cannara

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

Q4 2022 Report

technical420
BUY LOW SELL HIGH

During the last two months, we have noticed a change in sentiment in the cannabis sector and consider legalization or decriminalization in the United States (US) to be the most significant potential catalyst.

Although 2022 has proven to be a very challenging year for the cannabis sector, we are favorable on the change in sentiment that has followed the recent selloff. Last month, several of the momentum metrics we have monitored for the cannabis sector seem to have bottomed out and this appears to be a bullish indicator.

As momentum has improved, the North American cannabis sector has outperformed the rest of the world and we want our readers to be aware of this. The shift made us take a second look at the companies we cover to identify a Canadian Licensed Producer (LP) that is trading at a considerable discount to its peers.

The company, **Cannara Biotech Inc. (TSX Venture: LOVE) (OTCQB: LOVFF) (FRA: 8CB)** is a vertically integrated Canadian cannabis company which owns large-scale facilities in Quebec. With just over 1.6 million square feet of production capacity available, the company is the third largest Licensed Producer (LP) in Canada (based on production asset square footage) and we are bullish on its growth prospects.

2022 has been a banner year for Cannara and we believe the business is positioned to build on this success in 2023. From strengthening the balance sheet to forming strategic partnerships, the management team is focused on creating value for shareholders and we are excited about the opportunity on account of the following:

1. The assets that are owned by Cannara are scalable and we are bullish on the growth prospects that are associated with its multi-staged expansion
2. During the last year, Cannara has developed and launched new high-demand products and formed strategic partnerships to improve its product offerings and overall market share in Canada. We consider the strategy to be a long-term value creator and are favorable on the diversity of the products it sells
3. At current levels, the Canadian LP is trading at a discount to its peers and we find the valuation to be attractive on several operating/profitability metrics
4. The business reported strong growth in the most recent quarter and recorded positive adjusted EBITDA for the fifth consecutive quarter
5. Cannara has significant potential catalysts for growth and is executing on a lean operations strategy which is focused on sustainable organizational growth

A Canadian Cannabis Operator that is Focused on Profitability

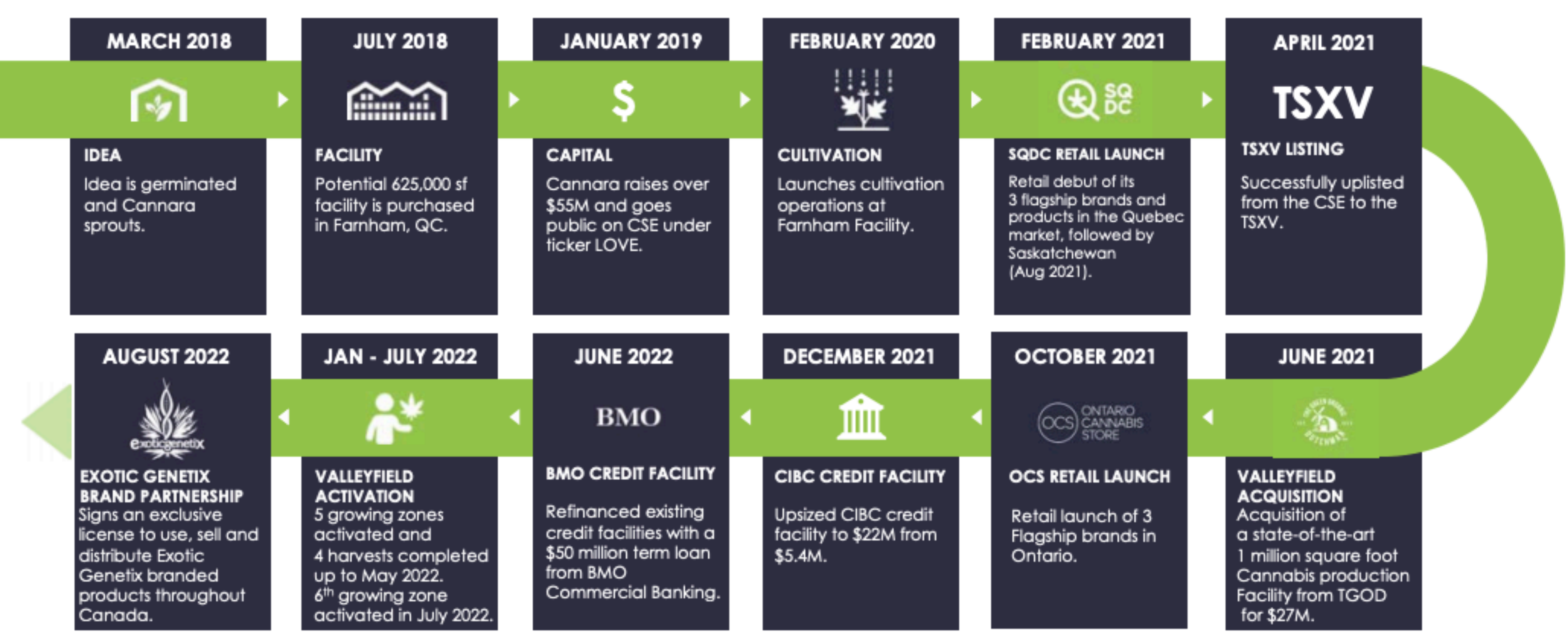
Cannara currently sells cannabis Ontario and Quebec, 2 of the 4 largest Canadian provincial markets as well as Saskatchewan. As of October, Cannara will also be listed in the province of British Columbia and expects to receive listings in Alberta soon.

