Entourage
HEALTH CORP

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDING DECEMBER 31, 2023

April 29th, 2024

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MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE TO TWELEVE MONTHS ENDED DECEMBER 31, 2023

The Management’s Discussion & Analysis (MD&A) provided offers an in-depth review of the financial status and operational outcomes for Entourage Health Corp. ("the Company" or "Entourage") for the quarter and the full year ending on December 31, 2023.

All amounts are in Canadian dollars unless otherwise specified. This MD&A should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2023, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) for consolidated financial statements issued by the International Accounting Standards Board.

This MD&A has been prepared by referencing the MD&A disclosure requirements established under National Instrument 51-102 Continuous Disclosure Obligations of the Canadian Securities Administrators. Additional information regarding the Company is available on our website at www.entouragehealthcorp.com or through the SEDAR+ website at www.sedarplus.com.

The purpose of the MD&A is to provide readers with a comprehensive understanding of the Company's financial standing and operational performance. This is achieved by presenting comparative analyses of the current period's results and financial condition against those of the corresponding period in the previous year and any other relevant periods, where applicable. Additionally, the document includes insightful analysis and commentary to provide a clearer perspective on the Company's activities. It is important to note that parts of this report contain forward-looking statements based on the Company's current plans and expectations. These forward-looking statements are affected by risks and uncertainties that are discussed in this document on future prospects. Readers are cautioned that actual results could vary.

Entourage monitors the following key performance indicators (“KPIs”) to help us evaluate the business, measure performance, and make strategic decisions. The Company’s KPIs provide supplemental measures of the operating performance and thus highlight trends in core business that may not otherwise be apparent when relying solely on IFRS measures. Entourage’s KPIs may be calculated differently from those used by other companies.

Cost per gram: Direct and indirect costs incurred to source and process cannabis as well as post-harvest costs (production costs, packaging costs incurred to bring that product to a ready-for-sale state. The Company calculates the total cost associated with acquiring the cannabis divided by the total weight of the cannabis obtained in grams.

The Company has no operations in the U.S. and does not engage in any unlawful U.S. cannabis-related activities. The information in this MD&A, including forward-looking statements, is based on information available to management as of April 29, 2024.

COMPANY OVERVIEW

Headquartered in Aylmer, Ontario, Entourage Health Corp. is a publicly traded parent company of Entourage Brands Corp., 2686912 Ontario Limited, 2686913 Ontario Inc., CannTx Life Sciences Inc. (“CannTx”), Pioneer Cannabis Corp., Starseed Holdings Inc. and North Star Wellness Inc. The Company’s common shares are listed under the symbol “ENTG” on the TSX Venture Exchange under the symbol “ETRGF” on the OTCQX and under the “4WE” under the Frankfurt Stock Exchange.

Entourage, through its wholly-owned subsidiaries, is a licensed producer under the Cannabis Act. The Company is authorized to process and distribute a range of cannabis products for both the medical and adult-use channels; including, dried flower, blends, pre-rolls and cannabis derivative-based products, under individual provincial and territorial regulations as per the Cannabis Act.

The Company is focused on building a portfolio of brands in the Canadian market, including its premium brand Color Cannabis®, and value-driven brands Saturday Cannabis® and Dime Bag®. In the medicinal cannabis stream of the business Starseed Medicinal™ and its health and wellness brand Syndicate Cannabis™. The Company produces a diverse portfolio of cannabis and cannabis derivative products, including oils, capsules, edibles, topicals and vapes, for sale in Canada in the medical and adult-use markets.

Entourage, through Starseed Medicinal, was one of the first cannabis companies in the medical channel to develop a unique platform that targets captive customer bases with paid benefits covering medical cannabis. Forming an industry-first, exclusive partnership with LiUNA, and exclusive or preferred partnerships with other employers and union groups. Starseed provides medical cannabis to thousands of covered individuals while offering direct reimbursement from benefit plans as a payment option. Entourage distributes its medical products on the Starseed platform to medical patients across Canada.

OPERATIONS

Entourage Health operates a state-of-the-art 26,000 sq. ft. facility in Aylmer, Ontario that stands at the forefront of the adult-use and medical cannabis sectors. The Company has significantly enhanced its manufacturing processes through strategic investments incorporating advanced automation technology. These facility upgrades have bolstered the Company's labeling, packaging, and distribution workflows, ensuring efficiency and product quality from conception to customer.

Further driving efficiency, the facility has invested in automation acquiring five pre-roll machines with the production capacity to produce over 2.5 million units monthly while also decreasing labour costs. This increase in output dovetails with Entourage's impressive fulfillment rates to meet the ever-growing market demand.

Entourage Health's commitment to excellence permeates every aspect of its operations. The Company has built a robust quality assurance (QA) and quality control (QC) program for labelling, packaging, and distribution of all products in compliance with the Cannabis Act and our customers' high standards.

BRAND PORTFOLIO

Adult-Use

The Company's Color Cannabis® adult-use brand has been gaining significant traction since its launch in 2019, focusing on providing premium products to the Canadian adult-use market. To enhance its premium brand, Color has introduced several innovative products that have resonated with consumers. Including the award-winning cultivar Pedro's Sweet Sativa, which has gained a strong following due to its unique flavour profile.

Pre-rolls have emerged as a standout format in the Company lineup, captivating consumers with their exceptional quality and enhanced experience they offer. Crafted from premium cannabis these pre-rolls have garnered a positive response from the market. Their popularity reflects consumers' evolving tastes and underscores Color's growing influence in the marketplace.

The Company's acquisition of Starseed in December 2019 brought the Saturday Cannabis® brand into its portfolio. This addition marked a significant step for the Company, as it sought to expand its offerings in the Canadian cannabis market. The Saturday brand has been built around leveraging its value proposition, providing high-quality products at affordable prices to consumers.

With a steadfast commitment to innovation and a focus on delivering high-quality products at affordable prices, the Company's Saturday brand is well-positioned to not only capture market share but also to thrive in the highly competitive Canadian cannabis industry. This dedication to innovation and affordability underscores the Company's long-term growth potential and its ability to meet the evolving needs of consumers.

The brand's mission is blending affordability and premium quality to cater to the value-driven consumer. Dime Bag® offers rotating flavour profiles packaged in 4 x 0.5g pre-rolls at a recommended $10.00 inclusive of tax. Leveraging the popularity it has received in Ontario, Dime Bag is expanding into Alberta with plans to distribute across Canada throughout 2024.

Medical & Wellness Brands

The Company distributes its medical products directly to patients across Canada under its Starseed Medicinal brand. The Company has expanded partnerships with unions, employers, insurers and benefit providers. Starseed offers exclusively available products such as acclaimed U.S.-wellness brands Mary's Medicinals and Irwin Naturals.

Starseed has also developed the Starseed System™ that simplifies the dialogue surrounding strength and dosage by categorizing medical cannabis according to THC and CBD levels, allowing health care professionals and Starseed's client service teams to communicate with patients and recommend products with greater effectiveness and ease. Starseed's medical cannabis platform provides for direct reimbursement of medical cannabis expenses for patients with benefits coverage, meaning little to no out-of-pocket costs for patients.

Syndicate direct-to-patient medical cannabis marketplace showcasing a portfolio of premium craft cannabis products sourced both in-house and from third-party micro-cultivators and producers. The Company is one of the first to launch a medical-marketplace collective of craft producers, available to Ontario customers.

PRODUCT FORMATS CURRENTLY IN ADULT-USE AND MEDICAL MARKET

Dried Flower: The Company's selection of dried flower SKUs caters to a variety of preferences in both the medical and adult-use sectors, available in 3.5g, 7g, 15g, and a generous 28g whole flower option. Offering high-THC selections alongside balanced and CBD-centric varieties, crafted to meet the diverse needs of our consumers.

Pre-rolls: The Company has expanded its pre-roll offering, representing the second largest product category in the Canadian cannabis market. Currently only available to the adult-use market, pre-rolls in a range of formats, including 2 x .35g, 2 x .5g, 3 x .5g, 4 x .5g and a 1 x 1 g tasting packs with larger formats of 10 x .35g. Unique cultivars make up the pre-roll category with several innovations recently added to the market; including blunts and infused varieties.

Vapes: Vapes represent the third largest product category in the Canadian adult-use portfolio. The custom-made, unique terpene blends have been popular across our Saturday brand. Currently available on the market are 1g vape.

Cannabis Oils: Cannabis oil products remain a core - category for medical patients and wellness- focused consumers. Softgels offer patients an alternative option in a discreet and convenient format.

Topicals: In collaboration with Mary's Medicinals, we have diversified our product offerings to include transdermal balms and patches, catering to both the medical community and the adult-use market.

Soft Chews. Launched to our medical patients in late 2021, the Company completed R&D trials alongside OBi, producing multiple product formulations that yielded strong and favourable results, which have provided additional product expansion opportunities into the adult-use market. The edible cannabis products are available in CBD, THC and 1:1 soft chew, with a 2-pack and a 10-pack in a variety of flavours.

Chewing Gum: The Company has continued providing a steady innovative pipeline to its medical patients by launching a CBD chewing gum formulated to provide a rapid onset of CBD with 20 mg per unit (200 mg per pack). Cannabis-infused gum is made using CBD isolate in partnership with NordicCan, a global leader in oral and intra-oral delivery systems.

Micro Inhalers: These revolutionary heat-free products offer a classic inhaler format for rapid onset. Both 1:1 and THC-dominant formulations were made available, providing diverse options for patients.

DISTRIBUTION

As of December 31, 2023, the Company held adult-use distribution agreements in the following provinces:

Ontario Cannabis Retail Corporation: Representing the largest consumer demographic. The Purchase agreement with the province of Ontario to supply cannabis for the adult-use market.

