# Entourage Health Corp.

## Management's Discussion & Analysis

For the three and six months ended June 30, 2022

August 29, 2022

## INTRODUCTION

*The following Management's Discussion & Analysis ("MD&A") discusses the financial condition and results of operations of Entourage Health Corp. (the "Company" or "Entourage") for the three and six months ended June 30, 2022 and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and accompanying notes thereto as at and for the three and six months ended June 30, 2022, which have been prepared in accordance with International Accounting Standards 34 - Interim Financial Reporting ("IAS 34") of the International Financial Reporting Standards ("IFRS"), as well as the Company's audited consolidated financial statements and related unaudited MD&A for the year ended December 31, 2021.*

*Except for per unit amounts and where otherwise noted, all amounts in this MD&A are reported in Canadian dollars.*

*Additional information relating to the Company, including its latest Annual Information Form, can be found under the Company's profile on the SEDAR website at www.sedar.com.*

*Our MD&A is intended to enable readers to gain an understanding of the Company's current results and financial position. To do so, we provide information and analysis comparing the results of operations and financial position for the current period to those of the same period of the prior year and the comparable period, where applicable. We also provide analysis and commentary that we believe is required to assess the Company's future activities. Accordingly, certain sections of this report contain forward-looking statements that are based on current plans and expectations. These forward-looking statements are affected by risks and uncertainties that are discussed in this document and that could have a material impact on future prospects. Readers are cautioned that actual results could vary.*

*We monitor the following key performance indicators ("KPI") to help us evaluate our business, measure our performance, and make strategic decisions. They provide supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. Our KPIs may be calculated in a manner different from those used by other companies.*

1. ***Yield per plant:*** *The expected number of grams ("g") of finished cannabis inventory, which is expected to be obtained from each cannabis plant, adjusted for expected wastage. The Company uses this metric to more easily compare yield given that the number of plants harvested in the period fluctuates from period to period.*

2. ***Cost per gram:*** *Direct and indirect costs incurred to grow and produce cannabis as well as post-harvest costs (post-harvest production costs, packaging costs incurred to bring that product to a ready for sale state, divided by total grams of cannabis grown and produced in the period). The Company uses this metric to more easily compare costs given that the number of plants grown and produced fluctuates from period to period.*

3. ***Adjusted Earnings Before Interest, Tax, Depreciation, and Amortization (Adjusted EBITDA):*** *Adjusted EBITDA is income (loss) and comprehensive income (loss) excluding interest, tax, depreciation and amortization, stock-based compensation, fair value changes and other non-cash items and non-recurring items. The Company uses this metric as it is an important measure of the Company's day-to-day operations.*

*The Company has no operations in the U.S. and does not engage in any unlawful U.S. cannabis-related activities. The information contained in this MD&A, including forward-looking statements, is based on information available to Management as of August 29, 2022.*

## 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.*

## BUSINESS OVERVIEW

Entourage Health Corp., (TSXV: ENTG-V, OTCQX: ETRGF, FSE: 4WE) is the publicly traded parent company of Entourage Brands Corp. and CannTx Life Sciences Inc. ("CannTx"), licence holders and distributors of cannabis products under the Cannabis Act. The Company is permitted to produce, buy, sell and process cannabis, cannabis plants, and certain derivative products such as cannabis extracts for both the medical and adult-use markets.

The Company presently operates and holds licences for three facilities:

- Owns a 158-acre property in Strathroy, Ontario with up to 522,720 square feet ("sq. ft.") of greenhouse footprint delivering the quality and control of indoor facilities and up to 100 acres of outdoor cultivation area ("Strathroy Facility").
- Owns a 26,000 sq. ft. indoor facility in Aylmer, Ontario, which specializes in cannabis extraction, processing, product development and fulfillment to capture the full margin for new products introduced to market ("Aylmer Facility").
- Operates a 10,000 sq. ft. indoor micro-propagation facility in Guelph, Ontario which specializes in tissue culture, genetics remediation and plant-cell growth in a clean, data-driven environment ("Guelph Facility").

The Company is committed to producing and supplying the very best cannabis products for Canadian adult recreational users and medical patients, by building a strong, agile, and efficient cannabis company. The Company is focused on strengthening and growing its position in the medical and adult-use cannabis cultivation, processing and distribution market, and intends to become a leader in the Canadian cannabis market.

Throughout the COVID-19 pandemic, Canada declared dispensaries as essential services, allowing sales to continue. However, restrictions implemented in response to COVID-19 variant-resurgences may impact current retail store operations and growth initiatives across the country.