Once the company establishes a presence in these markets, the business should be able to capture market share in the four largest Canadian markets. We expect the expansion to serve as a catalyst for growth and believe the timing of the transition will benefit the company.

At current levels, we believe the market is undervaluing the growth prospects that are associated with Cannara's expansion strategy. With approx. $30 million of trailing 12 months revenue, we find the company's risk-reward profile to be favorable and believe the business has clear catalysts for growth.

When comparing the business on a year-over-year basis, we consider the production run rate to be one of the most important metrics. On a comparative basis, this amount has almost doubled when compared to 2021 and we believe this provides clarity to the level of revenue that can be generated by the business.

Based on the production footprint, Cannara could produce up to 125,000 kilograms of high-quality cannabis per year. We believe the management team is taking the right strategy when it comes to increasing production capacity—while many Canadian LPs scaled too large and too fast, Cannara has taken a patient approach toward growth. As most of the company's peers are closing facilities and writing off assets, the business is benefiting from the management team's patient growth strategy and we consider this to be an underappreciated part of the story.



A Hyper-Growth Story in the Making

We believe Cannara possesses the traits we look for in a hyper-growth story and want our readers to be aware of these. We are of the opinion that the company stands out due to the following:

1. Improving Business Fundamentals – During the last year, Cannara has recorded strong revenue growth and we expect the trend to continue. Going forward, production capacity is expected to steadily increase and we are favorable on the amount of resources the business has to scale the operation
2. Owns Premium Cannabis Brands – Cannara's product portfolio is an important aspect of the story and we consider this to be a notable differentiator for the business. The company owns three flagship premium brands, Tribal, Nugz and Orchid CBD, and has a strategic partnership with Exotic Genetix, a 50 time award winning cannabis breeder. Each brand targets a certain type of consumer, each sharing a high value proposition of premium cannabis products at an affordable price, and we are favorable on this strategy
3. Focused on Profitability – For five consecutive quarters, Cannara has reported positive adjusted EBITDA. When companies like Canopy Growth and Aurora Cannabis are unable to generate a profit, this metric is a significant factor in the assessment of Cannara's risk-reward profile.

Benefiting From its Competitors' Mistakes

While other large-scale operators are facing headwinds from expanding too fast, Cannara is going to benefit from the management team's calculated growth strategy. By operating cannabis production facilities in Quebec, the company will receive favorable labor and electricity pricing, one of the two largest cost input factors in cannabis cultivation. Although the province offers Cannara some production cost advantages, the market has not yet assigned much value to this aspect of the story.

Cannara's patient growth strategy has played an important role in the acquisition of strategic assets as well as in the formation of value-added partnerships. These developments put the business in a position to capitalize on its competitors' mistakes and we consider this to be a testament to the strength of the management team.

During the last year, Cannara has been nothing short of an execution story and we are favorable on the pace at which the business has advanced. Going forward, we believe the company has substantial growth prospects and are of the opinion that the market has not yet adjusted to this. The disconnect has created an opportunity for our readers to learn about a growth story that is flying under the radar and we are bullish on the near and long-term outlook.

PHASE 1

1,033,506 sq. ft. facility

- 578,022 sq. ft. Main cultivation facility
- 212,661 sq. ft. Cannabis 2.0 processing
- 197,518 sq. ft. Rooftop greenhouse
- 22,808 sq. ft. Office and warehouse

POTENTIAL PRODUCTION CAPACITY:

117,000 kg

PHASE 2

578,022 sq. ft. expansion potential

24 INDEPENDENT GROWING ZONES MEASURING 25,000 SQ.FT EACH

The completely automated facility is equipped with cutting edge technology including:

LED LIGHTING - FULLY BLACKED-OUT ROOF - AUTOMATED TABLES
FULL CONTROL OVER TEMPERATURE AND HUMIDITY

Each activated zone has been redesigned to replicate indoor growing conditions, including growing without sunlight, eliminating variability and maximizing quality.