Province of Quebec: Partnership agreement with Rose Life Science Inc, representing the second largest market and fourth largest in terms of adult-use cannabis sales.
Alberta Gaming and Liquor-Commission: Supply agreement with the province of Alberta to supply adult-use cannabis products.
BC Liquor Distribution Branch: Supply agreement with the province of British Columbia to supply adult-use cannabis product.
Manitoba Liquor & Lotteries Corporation: Distribution agreement with the province of Manitoba to supply cannabis for the adult-use market.
Saskatchewan Liquor & Gaming Authority: Authorization to supply cannabis directly to private retail and wholesale markets in the province of Saskatchewan.

The Company has a distribution coverage of over 83% of the addressable retail market in Canada in over 2300 retail stores.

CORPORATE STRATEGY

Building Powerful Brands Through Innovation, Expertise, and Education.

Entourage's suite of brands including Color Cannabis, Saturday Cannabis, Dime Bag, Starseed Medicinal, and Syndicate Cannabis, serve a dual spectrum of the adult-use and medical cannabis market. Central to our ethos is a relentless commitment to product innovation, enhancing brand distinction, and optimizing an expansive distribution network.

In the quest for operational excellence, we concentrate on production efficiency. By integrating cutting-edge technology and automating key aspects of our production line, we have refined our practices. This shift not only consolidates our cost base but elevates our capabilities in manufacturing, labeling, packaging, and logistics.

It is not simply about navigating the market—it's about leading it, setting a new benchmark for innovation, quality, and sophistication across the cannabis sector.

Outlook for 2024

1. ENHANCED CORE BUSINESS FUNDAMENTALS

The Company's strategic approach has been characterized by targeted investment in advanced automation technologies, which have significantly enhanced its operational output. This investment extends to realigning our business processes to improve synergy across departments and optimize workflow. By developing a data-informed operational ethos, we have integrated analytics that has modernized our demand forecasting, inventory management, and customer engagement strategies.

As a result of these strategic initiatives, we have reduced operational costs by 20% while expanding our production capacity by 233%, twelve-month reduction in cost of goods sold (COGS) and selling, general, and administrative (SG&A) expenses. These efficiencies have directly contributed to an increase in our gross margins and a growth in net revenue.

Our commitment to continuous process refinement and innovation is a clear indication of our adaptability and resilience. This positions us favourably in the ever-evolving cannabis landscape, promising long-term shareholder value and market leadership.

2. INCREASE MARKET POSITION IN CANADIAN ADULT-USE MARKET

Entourage is dedicated to understanding its consumers' evolving needs, harnessing various data sources, including direct feedback, market trends, and purchasing patterns to inform its product development pipeline.

Entourage's foresight in innovation extends beyond merely meeting current consumer demands; it anticipates future trends in the cannabis market. The company analyzes data to identify emerging trends and market gaps and directs its research and development investments accordingly. These efforts have resulted in the creation of unique formulations and delivery systems, setting new industry standards for quality and efficacy.

3. LEADERSHIP IN MEDICAL

Canada's medical cannabis market transcends mere economic contributions; it's a driving force in patient care enhancement and innovation. For a diverse group of patients, medical cannabis presents an effective substitute for conventional drugs, showing promising results in treating conditions like chronic pain. Within this dynamic industry, Entourage is planting seeds of innovation to grow as an industry leader.

We are diversifying our product line, introducing novel formats that cater to patient needs beyond traditional methods. By tapping into patient data and feedback, we are crafting cannabis strains and cannabinoid compositions tailored for maximum therapeutic impact. In 2024, we focus on analyzing demographic data and purchasing trends to ensure these new alternatives align effectively with patient requirements.

As medical cannabis gains global attention, Entourage is broadening its reach with its foray into Australia, extending its international presence through its partnership with Australia Pty Ltd., a fully-owned subsidiary of Lyphe Group Ltd., for the sale, execution, and fulfillment of its first international order of medicinal cannabis to Australia.

Entourage's pathway to becoming an industry pacesetter is fortified by strategic partnerships with key healthcare entities. By collaborating with clinics, healthcare practitioners, and wellness institutions, we are set to bridge gaps in the medical cannabis arena. Our educational initiatives and innovative products are designed to fulfill unmet needs, positioning Entourage not just as a leader but as a trusted supplier in the eyes of healthcare providers worldwide.

4. PRODUCT INNOVATION & QUALITY

Entourage continues to establish itself as an industry leader, leveraging innovation in cannabis and wellness-focused products. Through these ongoing efforts, the Company consistently pushes the boundaries of innovation within the cannabis sector, setting a new benchmark for product development and quality.

In line with its dedication to quality, Entourage has instituted an interdepartmental Quality Control (QC) unit tasked with overseeing product inspections across various stages of the supply chain to uphold brand standards. The primary goal is to guarantee that Entourage products consistently deliver a superior consumer experience. This is achieved through the establishment of stringent product quality criteria and the implementation of quantitative assessments that align with prevailing market trends and consumer expectations.

To achieve these objectives, the Company has introduced QC screening measures for all biomass within the supply chain and has identified critical control points, including procurement, product reception, storage, and packaging. Furthermore, Entourage has optimized inventory allocation and enhanced its inventory management system to ensure that only the highest quality cannabis reaches the market.

5. EDITDA PROFITABILITY

The Company has achieved significant cost reductions through various strategic initiatives, resulting in $7.7 million in annualized selling, general and administrative (SG&A) savings, in part due to a 45% reduction in production and corporate staff. Separately, the divestiture of non-core business channels has contributed an additional $6.1 million in annualized production savings. Through the strategic consolidation of leased properties and equipment sales, the Company has realized an additional $1.0 million in savings. Further efficiencies have been garnered by the decommissioning of the Strathroy cultivation facility and extraction activities, which are projected to yield $5.4 million in annualized savings.

Given the execution of the operational restructuring plan, management is confident the organization will achieve its EBITDA profitability target in 2024. The automation of the pre-roll production process, which represents 62% of adult-use revenues will ensure consistent quality and substantially lower unit costs. Additionally, outsourcing cultivation to reduce its weighted average cost per gram will lay a foundation for sustainable growth and long-term profitability.

The Company remains focused on operational excellence, optimizing procurement practices, and cost reduction, all while maintaining the highest standards of product quality and consistency. In the fast-evolving cannabis industry, the Company is steadfast in its commitment to innovation and adaptability, ensuring it stays at the forefront of market trends and continues to drive profitability growth.

COMPANY UPDATES

- In Q1, Entourage announced it had added a new union group to its full-service, proprietary medical cannabis program in partnership with leading benefits provider Union Benefits - the administrator of union group benefits to over 12,000 members. With these additions, Entourage confirms it has ten union groups, five insurance providers and 24 clinics under agreement for preferred medical cannabis coverage.
- In Q2, the Company announced the issuance of deferred share units to non-management members of the Board of Directors of the Company and entered into shares-for-debt agreements with certain senior employees, effectively promoting share ownership and incentive for management.
- In Q2, the Company entered into a firm agreement to sell the Strathroy facility to a third party for $9,400,000, less customary transaction costs, land transfer tax, and brokerage fees. The facility was collateral for the senior credit facility payable to BMO. The sale of the Strathroy facility closed on May 18, 2023. Proceeds of the sale of $8,500,000, net of transaction costs of $862,317, were applied towards repayment of the associated Senior Credit Facility.
- In Q2, the Company entered into a two-year agreement with the University of Guelph to store its genetics in-vitro and research its proprietary genetics. This collaboration allows the Company to ensure that proprietary genetics' safeguard, maintenance, and value remain a priority.
- Q2 marked another milestone for the Company with the seamless sale, execution, and fulfillment of its first international order—of medicinal cannabis dispatched to Australia through its partnership with Australia Pty Ltd., a fully-owned subsidiary of Lyphe Group Ltd.

Financing and Credit Facilities

- In January 2023, the Company signed an amendment to its senior secured amended and restated credit facility entered into on October 28, 2022 (the "Credit Facility"). The amendment provided a waiver to the breach of certain financial covenants for the period that ended September 30, 2022, and modified certain financial covenants set out in the Credit Facility.
- Also in January 2023, the Company announced the closing of the second $15 million tranche of its upsized Credit Facility with an affiliate of the LiUNA Pension Fund of Central and Eastern Canada ("LPF"), as announced on October 31, 2022.
- In May 2023, a pivotal financial milestone was reached as the Company successfully finalized the sale of its Strathroy facility. By divesting this asset, the Company strategically strengthened the balance sheet while aligning its production infrastructure to its updated strategy. The net proceeds from the sale of the Strathroy facility paid down a significant portion of the Company's senior secured credit facility with BMO (the "Credit Facility").
- In June 2023, the remaining balance of the Credit Facility, approximately $14.6 million, was assumed by and assigned to LPF, who repaid the remaining balance to BMO. This step simplifies the Company's debt structure, enhances financial stability, reduces debt exposure, and positions Entourage for future fiscal agility.
- The Company was in breach of certain financial covenants and other obligations under each of its Senior Credit Agreement and Subordinated Credit Agreement with LPF as of December 31, 2023. The Company began working collaboratively with LPF to reach an agreement on refined debt terms. To this end, the Company received a forbearance letter on November 17, 2023, waiving the Company's breaches until December 8, 2023, subject to the satisfaction or waiver of certain conditions. Subsequent to 2023, the Company continued to work with its secured lender on debt terms and the forbearance letter was renewed on January 15, 2024, March 8, 2024, and April 5, 2024, and the extant forbearance letter expires on May 3, 2024.

Update on Business Transformation Plan

Long-Term Supply Agreement Tilray

- In the latter part of Q3, Entourage amended its Supply Agreement with HEXO Corp., ("HEXO"). The amended terms follow HEXO's acquisition by Tilray Brands, Inc. ("**Tilray**"), prompting Entourage to shift its sourcing strategy, now obtaining bulk cannabis from Tilray cultivation sites as needed. This strategic move ensures a continuous and high-quality partnership for contract growth, addressing the escalating product demand.