The Company believes the medical cannabis market also represents another strong growth opportunity at relatively higher margins. With the addition of Starseed Medicinal ("Starseed") in 2019, a medical-centric brand, the Company expanded its multi-channeled distribution strategy to grow its share of this burgeoning market. Starseed's industry-first, exclusive partnership with LiUNA, the largest construction union in Canada, along with employers, union groups, and benefits providers complements the Company's direct sales to medical patients. In addition, the Company maintains supply agreements with eight provincial distribution agencies where adult-use brands Color Cannabis and Saturday Cannabis products are sold, along with established patient agreements with 24 clinics.

The Company believes that established brands with strong cultivation, production, and distribution networks will become market leaders by driving trust among adult consumers, patients, doctors, and communities.

## Corporate Highlights During the Quarter ended June 30, 2022

*Leadership Appointments and Corporate News*

- The appointment of Vaani Maharaj as Chief Financial officer effective May 4, 2022. At its annual general and special meeting of shareholders held in June, 2022, shareholders approved all proposed resolutions and director nominees including: George Scorsis, Gail Paech, Lu Cacioppo, Bruce Croxon and Jason Alexander with a combined 99.18% approval rating.

*Financing and Credit Facilities*

- On April 29, 2022, the Company announced the further upsizing of its existing credit facility with an affiliate of LiUNA Pension Fund ("LPF") of Central and Eastern Canada with an additional $15 million in funding availability. The non-dilutive funding to be used for general working purposes to drive further commercial growth.
- On June 30, 2022, the Company entered into an amendment with BMO 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, the Company is to maintain liquidity coverage of not less than $1,000,000 at all times. The company was required, as a condition of the amendments with its senior secured lenders, to extend the maturity date of the 9.0% convertible debentures acquired through the CannTx transaction to a minimum of December 31, 2024 by no later than July 30th, 2022.
- On June 27, 2022, in connection with the unsecured convertible debentures issued on September 25, 2019 and the results of the special meeting of the unsecured convertible debenture holders on June 20, 2022, the Company filed a supplemental indenture amending the terms of the convertible debentures. The amendments included an acceleration of the maturity date of the convertible debentures from September 25, 2022 to June 30, 2022, and repayment upon maturity at a discount of 40% on the principal amount together with any accrued and unpaid interest earned on the principal amount.
- Final settlement of the convertible debentures at maturity was paid for by the Company obtaining additional funding availability from LPF at an annual interest rate of 15.25%. On June 27, 2022 the Company entered into an amendment to its loan agreement with LPF under which the Company secured an increase to its loan facility of $8.9 million to complete the settlement of the convertible debentures and certain associated costs.
- On June 30, 2022, the Company amended its loan agreement with LPF, securing an extension of the maturity date 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 amending agreement also included changes to the financial covenants consistent with the amendments to the BMO loan.

*Sales, Marketing and Business Development Highlights*

*Adult-Use and Medical Highlights*

- In May 2022, Entourage announced it had entered into an agreement with Pineapple Express – a wholly owned subsidiary of Fire & Flower – to launch same-day/next-day medical cannabis delivery services to the Company's Starseed Medicinal patients.
- Later in May, Entourage announced the Canadian debut of The Boston Beer Company's (BBC) new cannabis-infused iced tea beverages 'TeaPot'. Entourage will be the exclusive distributor of TeaPot to local retailers in Canada. Launched in select provinces as of July 2022, TeaPot is the first non-alcoholic, infused beverage crafted in partnership with Boston Beer's cannabis subsidiary BBCCC Inc., and Peak Processing, its bottling partner.

## *Extraction and Processing Centre of Excellence – Aylmer Facility*

The Company's Aylmer Facility is a state-of-the-art extraction, processing, product development, and fulfilment platform, which enables the Company to take advantage of the increasing adoption of extracts-based products by cannabis consumers. This established business unit focuses on the production of next-generation cannabis products, commonly referred to as Cannabis 2.0 products, and business-to-business ("B2B") sales.

The Company is currently equipped with two supercritical CO2 extractors capable of extracting up to 50,000kg ("kg") of high-cannabinoid biomass annually. In addition to providing an opportunity to create value accretive partnerships, a major portion of the biomass the Aylmer Facility produces is used for extraction at The Company's own processing facility as the Company increasingly commercializes new, innovative adult-use and medical-grade products to satisfy customer demand.

## *Leading Cultivation Centre of Excellence – Strathroy Facility*

The Strathroy Facility is the Company's main cannabis cultivation hub situated on a 158-acre property in Strathroy, Ontario.

Its fully automated, temperature-controlled state-of-the-art modern hybrid greenhouse currently operates 265,000 sq. ft. of licensed cultivation and processing space with the opportunity to expand production by an additional 280,000 sq. ft.

The cultivation hub produces cost-effective and tailored-grown input biomass for all the Company's dried whole flower and pre-roll products, as well as extraction-grade input biomass for its cannabis 2.0 products. It also houses 27 acres of licensed outdoor cultivation space on the property, which can be expanded to 100 acres, however the Company is currently not utilizing the outdoor space to grow.

