keep a lean cost structure; and
- A decrease of $170,428 in professional fees for the six-month period ended February 28, 2021. Professional fees for the three-month period were similar to same period of the prior year. At the beginning of 2021, the Company reduced all professional fees to a minimum until revenues are generated from main operations; and
- An increase of $100,493 and $650,887 in research and development for the three and six-month periods ended February 28, 2021, as a result of the expenses incurred to research, and test new genetics to develop future strain portfolio as well as continuous research and development of cultivation methodologies to support the commercialization of a premium cannabis product; and
- An increase of $133,885 and $200,940 in selling and marketing expenses for the three and six-month periods ended February 28, 2021. Increase is mainly due to the reallocation of ShopCBD.com marketing employees to Cannara activities to prepare the launch of the cannabis activities to Quebec market as well as selling costs related to wholesale and retail sales.

The Company is actively selling its product through its wholesale channels reducing its operational loss and just commenced distributing to retail. Even with limited revenue from its retail sales channels, the Company has been able to manage and reduce the loss during the second quarter of 2021 compared to same period of the prior year.

RESULTS OF OPERATIONS *(continued)*

Real estate operations

As part of the Company's capital management strategy, the Company has leased out all currently unoccupied space in the Farnham. 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, 2021, the Company generated lease revenues of $752,457 and $1,309,389 compared to $641,480 and $1,169,008 in the same periods of the prior year. This represents a favorable increase of $110,977 and $140,381 due the additional space lease out and the higher rate per square foot charge compared to same periods of the prior year. To realize these lease revenues, the Company incurred for the three and six-month periods ended February 28, 2021 $193,645 and $292,492 in lease operating costs compared to $190,352 and $219,984 in the same periods of the prior year. The increase in lease operating expenses for the six-month period is attributable to expenses incurred in the first quarter of 2021 to accommodate the new tenant. The lease operating expenses for the three-month period are similar to the same period of the prior year. The segment generated a gross profit of $558,812 or 74.3% and $1,016,897 or 77.7% for the three and six-month periods compared to $451,128 or 70.3% and $949,024 or 81.2% for the same periods of the prior year.

Other

For the three and six-month periods ended February 28, 2021, the Company generated hemp-based CBD product revenues of $35,846 and $134,127 compared to $7,354 and $13,075 in the same periods of the prior year and incurred $29,418 and $112,652 in costs of goods sold compared to $7,947 and $11,870 in the same periods of the prior year, resulting in a gross margin (loss) of $6,428 or 17.9% and $21,475 or 16% compared to $(593) or -8% and $1,205 or 9.2% for the same periods of the prior year.

For the three and six-month periods ended February 28, 2021, the segment incurred $99,957 and $345,988 in operating expenses compared to $600,969 and $1,123,022 in the same periods of the prior year resulting in a decrease in operating expenses of $501,012 and $777,034. The launch of ShopCBD.com in November 2019 coincided with a period of increased regulatory and operational uncertainties within the hemp-derived CBD industry in the U.S. There have been no major developments in this matter since the launch of the e-commerce platform. As a result of the above and its impact on operations and revenues, ShopCBD.com has focused its capital and human resources on testing and validating organically driven user acquisition models and testing paid marketing initiatives in preparation to scale up the business once the Company has greater clarity on the regulatory environment. In the second quarter of 2021, the Company has reassigned the marketing employees of ShopCBD.com to the cannabis operations to develop the brand portfolio and to support the launch of the products to the retail market, which resulted in a decrease of the operating costs for this segment.

RESULTS OF OPERATIONS *(continued)*

Other *(continued)*

For the three and six-month periods ended February 28, 2021, the segment generated a net loss of $901,157 and $1,847,462 compared to $1,619,945 and $3,123,911 in the same periods of the prior year, of which $1,411,908 and $2,694,106 is attributable to the shareholders of the Company, resulting in a decrease of $718,788 and $1,276,449 in net loss.

The decrease is mainly attributable to:

- A decrease of $473,440 and $727,379 in amortization for the three and six-month periods ended February 28, 2021. The Company began its cannabis operations at the end of the second quarter of 2020 and most of the depreciation related to the property, plant and equipment are now encapsulated in the calculation of the biological assets and cannabis inventory; and
- A decrease of $125,268 in share-based compensation for the six-month period ended February 28, 2021 resulting mainly from the impact of forfeited stock options that occurred. Share-based compensation for the three-month period is similar to the same period of the prior year, offset by
- An increase of $205,095 and $319,278 in net finance expense for the three and six-month periods ended February 28, 2021 due to the increase in interest costs on one of the two mortgages during the first quarter of 2020 and due to the new credit facilities received during 2021. In addition, the lower interest rate offered by the bank on cash balances held with a Canadian financial institution resulted in a decrease on interest income earned during 2021.