Commercial Highlights Adult-Use and Medical

- In 2023, the Company expanded its portfolio by launching 18 innovative SKUs across the three adult-use brands, including infused pre-rolls and new cultivars, to meet consumer demand and provide the marketplace with a variety of product offerings.
- In June 2023, the Company launched the dynamic brand Dime Bag® and it swiftly rose to become the third fastest growing pre-roll brand in Ontario for the last two consecutive quarters.[i] The Company plans to rollout nationwide throughout 2024.

- Color Cannabis has cemented its reputation by achieving a top 10 status in Canada, securing the sixth position in the pre-roll category.
- In 2023 in British Columbia, Color Cannabis® has solidified its presence, rising to become the second leading brand in the pre-roll category with an 8.5% market share.
- Entourage has emerged as a leader in this highly competitive market, holding a top 8 spot in national pre-roll sales and ranking among the top 20 Licensed Producers for dollar sales — clear indicators of its strong market position.
- Entourage remains dedicated to enhancing the well-being of its patients through the continued development of quality, accessible, and innovative medical cannabis products and services through its Starseed channel. In collaboration with Irwin Naturals Cannabis, renowned for its expertise in nutraceuticals and herbal supplements, the Company introduced an exclusive line of soft gel cannabis products available through the Starseed medical platform.
- Additionally, in partnership with Remidose, the Company introduced a controlled delivery inhaler available in THC and balanced profiles, offering medical patients’ innovative methods of consumption.
- In 2023, Union Benefits expanded Entourage’s reach, integrating a new union group into the proprietary medical cannabis program. This expansion solidifies Starseed’s commitment to accessible healthcare, bringing its partnerships to 10 union groups, five insurance providers, and 24 clinics that endorse our medical cannabis program.
- Additionally in 2023, the Company launched an innovative and comprehensive education program tailored to enhance budtender engagement and elevate product knowledge. This program reflects the Company's commitment to customer satisfaction and dedication to creating a well-informed and knowledgeable cannabis community.

PARTNERSHIPS

Exclusive licensing agreement to produce Mary’s Medicinals premium line of wellness products

The Company entered an exclusive licensing, manufacturing and distribution agreement with premium, U.S.-based cannabis wellness house, MM Technology Holdings, LLC, owner of Mary’s Brands, and the acclaimed product line, Mary’s Medicinals (“Mary’s Brands” or “Mary’s”). As Mary’s sole Canadian partner, the Company currently manufactures a suite of Mary’s Medicinals’ products in-house utilizing the Company’s input biomass at its Aylmer Facility extraction hub. Widely recognized for its innovative portfolio of delivery methods, Mary’s suite of cannabis products includes transdermal patches and topicals. The Company also markets, sells, and distributes Mary’s Medicinals’ products across Canada’s provincial adult-use and direct-to-consumer medical channels.

Exclusive agreement with Irwin Naturals a nutraceuticals US wellness brand

A renowned nutraceuticals and herbal supplement formulator of popular branded wellness products sold across North America. Under the terms of the Agreement, Entourage will manufacture the newly formulated suite of Irwin-branded line of soft gels in five different varieties: CBD, THC and three additional formulations that include both THC and another cannabinoid.

KEY FINANCIAL HIGHLIGHTS

HISTORICAL QUARTERLY RESULTS

	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Total Revenue	$ 13,391,339	$ 12,251,059	$ 13,365,382	$ 15,107,445
Revenue, Net	9,955,017	8,750,103	10,174,126	11,833,736
Gross profit (loss) before change in fair value	(5,163,419)	2,399,500	2,151,441	3,002,193
Loss and comprehensive loss	(17,175,541)	(9,905,081)	(9,571,828)	(9,515,560)
Basic and diluted (loss) per share from continuing operations	$ (0.06)	$ (0.03)	$ (0.03)	$ (0.03)
Basic and diluted (loss) attributable to the shareholders	(0.06)	$ (0.03)	(0.03)	(0.03)

Fiscal Year 2023 reflected a year of stabilization after implementing strategic initiatives targeted at the divesture of the Strathroy cultivation facility. Whereas fiscal year 2022 began with inventory shortages that led to a decreased gross profit and culminated in a gross loss by Q4 2022, fiscal year 2023 yielded consistent revenue, coupled with notable improvements in gross profit margins. This recovery trajectory resulted in the return to a gross profit position in Q1, Q2, and Q3 of 2023 respectively, after experiencing a gross loss in the corresponding quarters of the previous year. The Company recorded negative margins in Q 4 2023, largely due to an inventory provision. The loss and comprehensive loss improved by $70,747,626 or 80% from Q4 2022 to Q4 2023, largely due to less impairment of inventory, less utilization of temporary labour services, and lower SG&A as a result of the Company's restructuring plans. Basic and diluted loss per share improved $0.23 or 79% for the three months ended Q4 2023, compared to the three months ended Q4 2022 due to improved gross margins and lower SG&A. Our strategic focus remains on strengthening our market position, optimizing our operational framework, and delivering value to our shareholders.

Key Operating Metrics

For the three months ended	December 31, 2023	December 31, 2022	$ or Weight Difference	% Change
Revenue	$ 13,391,339	$ 12,141,125	$ 1,250,214	$ 10%
Kilograms equivalent sold - cannabis	6,863	3,852	3,011	78%
Kilograms harvested	—	2,931	(2,931)	(100%)
Average yield per plant (grams)	—	121	(121)	(100%)
Weighted average cost per gram from clone to harvest of plants on hand	—	1.84	(1.84)	(100%)
Weighted average cost per gram of inventory on hand	$ 0.80	$ 1.33	$ (0.53)	$ (40%)

For the year ended	December 31, 2023	December 31, 2022	$ or Weight Difference	% Change
Revenue	$ 54,115,225	$ 54,535,223	$ (419,998)	$ (1%)
Kilograms equivalent sold - cannabis	19,965	16,589	3,376	20%
Kilograms harvested	1,539	11,234	(9,695)	(86%)
Average yield per plant (grams)	49	132	(83)	(63%)
Weighted average cost per gram from clone to harvest of plants on hand	1.70	1.84	(0.14)	(8%)
Weighted average cost per gram of inventory on hand	$ 0.80	$ 1.33	$ (0.53)	$ (40%)

For the three months ended December 31, 2023, revenue increased by 10% to $13,391,339. The growth in revenue is due to increased pricing in certain markets, and product mix.

For the three months ended December 31, 2023, kilograms equivalent sold for the quarter rose by 78% to 6,863. This growth indicates a successful market expansion and is correlated to targeted marketing efforts, new product introductions, and strategic partnerships that have extended the Company's distribution network.

For the three months ended December 31, 2023, weighted average cost per gram of inventory on hand decreased by 40%, highlighting a key outcome of the Company's transformation plans. This reduction is the result of improved

procurement practices, economies of scale as bought volumes have increased, and enhancements in the Company's supply chain management. The decrease in cost is a positive indicator for margin expansion and provides the Company with flexibility in pricing strategies to stay competitive.

For the year-ended December 31, 2023, the Company observed a 1% decrease in revenue to $54,115,225, despite a 20% increase in the volume of kilograms equivalent sold, highlighting a shift in the Company's product mix. The growth in product volume sold reflects the Company's strategic initiatives to capture additional market share and a commitment to meeting the rising consumer demand for proprietary cultivars. Concurrently, operational efficiencies are highlighted by the 40% year-over-year reduction in the weighted average cost per gram of inventory on hand, underscoring success in cost control and inventory management which positions the Company well for continued margin improvements and financial flexibility.

Summary of Q4 Results and Results of Operations

For the year ended		December 31, 2023		December 31, 2022		$ or Weight Difference		% Change
Revenue	$	54,115,225	$	54,535,223	$	(419,998)	$	(1%)
Kilograms equivalent sold - cannabis		19,965		16,589		3,376		20%
Kilograms harvested		1,539		11,234		(9,695)		(86%)
Average yield per plant (grams)		49		132		(83)		(63%)
Weighted average cost per gram from clone to harvest of plants on hand		1.70		1.84		(0.14)		(8%)
Weighted average cost per gram of inventory on hand	$	0.80	$	1.33	$	(0.53)	$	(40%)

		For the three months ended						
		December 31, 2023		December 31, 2022		$ Change		% Change
Total Revenue	$	13,391,339	$	12,141,125	$	1,250,214	$	10%
Net revenue		9,955,017		8,702,084		1,252,933		14%
Cost of goods sold		(15,118,436)		(16,211,139)		1,092,703		(7%)
Gross profit before changes in fair value		(5,163,419)		(7,509,055)		2,345,636		(31%)
Gross profit before changes in fair value - as % of Net revenue		(52%)		(86%)		N/A		N/A
Realized fair value amounts previously included in inventory		(611,970)		69,262		(681,232)		(984%)
Unrealized loss on changes in fair value of biological assets		1,233,188		4,839,992		(3,606,804)		(75%)
Gross loss		(5,784,637)		(12,418,309)		6,633,672		(53%)
Net loss and comprehensive loss		(17,175,541)		(87,923,167)		70,747,626		(80%)
Adjusted EBITDA		(8,946,283)		(9,264,695)		318,412		(3%)
Cash provided by (used in) operations		1,827,053		(7,515,035)		9,342,088		(124%)
Basic loss per share		(0.06)		(0.29)				
Diluted loss per share	$	(0.06)	$	(0.29)				

Revenue

The Company earns revenue from the sale of dried cannabis and cannabis extracts sold directly to medical patients ("Medical"), wholesale of finished products to provinces and provincially regulated distributors ("Adult Use"), and wholesale of bulk to other Licensed Producers and provincially regulated distributors ("Bulk").