## *Tissue Culture and Genetics Centre of Excellence – Guelph Facility*

The Company's Guelph Facility is a state-of-the-art micro-propagation facility that specializes in tissue culture, genetics remediation and plant-cell growth in a clean, data-driven environment. Its team of genetic scientists developed a proprietary tissue culture program for the cannabis industry using bio-technology techniques aimed at plant cell growth.

## *Our Brands*

The Company's brands available across Canada include the following:

| Color cannabis | SATURDAY | SMALL BATCH ROYAL CITY CANNABIS CO. | STARSEED Medicinal |
|---|---|---|---|
| **Adult-use** | **Adult-use** | **Adult-use** | **Medical Direct-to-Patient** (benefits coverage) |

## *Adult-use*

The Company launched Color Cannabis® in 2019 as a premium brand designed for the Canadian adult-use market. The brand specializes in the dried flower category with additional formats added in 2020 including strain-specific vapes which are filled with cannabis concentrates derived from biomass cultivated and processed at its facilities. The strain-specific product portfolio launched with the Ghost Train Haze (high-THC), Pedro's Sweet Sativa and Mango Haze (balanced) stains, with a high-CBD product to follow. The Company also launched additional terpene-rich series of cultivars, Black Sugar Rose and Space Cake, within the Color Cannabis® brand.

In December 2019, the Saturday Cannabis® brand was added to the Company's portfolio via the acquisition of Starseed. The brand's strategy has been centered around leveraging a pre-existing brand equity of relaxation, enjoyment, and freedom. The brand also leverages Starseed's medical heritage, advocating the safe and responsible consumption of cannabis. To date, the Saturday Cannabis® brand's revenues have been predominately generated from the sale of dried cannabis flower and pre-rolls and as of January, 2021 the Company added vapes to the product line up, which complements the Company's adult-use product portfolio and provides the Company with immediate access to the brand's existing listings and markets in this category.

In January, 2021, the Company started producing and selling U.S.-licensed wellness brand Mary's Medicinals topical balms, launched in both medical and adult-use markets throughout the first few months of 2021. As of June 30, 2022, Mary's Medicinals held 51% of the market share for all medical cannabis-infused topicals sold in Canada.In November 2021, the Royal City Cannabis Co.® craft brand was added to the Company's portfolio via the acquisition of CannTx.

As of June 30, 2022, the Company held adult-use distribution agreements in the following provinces:


**Ontario Cannabis Retail Corporation**:
The Purchase agreement with the province of Ontario to supply cannabis for the adult-use market.
**Alberta Gaming and Liquor-Commission**:
The Supply agreement with the province of Alberta to supply adult-use cannabis product.
**BC Liquor Distribution Branch**:
Supply agreement with the province of British Columbia to supply adult-use cannabis product.
**Nova Scotia Liquor Corporation**:
Purchase agreement with the province of Nova Scotia to supply cannabis for the adult-use market.
**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.
**Province of Quebec**:
Partnership agreement with Rose Life Science Inc.
**Cannabis New Brunswick:**
Company received first purchase order from Cannabis NB, making its adult-use products now available coast-to-coast.

## *Medical Direct-to-Patient*

The Company distributes its medical products directly to medical patients across the country under its own Starseed Medicinal brand. In the medical channel, Starseed has developed a unique platform that targets captive customer bases with paid benefits covering medical cannabis. Forming an industry-first, exclusive partnership with LiUNA, along with 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. For its medical products, Starseed has 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.

In July 2022, Entourage announced a partnership with HelloMD, a leading online cannabis telehealth company with access to experienced and knowledgeable healthcare practitioners across Canada. In addition, the healthcare practitioners can provide patients with customized treatment plans which consider patients' current medical history, assesses for any potential medication interaction, and provides a fulsome review that supports ongoing medicinal cannabis therapy. The service is available to patients via a telemedicine system and in-person visits through a network of clinics.

## *Commercial arrangement with Fire & Flower to produce cannabis products*

The Company has commercial arrangement with leading Canadian retailer, Fire & Flower Inc. ("Fire & Flower") (TSX: FAF, OTCQX: FFLWF), a leading purpose-built, independent adult-use cannabis retailer. Under the partnership, the Company manufactures, packages and ships the retailer's Revity CBD™ soft-gel product line.

### *Exclusive licensing agreement to produce Mary's Medicinals premium line of wellness products*

The Company entered into 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.