Prior Quarter Financial Results

The following table sets forth, for the quarter indicated, information relating to the Company's revenues, net income (loss) attributable to Shareholders of the Company and related basic and diluted loss per share attributable to Shareholders of the Company for the eight completed fiscal quarters to date:

	Total revenues	Net income (loss) attributable to Shareholders of the Company	Basic and diluted loss per share
	Total	Total	Total
May 31, 2019	$ 506,785	$ (2,554,316)	$ (0.01)
August 31, 2019	553,308	(3,577,190)	(0.01)
November 30, 2019	533,249	(2,719,232)	(0.01)
February 29, 2020	668,433	(3,529,035)	(0.01)
May 31, 2020	763,906	(2,374,841)	(0.01)
August 31, 2020	613,355	(3,859,502)	(0.01)
November 30, 2020	1,368,181	(3,495,033)	(0.01)
February 28, 2021	2,257,754	(862,756)	(0.01)

CASH FLOW ANALYSIS

	Three-month periods ended		Six-month periods ended	
	February 28, 2021	February 29, 2020	February 28, 2021	February 29, 2020
Cash used in operating activities	$ (1,504,916)	$ (1,426,337)	$ (4,996,293)	$ (4,810,062)
Cash used in (from) financing activities	2,491,228	(17,812)	3,112,622	(417,279)
Cash used in investing activities	(367,800)	(943,647)	(1,212,083)	(6,699,109)

Operating activities

For the three and six-month periods ended February 28, 2021, cash used in operating activities was $1,504,916 and $4,996,293. The cash flow used in operating activities was primarily attributable to expenses relating to salaries of personnel, expenses for the operations, research and development expenses related to cultivation activities, professional fees for the development of the Company's business operations, insurance premiums to cover a purpose-built cannabis facility and offices and related public company related expenses.

Financing activities

For the three-month period ended February 28, 2021, cash from financing activities was $2,491,228 which is mainly attributable to cash received from the new credit facilities of $3,000,000 offset by the principal repayment on the mortgage of $75,000 plus interest paid of $352,786, and $80,394 of lease-related payments.

For the six-month period ended February 28, 2021, cash from financing activities was $3,112,622 which is mainly attributable to cash received from the new credit facilities of $4,000,000 offset by the principal repayment on the mortgage of $150,000 plus interest paid of $543,874 and $160,788 of lease-related payments.

Investing activities

For the three-month period ended February 28, 2021, cash used in investing activities was $367,800 which is mainly attributable to acquisition and deposit on production equipment for $548,323 for the production area of the Farnham Facility offset by the cash received from the sale of property, plant and equipment of $169,653 and interest received of $10,870 relating to interest earned on the cash balance held at a Canadian financial institution. 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.

For the six-month period ended February 28, 2021, cash used in investing activities was $1,212,083 which is mainly attributable to acquisition and deposit on production equipment for $1,407,720 to complete the packaging line and the production area of the Farnham Facility offset by the cash received from the sale of property, plant and equipment of $169,653 and interest received of $25,984 relating to interest earned on the cash balance held at a Canadian financial institution. 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, subsequent to quarter-end, the Company has significantly increased its cannabis revenues compared to the second quarter of 2021. Cannabis sales are ramping up based on purchase orders received from the SQDC. Recurrent lease revenues are generated which continue to support the Company's cash flow until cannabis revenues stabilize. The operations were financed primarily through funds raised in equity financings secured in previous quarters, debt raised against immoveable assets as well as government grants and assistance. 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 $7,423,458 as at February 28, 2021 (August 31, 2020 - $7,052,904). The Company has been able to maintain its working capital ratio compared to prior year due to the access to the credit facilities to support the Company's cash flow until the Company generated recurrent revenues from its main cannabis operations.

As at February 28, 2021, the Company's working capital was composed of:

- cash on hand of $4,730,524 (August 31, 2020 - $7,771,177); and
- lease receivable, accounts receivable, sales tax receivable, biological assets, inventory and prepaid expenses and other assets of $5,794,224 (August 31, 2020 - $2,758,679); and
- accounts payable and accrued liabilities, deferred lease revenue and deferred grant income of $2,585,661 (August 31, 2020 - $2,965,645); and
- current portion of long-term debt, lease liabilities and mortgages payable of $515,629 (August 31, 2020 - $511,307).

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.

Liquidity and capital resource measures

The Company expects that its existing cash resources of $4.7 million as at February 28, 2021, along with the forecasted sales with existing customers and available credit facilities, will enable it to fund its planned operating expenses for at least the next twelve months from February 28, 2021.