The table below summarizes revenue by channel:

	For the three months ended			
	December 31, 2023	December 31, 2022	$ Change	% Change
Net Revenue*				
Medical	$ 3,324,098	$ 3,702,487	$ (378,389)	(10%)
Adult use	$ 5,760,044	$ 4,999,597	760,447	15%
Bulk	$ 870,874	$ —	870,874	100%
Total Net Revenue	$ 9,955,016	$ 8,702,084	$ 1,252,932	14%

* Revenue less excise taxes

	For the year ended			
	December 31, 2023	December 31, 2022	$ Change	% Change
Net Revenue*				
Medical	$ 16,620,784	$ 17,351,702	$ (730,918)	(4%)
Adult use	$ 22,995,932	$ 23,322,304	(326,372)	(1%)
Bulk	$ 1,096,266	$ 218,062	878,204	403%
Total Net Revenue	$ 40,712,982	$ 40,892,068	$ (179,086)	(0%)

* Revenue less excise taxes

For the three months ended December 31, 2023, the Company reported a 14% increase in net revenue to $9,955,016 over the $8,702,084 reported for the corresponding period in 2022. This improvement was largely driven by a 15% growth in adult-use revenue, which increased by $760,447, demonstrating a recovery and strengthening demand in this segment. This positive shift signals a rebound in consumer confidence and the success of the Company's recent changes in product placement and category emphasis. The recovery in adult-use revenue offsets a 10% decrease in the medical segment, which saw a reduction of $378,389. The bulk segment was the largest source of gain, increasing to $870,874 in net revenue with nil reported in the corresponding period in 2022. The Company will continue to prioritize strategically growing domestic bulk sales.

For the year ended December 31, 2023, the Company's net revenue was $40,712,982, flat compared to the $40,892,068 reported in the prior year. This performance indicates a sustained level of operations, despite significant reductions in operating expenses. The medical segment declined by 4%, which amounted to a $730,918 reduction in net revenue, reflecting the highly competitive nature of the medical cannabis market and general shifts in patient purchasing patterns. The adult-use segment declined by 1% or $326,372, which suggests that while there can be seasonal strength as evidence by the three-month performance, throughout the year market conditions are dynamic and pricing remains the most significant competitive force. The bulk segment's net revenue increased by 403% or $878,204, largely driven by sales conducted in the final quarter. This increase represents a strategic pivot made in the later half of the year to prioritize new bulk sales contracts. The success of the Company's recent performance signifies its growing importance to its broader operating model.

Grams sold by Category and total grams sold are as follows:

	For the three months ended			
Grams Sold	**December 31, 2023**	**December 31, 2022**	**$ Change**	**% Change**
Medical	1,326,034	1,362,408	(36,374)	(3%)
Adult use	2,307,187	2,489,422	(182,235)	(7%)
Bulk	3,229,829	600	3,229,229	538205%
Total grams sold	6,863,050	3,852,430	3,010,620	78%

	For the year ended			
Grams Sold	**December 31, 2023**	**December 31, 2022**	**$ Change**	**% Change**
Medical	5,867,448	5,175,816	691,632	13%
Adult use	8,742,961	10,254,310	(1,511,349)	(15%)
Bulk	5,354,509	1,159,310	4,195,199	362%
Total grams sold	19,964,918	16,589,436	3,375,482	20%

In the three months ending December 31, 2023, the Company saw an increase in total grams sold by 78%, rising from 3,852,430 grams in the previous year to 6,863,050 grams. This substantial increase is primarily due to a significant rise in bulk sales, which grew from 600 grams to 3,229,829 grams. The medical and adult-use segments, however,

have declined by 3% and 7% respectively. The decrease in these segments is largely tied to changes in volume and product mix.

During the twelve-month period ending December 31, 2023, the Company sold 19,964,918 grams, marking a 20% increase from the prior year. The medical segment increased grams sold by 13%, indicative of shifting preferences towards dried flower product formats. Separately, the adult-use volume declined by 15%, which is reflective of a deliberate shift in product mix towards pre-rolls and infused joints. The bulk segment's 362% increase in volume is mainly a function of strategic actions to prioritize domestic bulk flower sales and the formation of an inhouse division dedicated to sourcing unique opportunities.

Average selling price (net of excise taxes) per gram broken down by distribution channel is as follows:

	For the three months ended			
Average selling price (net of excise taxes) per gram	**December 31, 2023**	**December 31, 2022**	**$ Change**	**% Change**
Medical	$ 2.51	$ 2.72	$ (0.21)	(8%)
Adult use	2.50	2.01	0.49	24%
Bulk	0.27	—	0.27	100%
	$ 1.45	$ 2.26	$ (0.81)	(36%)

	For the year ended			
Average selling price (net of excise taxes) per gram	**December 31, 2023**	**December 31, 2022**	**$ Change**	**% Change**
Medical	$ 2.83	$ 3.35	$ (0.52)	(16%)
Adult use	2.63	2.27	0.36	16%
Bulk	0.20	0.19	0.02	9%
	$ 2.04	$ 2.46	$ (0.43)	(17%)

In the quarter ended December 31, 2023, the average selling price per gram, net of excise taxes, decreased across two of the three segments when compared to the same period the previous year. The medical segment saw a decrease of 8% to $2.51, while the adult-use segment's average selling price increased by 24% to $2.50. The bulk segment began reporting this quarter with an average selling price of $0.27 per gram.

In the twelve-month period ending December 31, 2023, the average selling price per gram for the medical segment decreased by 16% to $2.83, reflecting increased discounting and promotions. The adult use segment saw a 16% increase to $2.63, which is indicative of the Company's strategic shift to higher-margin offerings and reduced promotional activities. The bulk segment's average selling price per gram increased by 9% to $0.20 and is reflective of a continued push to leverage volume-based sales strategies.

Cost of Goods Sold (COGS)

	For the three months ended			
	December 31, 2023	**December 31, 2022**	**$ Change**	**% Change**
Provision & Write down	$ 1,493,682	$ 5,259,857	$ (3,766,175)	(72%)
Freight Cost	1,103,437	136,907	966,531	706%
Operating expenses	12,521,317	10,814,375	1,706,941	16%
Total	$ 15,118,436	$ 16,211,139	$ (1,092,703)	(7%)

	For the year ended			
	December 31, 2023	**December 31, 2022**	**$ Change**	**% Change**
Provision & Write down	$ 2,532,132	$ 14,250,433	$ (11,718,301)	(82%)
Freight Cost	4,309,830	4,381,121	(71,291)	(2%)
Operating expenses	31,481,305	31,449,029	32,276	0%
Total	$ 38,323,267	$ 50,080,583	$ (11,757,316)	(23%)

For the quarter ended December 31, 2023, the Company cost of goods sold (COGS) declined from $16,211,139 in the prior year to $15,118,436, marking a decrease of 7%. This reduction was primarily due to a 72% reduction in

provisions and write-down expenses, signifying the Company's enhanced inventory management practices and improved sell-through of aging dried flower. The reduction in provisions were partially offset by a 706% increase in freight costs, reflecting the increased costs of operating across multiple provinces and the improved demand for the Company's product in British Columbia. For the period, operating expenses rose by 16%, largely due to charges related to executing transformation plans.

For the twelve-month period ended December 31, 2023, COGS decreased 23% from $50,080,583 to $38,323,267. The decline is attributed to an 82% reduction in provision and write-down expenses, an indicator of the effectiveness of the Company's inventory management processes over the year. Freight costs declined 2%, underlining broad strategic shifts in the Company's adult-use load management practices despite the increasing demand for key products outside of Ontario. There were no notable changes in operating expenses as most of the charges related to the Company's transformation plans offset the gains made in the later half of the year.

Gross profit (loss) before changes in fair value

For the three months ended December 31, 2023, the Company reported a gross loss before changes in fair value of $5,163,419, which represents negative 52% of net revenue. This compares to a gross loss before changes in fair value of $7,509,055, or negative 86% of net revenue, for the same period in the previous year. The reduction in the Company's gross loss position is due to lower impairment charges and the reduced cost per gram stipulated in the Company's biomass supply agreement. Additional drivers behind the improvement include increased pre-roll automation, modified product mix, and packaging changes.

For the twelve-months ended December 31, 2023, the Company's gross profit before changes in fair value increased to $2,389,715, or 6% of net revenue. This is a marked improvement from the prior year's gross loss of $9,188,515, or a negative 22% of net revenue. This year-over-year transformation in the gross margin is indicative of the Company's strategic adjustments in operations, which largely consisted of purchasing additional automation machines, less utilization of temporary labour services, and improvements in the procurement of materials.

Gross profit (loss)

Gross profit (loss) represents revenue (net of excise taxes) including adjustments in fair value for the products sold in the period and fair value adjustments for the biological assets in production. For the three and twelve months ended December 31, 2023, gross loss fell by $6,633,672 or negative 53% and $23,598,652, or 119% compared to the same period in 2022 largely due the cessation of cultivation activities.

Selling, general and administrative expenses (SG&A)

For the three and twelve months ended December 31, 2023, the Company experienced a decrease in selling, general, and administrative (SG&A) expenses compared to the previous year. During the three-month period, SG&A expenses decreased by $3,693,512 or 41%, and for the twelve-month period, there was a decrease of $4,210,857 or 14%. This reduction in SG&A expenses is primarily attributed to the operational transformation plans initiated in November 2022.