### *The Company partners with The Boston Beer Subsidiary to launch and sell portfolio of innovative cannabis-infused beverages in Canada.*

The Company's license holder, Entourage Brands Corp., entered into an agreement with BBCCC, Inc., a subsidiary of The Boston Beer Company ("BBC"), and Peak Processing Solutions ("Peak") to launch a new portfolio of non-alcoholic cannabis-infused beverages in Canada first made available to customers under the TeaPot brand in select provinces in July, 2022, with Saskatchewan as the first province to receive shipped products. Under the terms of the five-year development, supply, manufacturing, sales, and marketing agreements, BBC and Peak develop the beverage using Entourage's cannabinoid-rich input biomass processed at Peak's Windsor, ON facility. Entourage is the exclusive distributor of the cannabis-infused beverages in Canada leveraging Entourage's expansive local sales and marketing network.

## BUSINESS TRANSFORMATION UPDATE

The Company has undertaken extensive operational transformation, which started in Q4 2020, with the goal of improving operational efficiencies to set the Company on the path to long-term profitability. The guiding principles of this transformation include realigning the business with current market conditions, refocusing on higher-margin growth opportunities, and defining a clear track to profitability and positive cash flow. Complementing these principles are these five core pillars: revenue growth, process and organizational optimization, driving efficiency, ensuring quality, and investing in our people.

From a revenue growth perspective, the Company has continued its focus on growth in both the adult-use and medical cannabis markets by:

- Taking a disciplined approach to identifying and participating in select value-accretive partnerships; and
- Making prudent capital allocation investments to drive operational excellence by investing in:
  - Product innovation to deliver a variety of high-quality branded products.
  - Increasing capacity to support growth.
  - Expanding distribution channels.
  - Technological and automation improvements.
  - Maintaining patients to drive renewals in the medical business.

To drive efficiency and productivity, the Company has continued to identify automation opportunities in areas of production and manufacturing as well as back-office functions. To continuously deliver quality, initiatives have been implemented in cultivation, and production and manufacturing areas.

Overall, given the progress to date on the noted transformation initiatives, the Company continues to be well-positioned for growth in the Canadian cannabis market and to deliver long-term shareholder value.

# COVID-19 UPDATE

On March 11, 2020, the World Health Organization declared the ongoing COVID-19 outbreak as a global health emergency. The ongoing outbreak of COVID-19 has caused significant disruptions to national and global markets, economies and consumer and patient behavior. Our businesses have been designated essential services in all the markets in which we operate. During this time, we have continued to conduct our operations to the fullest extent possible, while also responding to the outbreak with actions that include:

- Modifying employee work schedules and implementing strict sanitary measures to continue protecting the health and safety of our employees.
- Ensuring business continuity programs to meet the safety requirements and Health, Safety, Security and Environment (HSSE) standards during the period.
- Coordinating closely with suppliers and customers to maintain ample product for customers and patients to ensure that supply chain requirements were met.

While there has been no material impact to the Company's operations, COVID-19 has resulted in changes to the way the Company operates and it has taken steps to minimize any potential operational limitations. These actions include postponement of discretionary capital expenditures, reduction of general and administrative expenses, temporary staff reductions, and enhanced process optimization to increase efficiencies and reduce costs.

In 2021 the Company participated in the Canada Emergency Wage Subsidy program relating to COVID-19 Pandemic. The subsidy was approved by the Government of Canada and payments were received in Q2, Q3 and Q4 2021.

## *COVID-19 related judgments and estimates*

Despite the easing of certain COVID-19 related restrictions, there continues to be uncertainty surrounding COVID-19 following the height of the pandemic. It is not possible to predict, with reasonable precision, any further impact that COVID-19 could have on our business, financial position, and ongoing operating results. As such, the estimates and assumptions that underly the Company's condensed interim consolidated financial statements could change in the near term due to COVID-19. The effects of any such changes could be material and could result in, among other things, impairment of long-lived assets. As a result, significant judgments and estimates have been made in the qualitative and quantitative impairment and going-concern assessments at March 31, 2022.

# KEY FINANCIAL HIGHLIGHTS

## *HISTORICAL QUARTERLY RESULTS*

| | Q2 2022 | Q1 2022 | Q4 2021 | Q3 2021 |
|---|---|---|---|---|
| Total Revenue | $ 13,185,209 | $ 15,770,569 | $ 13,538,871 | $ 14,978,879 |
| Revenue, Net | 9,690,712 | 12,423,970 | 10,600,507 | 10,788,812 |
| Gross profit (loss) before change in fair value | 474,243 | 2,737,184 | (2,800,620) | (4,155,264) |
| Loss and comprehensive loss | (9,027,497) | (8,763,599) | (44,509,174) | (17,467,138) |
| Basic and diluted (loss) per share from continuing operations | (0.03) | (0.03) | (0.17) | (0.07) |
| Basic and diluted (loss) attributable to the shareholders | $ (0.03) | $ (0.03) | $ (0.17) | $ (0.07) |

| | Q2 2021 | Q1 2021 | Q4 2020 | Q3 2020 |
|---|---|---|---|---|
| Total Revenue | $ 13,811,639 | $ 12,899,981 | $ 6,961,763 | $ 7,739,923 |
| Revenue, Net | 10,604,447 | 10,278,068 | 5,076,652 | 6,313,117 |
| Gross profit (loss) before change in fair value | 3,112,579 | 250,740 | (22,532,631) | 69,155 |
| Loss and comprehensive loss | (9,950,886) | (7,007,935) | (45,545,046) | (26,165,379) |
| Basic and diluted (loss) per share from continuing operations | (0.04) | (0.03) | (0.22) | (0.12) |
| Basic and diluted (loss) attributable to the shareholders | $ (0.04) | $ (0.03) | $ (0.22) | $ (0.12) |