Creating Value via an Organic and Inorganic Growth Strategy

By executing on a series of organic and inorganic growth initiatives, Cannara has improved its growth prospects and we consider this to be a core pillar of the opportunity. We are of the opinion that the management team has its finger on the pulse of the market and understands how to satisfy consumers.

For our readers who are unaware of Exotic Genetix, the leading cannabis brand is a 50-time award-winning United States (US) cannabis breeder, cultivator, and hash producer. Through the agreement, Cannara will also have access to Exotic Genetix's knowledge and insights on cannabis strains and we are favorable on the opportunity for the business to bring a high-profile US cannabis brand to Canada.

We believe the US market represents an attractive growth opportunity for the business (when regulations allow them to capitalize on it). By forming a relationship with a leading US cannabis brand, the expansion process is easier and we consider this to be underappreciated growth opportunity for the business.

During the last few years, the amount of unsold cannabis being destroyed by Canadian Licensed Producers (LPs) has significantly increased. We believe Cannara's agreement with Exotic Genetix positions the business against the cannabis destruction trend and consider the relationship to be an important aspect of the story.

A few months ago, the vertically integrated premium cannabis producer published third quarter financial and operating results (which ended on May 31st) and we are bullish on the growth that was reported. Three statistics from the earnings report that we found to be significant include:

During the quarter, Cannara reported a record amount of revenue, coming in at C$10.1 million for the period. This is the company's fifth consecutive quarter of positive adjusted EBITDA and it reported approx. C$1.4 million of net income. So far in this fiscal year, Cannara has generated more than C$24 million of revenue.

Cannara's management team continues to scale the business and currently has 6 of its 24 growing zones at the Valleyfield facility in full production. This amounts to 150,000 square feet of canopy which can hold over 55,000 plants that can be harvested four times per year. We are bullish on the incremental revenue that can be generated through the expansion and want our readers to be aware of this.

Strengthens Balance Sheet

A few months ago, Cannara strengthened the balance sheet by closing a non-dilutive $50 million credit facility which was led by BMO Commercial Banking. We consider the terms of the credit facility to be favorable as the interest rate will decline over time and believe it provides the business with the resources it needs to execute on a multi-faceted expansion strategy.

Cannara will use this new credit facility to repay and close all debt associated with its current credit facility and to invest capital into its Valleyfield facility. With the investment into the facility, the company is in the process of redesigning and activating 24 zones each measuring 25,000 square feet of cultivation space that replicate a variety of indoor growing conditions.

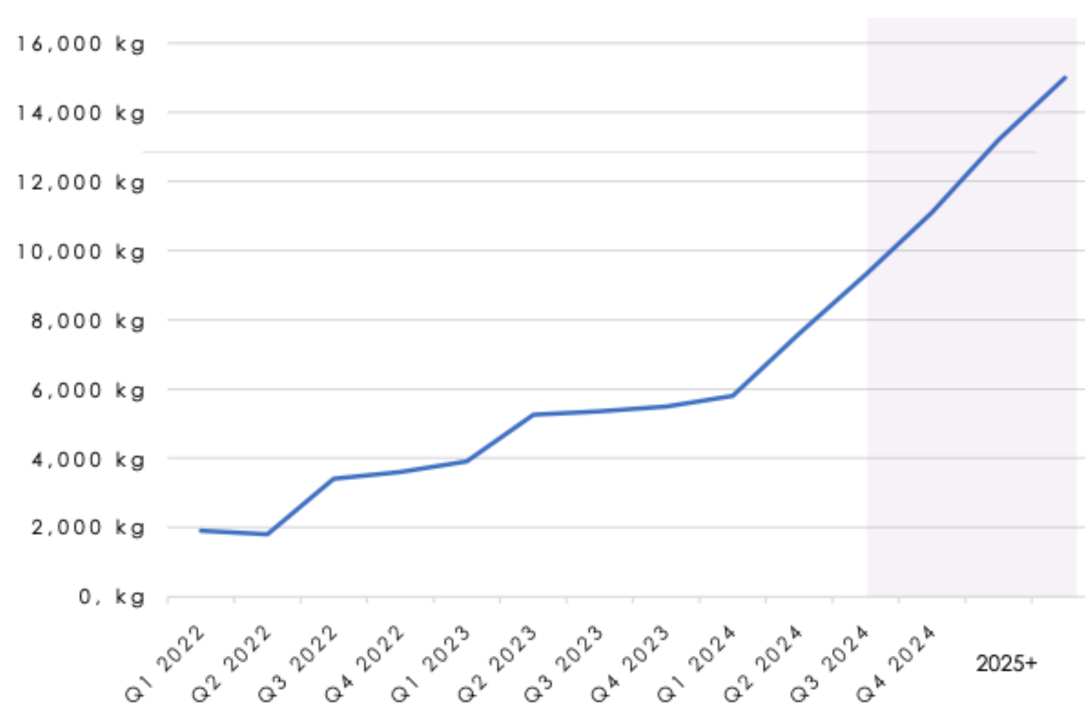
Throughout the year, Cannara has been steadily increasing the number of operational growing zones and we consider this trend to be an important aspect of the growth profile. Over the next year, we expect the number of operational zones to continue to increase and will monitor how the trend impacts the fundamentals of the business.