The Company's selling, general and administrative expenses consist of the following:

	For the three months ended			
	December 31, 2023	December 31, 2022	$ Change	% Change
Salaries and benefits	$ 3,153,715	$ 2,030,748	$ 1,122,967	55%
Office & Administrative	(585,523)	2,160,313	(2,745,836)	(127%)
Professional/Consulting Fees	1,848,159	1,782,839	65,320	4%
Selling, marketing and promotion	1,234,634	1,996,477	(761,843)	(38%)
Provision for restructuring expenses	(416,655)	521,808	(938,463)	(180%)
Provision for decommissioning costs	55,404	415,000	(359,596)	(87%)
Research and development	(42,259)	33,802	(76,061)	(225%)
Total	$ 5,247,475	$ 8,940,987	$ (3,693,512)	(41%)

	For the year ended			
	December 31, 2023	December 31, 2022	$ Change	% Change
Salaries and benefits	$ 10,478,208	$ 12,613,312	$ (2,135,104)	(17%)
Office & Administrative	3,255,894	5,378,533	(2,122,639)	(39%)
Professional/Consulting Fees	5,905,036	5,621,798	283,238	5%
Selling, marketing and promotion	5,422,330	5,539,892	(117,562)	(2%)
Provision for restructuring expenses	964,042	521,808	442,234	85%
Provision for decommissioning costs	55,404	415,000	(359,596)	(87%)
Research and development	179	201,607	(201,428)	(100%)
Total	$ 26,081,093	$ 30,291,950	$ (4,210,857)	(14%)

Salaries and benefits

During the three months ended December 31, 2023, salaries and benefits increased significantly by $1,122,967 or 55% to $3,153,715, compared to the same period in 2022. This considerable increase is attributable to severance payments made to employees affected by the Company's restructuring initiative.

Over the twelve-month period ended December 31, 2023, salaries and benefits declined by $2,135,104 or 17% to $10,478,208. This reduction over the year reflects the net result of the completion of the Company's restructuring phase, which was initiated in 2022. This phase included the decommissioning of certain cultivation facilities and a strategic reduction in headcount. These efforts were aimed at streamlining the Company's operations and have resulted in a leaner, more efficient organizational structure that is evident in the normalized salary and benefits expenses.

The contrast between the quarterly increase and the annual decrease highlights the timing and execution of the restructuring actions. While the near-term effects have led to higher costs due to severance payments, the longer-term strategy aims to optimize operational costs.

Office and administrative

During the three months ended December 31, 2023, office and administrative expenses declined by $2,745,836 or 127% to $(585,523). This significant reduction is primarily due to the successful implementation of cost-saving initiatives, including the consolidation of office spaces, renegotiation of lease agreements, and the adoption of more machine automation that reduces the need for significant overhead. Furthermore, the negative expense in this category indicates an adjustment to previously incurred costs.

For the twelve-month period ended December 31, 2023, expenses decreased by $2,122,639 or 39% to $3,255,894. The annual decrease can be largely attributed to the culmination of the Company's efforts to create a more agile and cost-effective administrative function. Measures such as transitioning to a remote or hybrid work environment and the sale of the Strathroy facility have allowed the Company to downsize its physical footprint and reduce related overhead costs. Additionally, the Company has streamlined administrative processes and enhanced its digital capabilities, which have led to operational efficiencies and subsequent cost reductions.

Professional fees

In the three-month period ending December 31, 2023, the Company recorded an increase in professional fees of $65,320 or 4%, totaling $1,848,159. This moderate rise is largely attributed to engaging external expertise for optimizing the Company's operational restructuring plan. The professional fees incurred reflect legal guidance, project management, and specialized financial advisory. These services were critical in identifying areas where the Company could achieve cost reductions and enhance revenue growth.

For the twelve-month period ended December 31, 2023, professional fees rose by $283,238 or 5%, to $5,905,036. The increase throughout the year indicates a continued reliance on external professionals to support the Company's strategic initiatives. Notably, these fees have assisted in navigating the complexities of regulatory compliance, ensuring adherence to the legalities of our debt restructuring plan, and preparing the Company for future scalability.

Selling, marketing, and promotion

For the three-month period ending December 31, 2023, the Company's selling, marketing, and promotion expenses decreased by $761,843 or 38% to $1,234,634. This reduction reflects a strategy to optimize the Company's marketing resources and focus on high-ROI (Return on Investment) activities. The Company has shifted towards more targeted digital marketing campaigns and leveraged data analytics to better understand and reach its consumer base. This strategic shift was supported by fundamental changes in the Company's product portfolio, regional alignment, and category emphasis.

For the twelve-month period ended December 31, 2023, expenses declined to $117,562 or 2%, ending the year at $5,422,330. The yearly decrease can be attributed to the refinement of the Company's marketing strategies, where the focus has been on creating more engaging and cost-effective campaigns that resonate with key regional markets. By leveraging customer data and SKU optimization insights, the Company has been able to create experiences that drive loyalty and repeat business, thereby reducing the need for widespread traditional advertising spend.

Provision for restructuring and decommissioning costs

During the three-month period ending December 31, 2023, provision for restructuring expenses declined by $938,463 to $(416,655) indicating an 180% decline. This reflects the successful conclusion of the Company's restructuring initiative which began in the prior year. The actions taken have streamlined the Company's operations, reduced its workforce to match current demands, and resulted in cost savings that has positively impacted key areas of operating expenses.

During the three-month period ending December 31, 2023, provision for decommissioning costs declined $359,596 or 87% to $55,404. This decrease is tied to the completion of decommissioning activities related to cultivation assets, which were part of a strategy to optimize the Company's asset portfolio and focus on core, high-performing assets. The provision adjustments partially reflect the finalization of these activities.

During the twelve-month period ending December 31, 2023, provision for restructuring expenses was adjusted upwards by $442,234, signifying an 85% increase, to a total of $964,042 for the year. This increase, as anticipated, aligns with the cash outflows related to the Company's restructuring plan that was fully executed within the year. The provision for decommissioning costs declined by $359,596 or 87%, amounting to $55,404, concluding financial commitments towards decommissioning activities.

Share Based Compensation

Share based compensation includes non-cash expenses associated with options and deferred share units ("DSUs") granted to directors, officers, employees, and consultants for services rendered. Share based compensation declined by $186,199 or negative 132% to $(141,563) and declined by $409,700 or 85% to $71,801 during the three and twelve months ended December 31, 2023, compared to the same period in 2022, mainly as a result of a reduction in the number of deferred stock units granted to management, employees, directors and consultants of the Company in 2023.

Depreciation and Amortization

Total depreciation and amortization expense declined by $738,153 or negative 66% to $379,870 and by $5,468,137 or negative 93% to $384,093 for the three and twelve months ended December 31, 2023, compared to the same periods in 2022. The decline in depreciation and amortization is mainly due to disposition of key assets including the Company's Strathroy cultivation site in Q2 2023.

EBITDA

	For the three months ended			
	December 31, 2023	December 31, 2022	$ Change	% Change
Loss and comprehensive loss	$ (17,175,541)	$ (87,923,167)	$ 70,747,626	(80%)
Add (Deduct)				
Depreciation and amortization*	(27,289)	379,870	(407,159)	(107%)
Finance costs	6,505,761	4,529,994	1,975,767	44%
EBITDA	(10,697,069)	(83,013,303)	72,316,234	(87%)

* For three months ended December 31, 2023 includes depreciation of $nil (December 31, 2022 - $964,058) amount expensed in cost of goods sold

	For the year ended			
	December 31, 2023	December 31, 2022	$ Change	% Change
Loss and comprehensive loss	$ (46,168,010)	$ (123,146,447)	$ 76,978,437	(63%)
Add (Deduct)				
Depreciation and amortization*	384,093	5,852,230	(5,468,137)	(93%)
Finance costs	24,464,411	17,577,417	6,886,994	39%
EBITDA	(21,319,506)	(99,716,800)	78,397,294	(79%)

* For the year ended December 31, 2023, includes depreciation of $381,153 (December 31, 2022- $5,023,961) amount expensed in cost of goods sold

Earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 87% to negative $10,697,069 and 79% to negative $21,319,506 for the three and twelve-month period ending December 31, 2023, respectively. The increase is partially driven by 107% reduction in depreciation and amortization largely tied to the disposition of the Company's Strathroy cultivation site and related growing equipment. Further, a 14% reduction in selling, general and administrative expenses and a 571% decline in share-based compensation were factors that contributed to the 12-month period improvement. Partially offsetting improvements were the compounding nature of borrowing costs which led to a 44% and 39% improvement in finance costs for the three and twelve-month period, respectively.

Liquidity and Capital Resources

	For the three months ended			
	December 31, 2023	December 31, 2022	$ Change	% Change
Cash provided by:				
Operating activities	$ 1,827,053	$ (7,515,035)	$ 9,342,088	(124%)
Investing activities	120,674	(19,752)	140,426	(711%)
Financing activities	(116,291)	10,524,734	(10,641,025)	(101%)
Decrease in cash	$ 1,831,436	$ 2,989,947	$ (1,158,511)	(39%)

	For the year ended			
	December 31, 2023	December 31, 2022	$ Change	% Change
Cash provided by (used in):				
Operating activities	$ (10,239,888)	$ (30,166,386)	$ 19,926,498	(66%)
Investing activities	7,660,687	(1,316,949)	8,977,636	(682%)
Financing activities	2,657,576	21,142,519	(18,484,943)	(87%)
Decrease in cash	$ 78,375	$ (10,340,816)	$ 10,419,191	(101%)

Cash flow from operating activities

Cash used in operating activities was $1,827,053 and negative $10,239,888 during the three and twelve months ended December 31, 2023, respectively, compared to negative $7,515,035 and negative $30,166,386 during the same periods of 2022, respectively. Lower spending for the three- and twelve-months ending December 31, 2023, was a result of a decline in selling marketing and promotional expenses, cost per gram, and a general transition away from temporary labour services and towards machine automation.

Cash flow from investing activities

Cash used in investing activities was positive $120,674 and $7,660,687 during the three and twelve months ended December 31, 2023, respectively, compared to cash provided by investing activities of negative $19,752 and negative $1,316,949 during the same periods of 2022, respectively. The increase over the 12-month period is primarily tied to the disposition of our cultivation site in Strathroy, Ontario for net proceeds of $8,500,000. The purchase was partially offset by the acquisition of additional automation machines to aid in the organization's strategic plan to utilize less manual labour in production.