As disclosed in the Company's condensed interim consolidated financial statements for the three months ended March 31, 2022, a structural deficiency resulted in the temporary closure in certain cultivation rooms at the Company's Strathroy facility. Whereas two rooms were initially impacted, through the three months ended June 30, 2022, the Company remediated all eighteen rooms in the Strathroy facility. Due to the temporary closure in certain of these rooms, a total of thirteen harvests were lost, including harvests of certain of the Company's proprietary cultivars. As at June 30, 2022, all rooms except one were re-opened and fully operational. As at August 29, 2022, all rooms are re-opened and fully operational. The temporary closure of rooms had a pervasive impact on the financial results of the second quarter. Whereas the Company has reflected consistent revenue gains and market share growth in prior quarters, revenue growth slowed given the unavailability of Entourage's proprietary cultivars. As a result of these setbacks, management no longer believes that the company will achieve prior communicated goals of being cash neutral by the end of FY 2022.

### *Key Operating Metrics*

| For the three months ended | June 30, 2022 | June 30, 2021 | $ or Weight Difference | % Change |
|---|---|---|---|---|
| **Revenue** | $ 13,185,209 | $ 13,811,639 | $ (626,430) | (5%) |
| Kilograms equivalent sold - cannabis | 4,160 | 4,552 | (392) | (9%) |
| Kilograms harvested | 2,318 | 4,322 | (2,004) | (46%) |
| Average yield per plant (grams) | 149 | 158 | (9) | (6%) |
| Weighted average cost per gram from clone to harvest of plants on hand | $ 0.56 | $ 0.46 | $ 0.10 | 21% |
| Weighted average cost per gram of inventory on hand | $ 0.79 | $ 0.50 | $ 0.29 | 57% |

| For the six months ended | June 30, 2022 | June 30, 2021 | $ or Weight Difference | % Change |
|---|---|---|---|---|
| **Revenue** | $ 28,955,778 | $ 26,711,620 | $ 2,244,158 | 8% |
| Kilograms equivalent sold - cannabis | 9,104 | 8,430 | 674 | 8% |
| Kilograms harvested | 4,578 | 7,519 | (2,941) | (39%) |
| Average yield per plant (grams) | 149 | 115 | 34 | 29% |
| Weighted average cost per gram from clone to harvest of plants on hand | $ 0.56 | $ 0.46 | $ 0.10 | 21% |
| Weighted average cost per gram of inventory on hand | $ 0.79 | $ 0.50 | $ 0.29 | 57% |

The Company harvested 2,318 kg and 4,578 kg of cannabis in the three and six months ended June 30, 2022, compared to 4,322 kg and 7,519 kg respectively, in the same period of 2021, decreasing by 2,004 kg and 2,941 kg respectively. For the three and six months ended June 30, 2022 yield per plant averaged 149 g per plant compared to 158 g and 115 g per plant respectively, for the same period in 2021, with a weighted average cost per gram from clone to harvest of plants on hand of $0.56 in Q2 2022 compared to $0.46 in the comparable 2021 period. The weighted average cost per gram of inventory on hand increased to $0.79 in Q2 2022 compared to $0.50 in the comparable 2021 period. Lower harvests and yield per plant declined as a result of the lost harvests when the company's grow rooms were closed.

## Summary of Q2 Results and Results of Operations

| | For the three months ended | | | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | $ Change | % Change |
| Total Revenue | $13,185,209 | $ 13,811,639 | $ (626,430) | (5%) |
| Net revenue | 9,690,712 | 10,604,447 | (913,735) | (9%) |
| Cost of goods sold | (9,216,469) | (7,491,868) | (1,724,601) | 23% |
| **Gross (loss) profit before changes in fair value** | 474,243 | 3,112,579 | (2,638,336) | (85%) |
| **Gross (loss) profit before changes in fair value - as % of Net Revenue** | 5% | 29% | N/A | (24%) |
| Realized FV amounts included in inventory sold | 3,575,701 | 2,762,392 | 813,309 | 29% |
| Unrealized loss (gain) on changes in fair value of biological assets | 347,931 | (556,313) | 904,244 | (163%) |
| **Gross profit (loss)** | (3,449,389) | 906,500 | (4,355,889) | (481%) |
| Loss and comprehensive loss | (9,027,497) | (9,950,886) | 923,389 | (9%) |
| Adjusted EBITDA [1] | (2,419,423) | (3,295,562) | 876,139 | (27%) |
| Cash provided by (used in) operations | (9,802,779) | (4,232,997) | (5,569,782) | 132% |
| **Basic loss per share** | (0.03) | (0.04) | | |
| Diluted loss per share | $ (0.03) | $ (0.04) | | |