Based on our analysis, we are of the opinion that Cannara has an attractive growth profile and is well positioned to record incremental revenue growth as new cultivation zones are activated. We are bullish on the opportunity due to the management team's calculated growth strategy and its focus on being a profitable business. We are especially excited about profitable cannabis businesses and want our readers to be aware of this part of the opportunity.

CANADIAN PRODUCERS PRODUCTION ASSET SQUARE FOOTAGE

Village Farms	2,200,000 sf
Aphria/Tilray	2,150,000 sf
Cannara	**1,650,000 sf**
Canopy Growth	1,514,000 sf
HEXO	1,300,000 sf
Auxly	1,127,000 sf
Aurora	1,095,000 sf
Cronos Group	850,000 sf
Organigram	610,000 sf
Entourage Health	576,000 sf
Phoena	450,000 sf
The Green Organic Dutchman	166,000 sf
Aleafia Health	160,000 sf
Decibel	121,000 sf
Avant	95,000 sf
TerrAscend	45,000 sf

CANNARA'S ESTIMATED QUARTERLY PRODUCTION CAPACITY IN KG



Led by a Management Team with a Proven Track Record

Based on the cost to construct the Valleyfield facility (estimated to be approx. $250 million), we believe Cannara acquired a scalable asset for a fraction of what it cost to build. The production capacity associated with the facility makes the company a more compelling growth opportunity and we want our readers to be aware of the economics of the transaction.

We believe the cannabis industry is ripe for these types of transactions and are impressed with the management team's ability to identify and acquire a strategic bolt-on asset. By completing these types of transactions, the management team is creating a pattern of execution that we want to see with an operator.

At the helm of Cannara is CEO Zohar Krivorot who has a proven track record of success as an entrepreneur. We are favorable on the experience that he has brought to Cannara as well as the direction he is leading the business. Since the creation of the business, the company has reported a series of milestones and we believe the market undervalues his expertise.

Another key player on the team is CFO Nicholas Sosiak who is responsible for the company's finances and is a key decision maker in all facets of the operation. From selecting genetics to raising capital, he adds important expertise to the business and is focused on capturing market share in all provinces of Canada.

An Undervalued Cannabis Business with Catalysts for Growth

During the last year, Cannara has been executing on a calculated growth strategy and we believe the market is undervaluing its potential. When compared to the prior quarter, the company reported a 60% increase in the number of kilograms sold which is substantially better than what was reported by large-scale Canadian LPs like Canopy Growth Corp. (Nasdaq: CGC) (TSX: WEED) or Tilray Brands Inc. (Nasdaq: TLRY) (TSX: TLRY).

While Canadian LPs like Canopy Growth and Aurora Cannabis Inc. (Nasdaq: ACB) (TSX: ACB) are closing facilities to have operations better aligned with the current supply-demand dynamic, Canara has been expanding operations. During the last few quarters, the company has evolved into one of the fastest growing indoor cannabis cultivators and has been capturing significant market share in Quebec.

We are of the opinion that Cannara is one of the most misunderstood cannabis operators in North America. After receiving approval to become a licensed vendor to the British Columbia Cannabis Store (BCBS), the business' growth profile has further improved. We believe the market is not assigning much value to this development and consider this to be an undervalued part of the business.

At current levels, we find Cannara's valuation to be attractive and believe the risk-reward profile is one of the most attractive in the entire cannabis sector. As the management team continues to execute, we expect the company to receive more coverage from broker-dealers and want our readers to be aware of the business.

Pursuant to an agreement between StoneBridge Partners LLC and Cannara Biotech (LOVE) we have been hired for a period of 90 days beginning October 1, 2022 and ending January 1, 2023 to publicly disseminate information about Cannara Biotech including on the Website and other media including Facebook and Twitter. We are being paid $3,000 per month by Cannara Biotech and were paid “ZERO” shares of unrestricted or restricted common shares. We plan to sell the “ZERO” shares of Cannara Biotech that we hold during the time the Website and/or Facebook and Twitter Information recommends that investors or visitors to the website purchase without further notice to you. We may buy or sell additional shares of Cannara Biotech in the open market at any time, including before, during or after the Website and Information, provide public dissemination of favorable Information.