Cash flow from financing activities

Cash provided by financing activities was negative $116,291 and $2,657,576 during the three and twelve months ended December 31, 2023, respectively, compared to cash provided by financing activities was $10,524,734 and $21,142,519 during the same periods of 2022, respectively. The increase in cash over the 12-month period is largely tied to the second tranche of funding under the amended credit facility with an affiliate of LPF, amounting to net proceeds of $14,773,542, partially offset by the Company's LPF debt repayment of $11,690,110.

Liquidity

The Company's objective when managing its liquidity and capital structure is to generate sufficient cash to fund the Company's operating and growth requirements.

As of December 31, 2023, the Company had cash and cash equivalents of $11,153,632 (December 31, 2022: $9,075,257). Total current assets for the same period were $25,405,789 (December 31, 2022: $40,085,316), including inventory and biological assets of $10,010,382 (December 31, 2022: $14,784,692), with current liabilities of $172,314,750 (December 31, 2022: $141,878,963) resulting in negative working capital of $146,908,961 (negative working capital of December 31, 2022: $101,793,647).

Going Concern

The Company has material debt obligations that come due within the next twelve months and have covenant breaches. These obligations have been recorded as short-term liabilities. In addition, the Company has suffered recurring losses from operations and requires additional financing to fund its business and operations. If the Company is unable to raise additional capital and renegotiate the payment terms of the outstanding loans and borrowing, it will be unable to meet its financial obligations.

As of December 31, 2023, the Company had a working capital deficiency of $146,908,961 and an accumulated deficit of $365,536,031. For the year ended December 31, 2023, the Company used cash in operating activities of $10,239,888, resulting primarily from the net loss of $46,168,010. The Company's ability to continue as a going concern is dependent upon its ability to obtain sufficient additional funding and to generate sufficient revenues and positive cash flows from its operating activities to meet its obligations and fund its planned investments and operations. These conditions indicate the existence of a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern.

In view of these matters, continuation as a going concern is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to refinance its financial requirements and to raise additional capital, and the success of its future operations. The consolidated financial statements do not include any adjustments to the amount and classification of assets and liabilities that may be necessary should the Company not continue as a going concern. Such adjustments could be material.

Management plans to fund the operations of the Company through existing cash positions. The Company is also currently evaluating several different strategies with its lender LiUNA Pension Fund of Central and Eastern Canada ("LPF") (Note 9 of the consolidated financial statements) and intends to pursue actions that are expected to increase its liquidity position, including, but not limited to, pursuing additional actions under the Company's cost-savings plans, seeking additional financing through the issuance of debt securities, and monetizing additional assets. As of the date

of release of these consolidated financial statements, the Company has received a forbearance letter from LPF waiving the Company's breached covenants and non-payment of principal and interest until May 3, 2024. There are no assurances that the date of the waiver will be extended.

The Company's management cannot provide assurances that the Company will be successful in accomplishing any of its proposed financing plans. Management also cannot provide any assurance as to unforeseen circumstances that could occur within the next 12 months or, if the Company raises capital, thereafter, which could increase the Company's need to raise additional capital on an immediate basis, which capital may not be available to the Company.

Capital Resources

Historically, the Company has been financing its operations through the issuance of debt and equity. The Company periodically evaluates the opportunity to raise additional funds through either the public or private placement of equity capital to strengthen its financial position and to provide sufficient cash reserves for growth and development of the business. The Company plans to access further working capital through equity and/or debt financing to finance its growth plans.

In addition, the Company has alternative options to improve its capital resources, such as:

- Entering into strategic partnerships to access diverse markets and categories;
- Divesting non-core or redundant assets; and
- Strengthening third-party commercial arrangements for the manufacture and packaging of cannabis products

Inventory

	For the year ended			
	December 31, 2023	**December 31, 2022**	**$ Change**	**% Change**
Harvested work in process	—	350,395	(350,395)	(100%)
Dried cannabis	$ 7,293,941	10,646,652	(3,352,711)	(31%)
Extracts	1,712,550	1,833,078	(120,528)	(7%)
Non-cannabis inventory	1,003,891	1,258,855	(254,964)	(20%)
Total	$ 10,010,382	$ 14,088,980	$ (4,078,598)	(29%)

Total inventory decreased by $4,078,598 or negative 29% from December 31, 2022, to December 31, 2023, mainly attributed to the ability to purchase cheaper bio-mass from Tilray as compared to the cost of growing internally.

Loans and borrowings

On March 29, 2019, the Company entered into combined secured credit agreements (collectively, "Credit Facilities" or "Senior Credit Agreement"). The Credit Facilities were comprised of the following:

Facility 1: $3,000,000 committed Revolving Credit Facility (the "Revolver");
Facility 2: $33,150,000 committed term loan;
Facility 3: $3,000,000 committed term loan.
Facility 4: $500,000 for working capital purposes (Expired on December 31, 2021)

The Credit Facilities had an original maturity date of March 29, 2022 ("Maturity Date").

The guarantors are 2686912 Ontario Limited, 2686913 Ontario Inc, Starseed Holdings Inc, North Star Wellness Inc and 2690870 Ontario Inc. The loan is secured against the borrower guarantee, liens on personal property, pledge of shares, lien over real property, leased property, insurance and shareholder loan.

Facility 1 requires interest-only payments with the balance due on the Maturity Date.

Facility 2 requires interest-only payments until December 31, 2020, or such later date agreed upon conversion date, at which point the principal will become payable and will amortize over ten years with the remaining due upon the maturity date.

Facility 3 requires interest-only payments until the Conversion Date (as defined below), at which point the principal will become payable and will amortize over five years with the remaining due upon the Maturity Date.

On December 23, 2021, the Company entered into an amendment. Under the terms of the amendment, certain of its financial covenants were deferred and applicable interest rate margin increased by 0.25 basis points. There was no change in the principal repayment other than the restricted cash of $3 million was applied as a principal repayment.

On March 30, 2022, the Company entered into an amendment and secured an extension of the maturity date of the Credit Facilities from March 28, 2022 to May 31, 2022, and a deferral of certain of its financial covenants to May 31, 2022, subject to certain conditions.

On May 31, 2022, the Company entered into an amendment and secured an extension of the maturity date of the Credit Facility from May 31, 2022 to June 30, 2022.

On June 30, 2022, the Company entered into an amendment to extend the maturity to June 30, 2024. In the amendment, the requirement relating to maintaining a total funded debt to tangible net worth of not more than 1:1 until Conversion Date was replaced by a requirement to maintain a certain minimum quarterly EBITDA targets for the fiscal quarters ending June 30, 2022 to December 31, 2023. Further, under this amendment the Company was required to maintain liquidity coverage of not less than $1,000,000 at all times and was required to settle its unsecured convertible debentures on or before the amendment date. On October 28, 2022, the Company entered into an amendment which reflected an increase in its interest rate by 0.25%.

On December 30, 2022, the Company entered into an amendment which waived the breach of certain financial covenants for the period ended September 30, 2022 and modified certain of the financial covenants set out in the Credit Facilities. Specifically, the EBITDA target covenant was modified to reflect the Company’s updated strategic plan as announced by the Company on November 15, 2022. Additionally, the liquidity covenant was amended to provide that the Company must maintain liquidity coverage of not less than $5,000,000 at all times. This amendment also required additional security in the form of $2,000,000 to be maintained in a blocked account held by the senior lender, to be applied against the Credit Facility in certain events. As a result, as at December 31, 2022, the Company included $2,000,000 as restricted cash.

As these amendments impacted the maturity date and applicable margin (interest rate), the Company assessed whether the amendments were considered extinguishments or modifications. The Company recorded a gain on modification of $237,583 in the consolidated statements of loss and comprehensive loss. The Company was in breach of certain financial covenants as at December 31, 2022.

2023 Activities:

On June 16, 2023, the Company repaid $10,500,907 in outstanding principal ($8,500,000 pertaining to proceeds from sale of assets held for sale (Note 7), $2,000,000 held in restricted cash and $907 from the cash balance) to pay down a significant portion of Credit Facilities. The remaining principal balance of the Credit Facilities of $14,550,293, along with unpaid accrued interest and bank fees of $114,097, for an aggregate of $14,664,390, was assumed by and assigned to LPF, the Company’s other secured lender (Note 9(b)). As there were no changes to the contractual terms of the Credit Facilities upon assumption and assignment, the change in lender did not result in a modification or extinguishment. All legal fees incurred by the Company relating to the change in debtholder were expensed as incurred on the date of assumption and assignment, June 16, 2023, the Credit Facilities had an aggregate face value of $14,550,390. The Credit Facilities maturity date remained unchanged, and the Credit Facilities mature on June 30, 2024.

The Company was in breach of its covenants and repayment terms as at December 31, 2023. See Note 9(b) for details of forbearance letters received from LPF.

Credit facility with LiUNA Pension Fund of Central and Eastern Canada ("LPF")

On September 23, 2020, the Company had entered into a credit facility with LPF. Under the terms, LPF provided the Company $30,000,000, maturing in August 2022 and bearing a 15% interest rate per annum and accruing daily and payable monthly in arrears, with a payment-in-kind option at the Company's discretion, to add interest accrued to the principal loan amount ("Subordinated Credit Agreement" or "Credit Facility").

The guarantors were 2686912 Ontario Limited, 2686913 Ontario Inc, Starseed Holdings Inc, North Star Wellness Inc and 2690870 Ontario Inc. The loan was secured against the borrower guarantee, liens on personal property, pledge of shares, lien over real property, leased property, insurance and shareholder loan.

On October 28, 2021, the Company entered into an amendment resulting in an interest rate increase of 25 basis points.

On December 23, 2021, the Company entered into an amendment and received additional proceeds of $20,000,000 from LPF maturing in August 2022 and bearing a 15% interest rate per annum and accruing daily and payable monthly in arrears, with a payment-in-kind option at the Company's discretion, to add interest accrued to the principal loan amount. The Subordinated Credit Agreement contained certain financial covenants.