| | For the six months ended | | | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | $ Change | % Change |
| Total Revenue | $ 28,955,778 | $ 26,711,620 | $ 2,244,158 | 8% |
| Net revenue | 22,114,682 | 20,882,515 | 1,232,167 | 6% |
| Cost of goods sold | (18,903,255) | (17,519,196) | (1,384,059) | 8% |
| **Gross (loss) profit before changes in fair value** | 3,211,427 | 3,363,319 | (151,892) | (5%) |
| **Gross (loss) profit before changes in fair value - as % of Net Revenue** | 15% | 16% | N/A | (2%) |
| Realized FV amounts included in inventory sold | 4,902,400 | 7,171,036 | (2,268,636) | (32%) |
| Unrealized loss (gain) on changes in fair value of biological assets | (180,360) | (4,638,042) | 4,457,682 | (96%) |
| **Gross profit (loss)** | (1,510,613) | 830,325 | (2,340,938) | (282%) |
| Loss and comprehensive loss | (17,791,096) | (16,958,821) | (832,275) | 5% |
| Adjusted EBITDA [1] | (1,855,977) | (3,727,671) | 1,871,694 | (50%) |
| Cash provided by (used in) operations | (17,186,191) | (19,013,494) | 1,827,303 | (10%) |
| **Basic loss per share** | (0.06) | (0.08) | | |
| Diluted loss per share | $ (0.06) | $ (0.08) | | |

[1]Adjusted EBITDA does not have a standardized method of calculation prescribed by IFRS and therefore may not be comparable to similar measures used by other companies. For a reconciliation of Adjusted EBITDA to income (loss) please refer to the "Adjusted EBITDA" section of this MD&A.

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Total assets | $ 132,439,274 | $ 144,223,828 |
| Total non-current liabilities | 113,716,584 | 6,405,050 |
| Total liabilities | 128,449,812 | 122,797,817 |
| Cash and cash equivalent | 14,153,854 | 21,416,073 |
| Working capital | 38,355,023 | (54,967,354) |

## 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 | | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | $ Change | % Change |
| **Net Revenue*** | | | | |
| Medical | $ 4,339,069 | $ 3,494,625 | $ 844,444 | 24% |
| Adult Use | 5,351,643 | 6,922,569 | (1,570,926) | (23%) |
| Bulk | — | 187,253 | (187,253) | (100%) |
| **Total Net Revenue** | $ 9,690,712 | $ 10,604,447 | $ (913,735) | (9%) |

* Revenue less Excise taxes

| | | For the six months ended | | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | $ Change | % Change |
| **Net Revenue*** | | | | |
| Medical | $ 10,562,493 | $ 8,679,615 | $ 1,882,878 | 22% |
| Adult Use | 11,334,127 | 11,729,052 | (394,925) | (3%) |
| Bulk | 218,062 | 473,848 | (255,786) | (54%) |
| **Total Net Revenue** | $ 22,114,682 | $ 20,882,515 | $ 1,232,167 | 6% |

* Revenue less Excise taxes

The Company recorded net revenue, defined as revenue (i.e., gross revenue less discounts and returns and customer incentives) less excise taxes, of $9,690,712 and $22,114,682 for the three and six months ended June 30, 2022, representing a decrease of 9% and increase of 6%, respectively compared to the same period in 2021. The decrease for the three months ended June 30, 2022 was driven by a decline in adult use revenue of $1,570,926 or negative 23%, slightly offset by growth in medical revenue of $844,444 or 24%. The unavailability of the company's proprietary cultivars reduced the case fill rate for adult use products in addition to softer sales in the vape category. Medical sales growth represents higher patient renewals as well as larger basket size purchases.

The increase in net revenue for the six months ended June 30, 2022 represents growth in medical revenue of $1,882,878 or 22%, slightly offset by decrease in Adult use by $394,925, or negative 3%. Growth in the medical channel represents new product formats, sustained patient levels, and higher THC product distribution. Adult use was largely impacted by product shortages causing unfilled orders, and a decline in sales of certain products, mostly in the vape category.