LIQUIDITY AND CAPITAL RESOURCES *(continued)*

Mortgage loans and credit facilities

Type of loan	Interest Rate	Maturity	Balance as at February 28, 2021	Balance as at August 31, 2020
Secured mortgage loan	13%	March 6, 2023	$ 6,550,000	$ 6,550,000
Secured mortgage loan (1)	4.45%	October 9, 2039 (2)	5,600,000	5,750,000
Credit facility A (2)	13%	March 25, 2022	1,000,000	-
Credit facility B (2)	13%	May 6, 2022	3,000,000	-

(1) The mortgage has a repayment term of 20 years. 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 each year-end related to its Real estate operations. The Company was in compliance with the ratio at the last measurement date.

(2) As of the date of the MD&A, the Company has $1,000,000 available that can be withdrawn on the credit facilities in a tranche of $1,000,000. Repayment of the credit facilities is required within eighteen months of disbursement of each credit facility.

Other contractual obligations

	Less than one year	One to five years	Thereafter	Total
Accounts payable and accrued liabilities	$ 2,543,944	$ -	$ -	$ 2,543,944
Long-term debt (2)	7,978	-	-	7,978
Lease liabilities (2)	295,899	378,188	-	674,087
Mortgages payable, at carrying amount (1)	300,000	8,050,000	3,800,000	12,150,000
Credit facilities payable, at carrying amount	-	4,000,000	-	4,000,000

(1) The contractual obligations relating to the secured mortgage loan has been presented based on the contractual repayment term of equal installments over 20 years.

(2) The Company is committed to future minimum annual lease 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.

On June 15, 2018, the Company acquired the Farnham Facility from a related party pursuant to a Deed of Sale, with the purchase price secured by a first ranking hypothec and bearing interest at an annual rate of 13%, calculated and payable monthly. As at February 28, 2021, the outstanding mortgage payable was $6,550,000 (August 31, 2020 - $6,550,000).

On July 17, 2020, the Company signed a term sheet with a related-party lender providing it access to an initial credit facility of $1,000,000 to be used for working capital purposes bearing an interest of 13%. The Company was also granted an additional credit facility of $4,000,000 to be disbursed in four monthly tranches subject to meeting certain conditions that were met during the first quarter of 2021. Repayment of the credit facilities are required within eighteen months of disbursement. During the second quarter of 2021, the Company drew down $3,000,000 and still have access to $1,000,000 that was not drawn yet under the credit facilities as of the date of the MD&A.

For the three and six-month periods ended February 28, 2021, the Company incurred $292,233 and $528,388 in interest on the mortgage payable and on the credit facilities to a related party (2020 – $209,958 and $460,110). In addition, for the three and six-month periods ended February 28, 2021, the Company incurred $2,383 and $10,126 in operating expense with a related party compared to $21,480 and $34,621 in the same periods of the prior year. As at February 28, 2021, accounts payable, including accrued interest on mortgage payable and on the credit facilities to a related party was $99,046 (August 31, 2020 – $144,638).

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.

For the three and six-month periods ended February 28, 2021, salaries and benefits incurred for key management personnel amounted to $50,000 and $134,000 (2020 - $168,000 and $336,000); share-based compensation attributable to key management and directors was $44,906 and $47,549 (2020 - $68,859 and $141,566) and director fees were $17,500 and $28,750 respectively (2020 - $9,000 and $34,500). As at February 28, 2021, the Company owed $7,151 (August 31, 2020 - $29,808) to key management personnel for accrued salaries and vacation expenses and $6,169 to directors (August 31, 2020 – $12,500).

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 condensed 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, 2021, none of the receivables were past due. The allowance for expected credit loss was nil as at February 28, 2021 (August 31, 2020 - nil). The Company's maximum credit exposure corresponds to the carrying amount of these financial assets.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due or can only do so at an excessive cost. The Company manages this risk by reviewing its capital requirements on an ongoing basis by maintaining cash flow forecasts and long-term operating and strategic plans.

As at February 28, 2021, the Company had current assets of $10,524,748 and current liabilities of $3,101,290, for a net working capital balance of $7,423,458. The Company expects that its existing cash as at February 28, 2021, along with the forecasted sales with existing customers and available credit facilities, 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 does not use derivative financial instruments to reduce its interest rate exposure as management does not believe the Company's exposure is significant.

Concentration risk

The Company has a significant concentration of its revenues generated from a few customers 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, 2020.

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, 2020 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, 2021 and February 29, 2020.

SUMMARY OF OUTSTANDING SHARE DATA

Summary of Outstanding Share Data as of April 28, 2021:

Authorized:	Unlimited number of voting and participating common shares without par value.
Issued and outstanding:	741,481,321 common shares
	37,391,588 options

cannara

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

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