On April 29, 2022, the Company entered into an amendment that included a waiver related to the Total Funded Debt to Tangible Net Worth Ratio covenant violation for the fiscal quarter ended December 31, 2021. In addition, the Company received additional proceeds of $15,000,000 from LPF maturing in August 2022 and bearing a 15.25% interest rate per annum and accruing daily and payable monthly in arrears, with a payment-in-kind option at the Company's discretion, to add interest accrued to the principal loan amount. Total transaction costs associated with the amendment were $115,520.

On June 27, 2022, the Company entered into an amendment whereby LPF agreed to repay the settlement amount of the 2019 Convertible Debentures, including its transaction costs ($8,201,669 towards repayment of its 2019 Convertible Debentures and $331,333 towards the associated holder transaction costs) and advance additional cash proceeds of $366,998 to the Company. This resulted in an increase to the outstanding Credit Facility balance of $8,900,000. The additional loan had the same terms, including maturity date and interest rate as the April 29, 2022 loan. The unsecured convertible debenture holders, including its related expenses, were directly settled by LPF (Note 8).

On June 30, 2022, the Company entered into an amendment and secured an extension of the maturity date of the Credit Facility from August 2022 to December 31, 2024, and a deferral of certain of its financial covenants to January 1, 2024, subject to certain conditions. The requirement relating to maintaining a total funded debt to tangible net worth of not more than 1:1 was replaced by a requirement to maintain a certain minimum quarterly EBITDA targets for the fiscal quarters ending June 30, 2022 to December 31, 2023. Further, the Company was required to maintain liquidity coverage of not less than $1,000,000 at all times.

As this amendment impacted the maturity date, the Company assessed whether the amendment was considered an extinguishment or a modification. The Company recorded a gain on modification of $3,381,883 in the consolidated statements of loss and comprehensive loss.
On October 31, 2022, the Company entered into an amendment and received the first tranche of funding of $15,000,000. The second tranche of funding of $15,000,000 was received on January 31, 2023. The Credit Facility continues to bear an interest rate of 15.25% with the option, at the Company's discretion, to capitalize interest in lieu of cash payments of interest and is set to mature on December 31, 2024. Total transaction costs associated with the proceeds received under this amendment was $138,132.

As at December 31, 2022, the Company was in breach of certain financial covenant. Accordingly, the Credit Facility was presented as current liabilities as at December 31, 2022.

2023 Activity:

On January 31, 2023, the Company entered into an amendment and received the second tranche of funding of $15,000,000 less transaction costs of $226,458. The Credit Facility continues to bear an interest rate of 15.25% with the option, at the Company's discretion, to capitalize interest in lieu of cash payments of interest and is set to mature on December 31, 2024.

On June 16, 2023, LPF assumed the remaining balance under the Senior Credit Agreement with BMO (Note 9(b)) and issued funding of $14,664,390 to BMO. The Senior Credit Agreement assumed by LPF is secured by the assets of the Company and its subsidiaries, including the Company's production facilities, and contains customary financial and other covenants, as well as typical conditions precedent for a transaction of this nature. The Company has not made any interest or principal repayments on the Senior Credit Agreement after assumption by LPF. Any unpaid interest will be added to the carrying amount of the loan and will accrue interest compounded monthly. The total principal and accrued interest outstanding as at December 31, 2023 related to the Subordinated Credit Agreement was $141,859,553.

As both the Senior Credit Agreement and the Subordinated Credit Agreement have a maturity date within twelve months from December 31, 2023, the outstanding loan and borrowing have been classified as current liabilities as at December 31, 2023.

The Company was in breach of certain financial covenants and other obligations under both the Senior Credit Agreement and Subordinated Credit Agreement as at December 31, 2023. The Company began working with LPF collaboratively to reach an agreement on refined debt terms. To this end, the Company received a forbearance letter on December 8, 2023 waiving the Company's breaches until January 15, 2024, subject to the satisfaction or waiver of certain conditions. Subsequent to year end, the Company continued to work with LPF on debt terms and the updated forbearance letters were received on January 15, 2024, March 8, 2024, and April 5, 2024, where the final letter expires on May 3, 2024.

<u>1217174 Ontario LTD</u>

As a part of the acquisition in 2021 (Note 4), the Company entered into a Loan agreement with 1217174 Ontario LTD for an aggregate principal balance of $5,000,000. The maturity date of the loan is 5 years from the date of acquisition. The interest rate of the loan is 6.21% payable on a monthly basis. There is a General Security agreement in place.

Concurrent with the loan, 1217174 Ontario LTD was granted 3,116,667 warrants with an exercise price of $0.354 per share purchase warrant. The expiry date of the warrants is December 15, 2024. The fair value estimate has been determined from the perspective of a market participant that holds similar loans without the share purchase warrants attached. The fair value of $3,653,050 on draw down date was estimated using a present value technique, by discounting the contractual cash flows using a market interest rate of companies with similar credit risk.

The discount rate applied in determining the discounted cash flows of the loan was 16.6%.

During the year ended December 31, 2023, the Company incurred $569,250 (2022 - $362,250) in interest and $37,892 (2022 - $226,188) in accretion expense relating to the CannTx loan. The accrued interest has been included in the carrying value of the loan and included in loans and borrowings on the consolidated statements of financial position.

Off-balance sheet arrangements

The Company has not entered into any off-balance sheet arrangements.

Contractual obligations

Refer to Liquidity risk note 23 (d) under financial instruments and other instruments in the consolidated financial statements.

Transactions with related parties

The Company's key management includes the Chief Executive Officer, Chief Financial Officer, Chief Commercial Officer, Chief Operating Officer and all directors. Transactions with related parties include salaries, share based compensation and service fees.

The amounts due to related parties are recorded at the exchange amounts as agreed upon by the related parties under contracts signed with them, non-interest bearing, unsecured and have no fixed repayment terms, other than the loans and borrowing with LPF. LPF is a significant shareholder of the Company.

The balances outstanding are as follows:

As at December 31,		2023		2022
Accounts payable and accrued liabilities	**$**	**64,975**	$	—

For the three and twelve months ended December 31, 2023, and 2022, total remuneration/service fees/ share-based compensation expensed pertaining to the key management is as follows:

For the years ended December 31,		2023		2022
Salaries and bonus	**$**	**1,492,205**	$	2,231,706
Share based Compensation		**71,801**		481,501
Directors fee		**520,000**		401,511
Other compensation		**694,623**		120,311
Total	**$**	**2,778,629**	$	3,235,029

During the year ended December 31, 2022, 50,000 stock options were issued with fair value of $3,172. 10,883,650 DSUs were granted to related parties with a fair value of $470,192.

During the year ended December 31, 2023, 7,050,000 DSUs were granted to related parties with a fair value of $141,364 and 5,100,000 PSUs were granted to related parties with a fair value of $Nil.

During the year ended December 31, 2023, the Company issued 743,460 common shares with a fair value of $22,304 to settle outstanding balances with certain related parties.

Deferred share units

On March 31, 2023, the Company determined and authorized the grant of an aggregate of 1,600,000 deferred share units ("DSUs") to certain directors of the Company based on the fair value of the services provided. The DSUs vest one year after the grant date and are granted in lieu of cash compensation for services rendered during the first quarter of 2023. The grant date fair value of the DSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be $32,678.

On June 30, 2023, the Company determined and authorized the grant of an aggregate of 1,600,000 DSUs to directors of the Company based on the fair value of the services provided. The DSUs vest one year after the grant date and are granted in lieu of a portion of the cash compensation for services rendered during the second quarter of 2023. The grant date fair value of the DSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be $24,686.

On September 30, 2023, the Company determined and authorized the grant of an aggregate of 1,600,000 deferred share units ("DSUs") to certain directors of the Company based on the fair value of the services provided. The DSUs will vest immediately and are granted in lieu of cash compensation for services rendered during third quarter of 2023. The grant date fair value of the DSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be $32,000.

On December 31, 2023, the Company determined and authorized the grant of an aggregate of 1,600,000 deferred share units ("DSUs") to directors of the Company based on the fair value of the services provided. The DSUs will vest immediately and are granted in lieu of cash compensation for services rendered during the fourth quarter of 2023. The grant date fair value of the DSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be $24,000.

During year ended December 31, 2023, the Company granted an aggregate of 6,200,000 PSUs to certain members of the Company's management team to reward them for their service, performance, to incentivize continued future performance and to align their interests with those of the Company's shareholders. The PSUs granted vest based on the amount of earnings before interest, taxes, depreciation, and amortization ("EBITDA") from continuing operations for the year ended December 31, 2023. All PSUs vest once EBITDA from continuing operations of $1.5 million is achieved, and no PSUs vest if EBITDA from continuing operations is $Nil or below. The PSUs vest on May 31, 2024. As of the grant date, management estimated the total fair value to be $Nil as no awards were expected to vest. As of December 31, 2023, no units met the performance target, and the Company recognized share-based compensation of $Nil in the consolidated statements of loss and comprehensive loss. No PSUs were vested as at December 31, 2023, and given the EBITDA targets were note met by December 31, 2023, as required, no PSUs will vest by the vesting end date.

Total share-based compensation pertaining to options for the year ended December 31, 2023, and 2022 are as follows:

For the years ended December 31,		**2023**	2022
Stock options issued	$	—	11,309
Deferred stock units issued		**71,801**	470,192
Total	$	**71,801**	481,501

Disclosure of outstanding share data

As at December 31, 2023, the following were outstanding:

As at December 31, 2023	
Common Share	308,387,453
Warrants	3,741,666
Options	2,439,500

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

This MD&A contains certain forward-looking statements, which reflect Management's expectations regarding the Company's results of operations, performance, growth, and business prospects and opportunities.