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

| | | For the three months ended | | |
|---|---|---|---|---|
| **Grams sold** | June 30, 2022 | June 30, 2021 | Weight Change | % Change |
| Medical | 1,285,437 | 732,547 | 552,890 | 75% |
| Adult Use | 2,874,247 | 2,478,621 | 395,626 | 16% |
| Bulk | — | 1,340,366 | (1,340,366) | (100%) |
| **Total grams sold** | 4,159,684 | 4,551,534 | (391,850) | (9%) |

| | | For the six months ended | | |
|---|---|---|---|---|
| **Grams sold** | June 30, 2022 | June 30, 2021 | Weight Change | % Change |
| Medical | 2,809,443 | 1,677,140 | 1,132,303 | 68% |
| Adult Use | 5,136,297 | 3,804,593 | 1,331,704 | 35% |
| Bulk | 1,158,710 | 2,947,806 | (1,789,096) | (61%) |
| **Total grams sold** | 9,104,450 | 8,429,539 | 674,911 | 8% |

Total dried cannabis sold for three and six months ended June 30, 2022 was 4,159,684 g and 9,104,450 g compared to 4,551,534 g and 8,429,539 g for the same period in 2021, representing a decrease of 391,850 g or negative 9% and increase of 674,911 g or 8%.

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

| Average selling price (net of excise taxes) per gram | For the three months ended | | | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | $ Change | % Change |
| Medical | $ 3.38 | $ 4.77 | $ (1.39) | (29%) |
| Adult Use | 1.86 | 2.79 | (0.94) | (34%) |
| Bulk | — | 0.14 | (0.14) | (100%) |
| | $ 2.33 | $ 2.33 | $ (0.00) | (0%) |

| Average selling price (net of excise taxes) per gram | For the six months ended | | | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | $ Change | % Change |
| Medical | $ 3.76 | $ 5.18 | $ (1.42) | (27%) |
| Adult Use | 2.21 | 3.08 | (0.89) | (29%) |
| Bulk | 0.19 | 0.16 | 0.02 | 11% |
| | $ 2.43 | $ 2.48 | $ (0.05) | (2%) |

For the three months and six months ended June 30, 2022, the total average selling price per gram decreased by $Nil and $0.05 or 2% respectively, compared to the same period in 2021. For the six months ended June 30, 2022, average selling price per gram of Medical and Adult Use decreased by 27% and 29% respectively, whereas Bulk products increased by 11%, compared to the same period in 2021. The reduction in selling price per gram for Medical and Adult use is due to general price compression in the Cannabis industry.

## *Gross profit (loss) before changes in fair value*

Gross profit (loss) before changes in fair value represents the revenue (net of excise taxes) on products that were sold in the period, less costs of goods sold. Gross loss before changes in fair value for the three and six months ended June 30, 2022 decreased by $2,638,336 or negative 85% and by $151,892 or 5% respectively, compared to same period in 2021.

Given the temporary closure of rooms as detailed in the revenue section, there was excess capacity with no production to absorb fixed overheads, as such included in cost of goods sold are expenses of $1,524,692 and $3,304,296 during the three and six months ended June 30, 2022 respectively, representing cost of excess capacity. In addition, there were higher third-party purchases leading to lower gross profit before changes in fair value.

## *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 six months ended June 30 , 2022, Gross profit decreased by $4,355,889 or negative 481% and $2,340,938 or negative 282% compared to the same period in 2021 due to fair value changes for the biological assets in production.

## *Selling, general and administrative expenses*

Selling, general and administrative expenses for three and six months ended June 30, 2022 decreased by $2,543,286 or negative 24% and $1,894,253 or negative 12% respectively, compared to the same period in 2021. The decrease versus 2021 is mainly driven by decreased consulting fees, office & administrative expenses, salaries and benefits and research and development and partially offset by an increase in selling marketing and promotional expenses and professional fees.

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

| | | For the three months ended | | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | $ Change | % Change |
| Salaries and benefits | $ 3,818,712 | $ 4,761,148 | $ (942,436) | (20%) |
| Selling, marketing and promotion | 943,260 | 590,342 | 352,918 | 60% |
| Office & Administrative | 1,415,764 | 2,349,924 | (934,160) | (40%) |
| Professional fees | 794,255 | 332,815 | 461,440 | 139% |
| Consulting fees | 814,004 | 2,258,890 | (1,444,886) | (64%) |
| Research and development | 52,556 | 88,718 | (36,162) | (41%) |
| **Total** | $ 7,838,551 | $ 10,381,837 | $ (2,543,286) | (24%) |

| | | For the six months ended | | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | $ Change | % Change |
| Salaries and benefits | $ 7,446,972 | $ 7,582,710 | $ (135,738) | (2%) |
| Selling, marketing and promotion | 1,977,454 | 1,038,108 | 939,346 | 90% |
| Office & Administrative | 2,138,926 | 3,054,753 | (915,827) | (30%) |
| Professional fees | 1,766,971 | 1,604,511 | 162,460 | 10% |
| Consulting fees | 1,077,122 | 2,891,914 | (1,814,792) | (63%) |
| Research and development | 100,804 | 230,506 | (129,702) | (56%) |
| **Total** | $ 14,508,249 | $ 16,402,502 | $ (1,894,253) | (12%) |

### *Salaries and benefits*

Salaries and benefits decreased by $942,436 or negative 20% to $3,818,712 and $135,738 or negative 2% to $7,446,972, during the three and six months ended June 30, 2022, compared to the same period in 2021. The decrease represents one time severance charges related to the closure of the Bowmanville facility in 2021.