Statements about the Company's future plans and intentions, results, levels of activity, performance, goals or achievements, or other future events constitute forward-looking statements. Wherever possible, words such as "may", "will", "should", "could", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", or "potential" or the negative or other variations of these words, or similar words or phrases, have been used to identify these forward-looking statements. These statements reflect Management's current beliefs and are based on information currently available to management as at the date hereof.

Forward-looking statements involve significant risk, uncertainties, and assumptions. Many factors could cause actual results, performance, or achievements to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully, and readers should not place undue reliance on forward-looking statements. Although the forward-looking statements contained in this MD&A are based upon what

Management believes to be reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A, and the Company assumes no obligation to update or revise them to reflect new events or circumstances, except as required by law. Many factors could cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements, including general economic and market segment conditions, competitor activity, product capability and acceptance, regulatory matters, rising energy costs, and technology changes. More detailed assessment of the risks that could cause actual results to materially differ from current expectations is contained in the "Risk Factors" section of this MD&A.

RISK FACTORS

The following are the specific and general risks that could affect the Company and its business. Additional risks and uncertainties not presently known to the Company or that the Company does not currently anticipate will be material, may impair the Company's business operations and its operating results and as a result could materially impact its business, results of operations, prospects and financial condition.

These risks and uncertainties discussed below are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or currently deemed immaterial by the Company, may also impair the operations of the Company. If any such risks actually occur, shareholders of the Company could lose all or part of their investment and the business, financial condition, liquidity, results of operations and prospects of the Company could be materially adversely affected and the ability of the Company to implement its growth plans could be adversely affected. The acquisition of any of the securities of the Company is speculative, involving a high degree of risk and should be undertaken only by persons whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. An investment in the securities of the Company should not constitute a major portion of an individual's investment portfolio and should only be made by persons who can afford a total loss of their investment. Any investor should carefully evaluate the following risk factors associated with the Company securities, along with the risk factors described elsewhere in this MD&A.

- Limited operating history
- Change of cannabis laws, regulations and guidelines
- Reliance on licenses and authorizations
- Lack of long-term client commitments
- COVID-19 pandemic
- Supply chain
- Client risks
- History of net losses
- Difficulty to forecast
- Inability to sustain pricing and inventory models
- Environmental regulation and risks
- Insurance risks
- Unfavorable publicity or consumer perception
- Dependence on supply of cannabis and other key inputs
- Maintenance of effective quality control systems
- Retention and acquisition of skilled personnel
- Risks related to intellectual property
- Marketing constraints
- Shelf life of inventory
- Scheduled maintenance, unplanned repairs, equipment outages and logistical disruptions
- Labour risks
- Access to capital
- Estimates or judgments relating to critical accounting policies
- Tax risks
- Market for the common shares

- Investment in the cannabis sector
- No history of payment of cash dividends
-

Indebtedness

In relation to the Senior Credit Facility and LPF Credit Facility, the Company is subject to risks typically associated with secured debt financing. The Company’s cash flows could be insufficient to satisfy required payments of principal and interest under its credit facilities. The credit facilities contain covenants that require the Company to maintain certain financial ratios. If the Company does not maintain such ratios, it could have consequences for the availability of credit under the credit facilities or result in repayment requirements that the Company may not be able to satisfy. If the Company is unable to meet any required payments under the credit facilities, the lenders could foreclose upon the Company’s facilities securing its obligations under the credit facilities, appoint a receiver and receive an assignment of accounts or pursue other remedies generally available to secured creditors, all of which could result in a material adverse effect on the Company. The Company’s ability to make scheduled payments of principal and interest on its indebtedness depends on its future cash flow, which is subject to the financial performance of the Company’s business, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond the Company’s control. The Company was in breach of certain financial covenants and other obligations under both the Senior Credit Agreement and LPF Credit Agreement as at December 31, 2023. See “Loans and Borrowings”.

Liquidity and Additional Financing

There is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company will require additional financing. The failure to raise such capital could result in the Company delaying or indefinitely postponing its current business objectives, pursuing strategies to restructure its affairs, and/or ceasing to operate in the ordinary course of business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Corporation. If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution. Any debt financing secured in the future (including amendments to the Senior Credit Facility and the LPF Credit Facility) could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Corporation to obtain additional capital and to pursue business opportunities, including potential acquisitions. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows. Negative cash flow may restrict the Company’s ability to pursue its business objectives.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The required disclosures provide information that assists users of consolidated financial statements in assessing the extent of risk related to financial instruments. Additional information on financial instruments and other instruments can be found in “Note 23” of the consolidated financial statements.

a. ***Fair value***

Fair value measurement is disaggregated into three hierarchical levels: Level 1, 2 or 3. Fair value hierarchical levels are directly based on the degree to which the inputs to the fair value measurement are observable.
The levels are as follows:

Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the asset or liability’s anticipated life.

Level 3 – Inputs are unobservable and reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs in determining the estimate.

There are no financial instruments measured at fair value as at December 31, 2023 and 2022.

The carrying values of cash, restricted cash, trade and other receivables, accounts payable and accrued liabilities, and current portion of loan and borrowings approximate their fair values because of the short-term nature of these financial instruments. Loans and borrowings and unsecured convertible debentures are recorded at amortized cost. The carrying value of loans and borrowings as at December 31, 2023 approximate their fair value as the loans and borrowing mature within twelve months from the balance sheet date. Refer to Note 9 of the consolidated financial statements for the principal balance outstanding under the Subordinated and Senior Credit Facilities.

b. ***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.

The Company is exposed to credit risk on its trade receivables which has a balance of $2,923,079 (December 31, 2022: $3,792,658).

As at December 31, 2023, 85% (December 31, 2022: 83%) of the Company's trade receivables balance, is owing from 3 customers (December 31, 2022: 3 customer), each representing more than 10% of trade receivables.

Cash is generally invested in cash accounts held in Canadian chartered banks. As at December 31, 2023, restricted cash was held as collateral to repay any outstanding balances related to the Company's credit cards. Management believes the risk of loss associated with these assets to be remote. Management believes that the credit risk concentration with respect to financial instruments included in assets has been reduced to the extent presently practicable.

The definition of items that are past due is determined by reference to payment terms agreed to with individual customers, which are normally within 0 to 90 days. Credit risk is low as receivables are from government bodies and insurance agencies which generally have a low default risk. Credit risk for non-government wholesale customers is assessed on a case-by-case basis and represents 9% of trade receivables and comprises of 14% of the revenue of the Company as at December 31, 2023. Management expects credit risk to be minimal and has recorded an allowance for expected credit loss to cover any exposure.

c. ***Foreign exchange risk***

The Company is exposed to foreign exchange risk in United States dollars. Foreign exchange risk is the risk that the exchange rate that was in effect on the date that an obligation in a foreign currency was made to the Company by a customer or lender, or that an obligation in a foreign currency was made by the Company to a supplier or partner, is different at the time of settlement than it was at the time that the obligation was determined. The Company reduces its exposure to foreign exchange risk by carefully monitoring exchange rates on obligations that are made to the Company. The Company did not have any hedges at the time that the financial statements were issued. The Company does not utilize financial instruments to manage its foreign exchange risk.

d. ***Liquidity*** **risk**

Liquidity risk is the risk that the Company cannot repay its obligations when they become due to its creditors. The Company manages its exposure to liquidity risk by ensuring that it documents when authorized payments become due and actively manages its working capital to repay trade creditors as they become due.

The Company has total current liabilities of $172,314,750 (December 31, 2022: $141,878,963) with cash on hand of $11,153,632 (December 31, 2022: $9,075,257). The Company will manage the risk exposure through increased future

sales, minimizing expenses through the continued phase out of the Strathroy and Guelph Facilities, increasing operational efficiency and productivity, and if necessary, raise additional capital through debt and/or equity.

The contractual maturities of all liabilities and lease obligations by year is as follows:

	2024 (Year 1)	2025 (Year 2)	2026 (Year 3)	2027 (Year 4)	2028 and later	TOTAL
Lease liabilities	$ 134,019	$ 126,962	$ 129,543	$ 132,125	$ 283,453	$ 806,102
Loans and borrowings	181,510,901	621,000	5,284,625	—	—	187,416,526
Unsecured convertible debentures	91,175	1,104,225	—	—	—	1,195,400
Accounts payables and accrued liabilities	17,105,722	—	—	—	—	17,105,722
Total	**$ 198,841,817**	**$ 1,852,187**	**$ 5,414,168**	**$ 132,125**	**$ 283,453**	**$ 206,523,750**

The Company has obtained a waiver from LPF related to its credit facility subsequent to year end. The year 1 obligation includes the potential payout related to the BMO Credit Facilities.

e. ***Cash flow risk***

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount, such as a debt instrument held with a floating interest rate, or investments. Floating rate debt exposes the Company to fluctuations in cash flows and net earnings due to changes in market interest rates. In the opinion of management, the cash flow risk exposure to the Company is low.

f. ***Concentration risk***

Eighty-nine percent of medical revenue (2022- 88%) is comprised of orders from members of affiliates of LPF, the Company's largest shareholder.

SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events up to April 29, 2024, the date the consolidated financial statements were issued and determined the following events:

- On January 30, 2024, the Company granted 131,507 DSUs to a former director of the Company based on the fair value of the services provided prior to the termination of directorship. The DSUs will vest one year after the grant date and will expire on December 31, 2025.

- In accordance with the provisions of its omnibus equity incentive compensation plan (the "Omnibus Plan"), the Company has authorized the issuance of an aggregate of 1,200,000 deferred share units ("DSUs") to non-management directors of the Company as compensation for their services. The DSUs will vest on March 31, 2025, and are granted in lieu of cash compensation for services rendered during the first quarter of 2024. The Company's board of directors (the "Board") approved a cap on the number of DSUs payable to each director as part of their quarterly fee payment at 400,000 DSUs.

- Subsequent to the year ended December 31, 2023, the Company received forbearance letters from LPF waiving the Company's breached covenants and non-payment of principal and interest until May 3, 2024.