### *Selling, marketing, and promotion*

Selling, marketing, and promotion increased by $352,918 or 60% to $943,260 and $939,346 or 90% to $1,977,454 during the three and six months ended June 30, 2022, compared to the same period in 2021. An increase in sales and marketing costs is due to a higher volume of in-store initiatives to drive sales in other categories to offset loss of sales of our proprietary cultivars.

### *Office and administrative*

Office and Administrative expenses include general office expenses, subscriptions, and memberships as well as other overhead costs not directly related to production. Office and administrative expenses decreased by $934,160 or negative 40% to $1,415,764 and $915,827 or negative 30% to $2,138,926 during the three and six months ended June 30, 2022, compared to the same period in 2021. This reduction is consistent with business transformation initiatives enacted in Q3 2021 which has resulted in pervasive cost control mechanisms to reduce the administration burden.

### *Professional fees*

Professional fees increased by $461,440 or 139% to $794,255 and $162,460 or 10% to $1,766,971 during the three and six months ended June 30, 2022, compared to the same period of 2021 due to additional audit fees and other professional services associated with Canntx integration slightly offset by reduction in legal fees.

## Consulting fees

Consulting fees decreased by $1,444,886 or negative 64% to $814,004 and $1,814,792 or negative 63% to $1,077,122 during the three and six months ended June 30, 2022, compared to the same period in 2021. The decrease is due to prior year business transformation expenses which were not recurring.

## Research and Development

Research and Development decreased by $36,162 or negative 41% to $52,556 and $129,702 or negative 56% to $100,804 during the three and six months ended June 30, 2022, compared to the same period in 2021.

## 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 decreased by $124,182 or negative 46% to $144,976 and $313,815 or negative 47% to $354,547 during the three and six months ended June 30, 2022, compared to the same period in 2021, mainly as a result of reduction of the number of options granted to Management, employees, directors and consultants of the Company in 2022.

## Depreciation and Amortization

Total depreciation and amortization expense decreased by $352,207 or negative 15% to $2,002,608 and $2,212,581 or negative 39% to 3,524,743 for the three and six months ended June 30, 2022 compared to the same periods in 2021. The decrease in depreciation and amortization is mainly due to impairment recorded on December 31, 2021 for property, plant and equipment's, right of use assets and intangibles. Therefore, no depreciation was recorded in the half year on right of use of assets and intangibles.

## EBITDA and Adjusted EBITDA

| | For the three months ended | | | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | $ Change | % Change |
| Loss and comprehensive loss | $ **(9,027,497)** | $ (9,950,886) | $ **923,389** | (9%) |
| Add (Deduct) | | | | |
| Depreciation and Amortization* | 2,002,608 | 2,354,815 | (352,207) | (15%) |
| Finance costs | 5,313,919 | 2,428,418 | 2,885,501 | 119% |
| **EBITDA** | **(1,710,970)** | (5,167,653) | **3,456,683** | (67%) |
| Inventory adjustments | 717,406 | 1,867,411 | (1,150,005) | (62%) |
| Provision for returns | 1,246,819 | — | 1,246,819 | 100% |
| One-time cost of sales expenses | 1,524,692 | — | 1,524,692 | 100% |
| Severance | 153,512 | 523,639 | (370,127) | (71%) |
| Realized fair value amounts included in inventory sold | 3,575,701 | 2,762,392 | 813,309 | 29% |
| Unrealized loss (gain) on changes in fair value of biological assets | 347,931 | (556,313) | 904,244 | (163%) |
| Impairment of property, plant and equipment | 687,798 | — | 687,798 | 100% |
| Share based compensation | 144,976 | 269,158 | (124,182) | (46%) |
| Gain on lease modification | (805,324) | — | (805,324) | (100%) |
| Gain on modification of loan and borrowings | (3,195,964) | — | (3,195,964) | 100% |
| Gain on extinguishment of unsecured convertible debentures | (5,106,000) | — | (5,106,000) | 100% |
| Government grants | — | (2,104,387) | 2,104,387 | (100%) |
| Other income, net | — | (889,809) | 889,809 | (100%) |
| **Adjusted EBITDA** [1] | $ **(2,419,423)** | $ (3,295,562) | $ **876,139** | (27%) |

* For three months ended June 30, 2022, includes depreciation of $1,301,877 (June 30, 2021- $1,571,432) amount expensed in cost of goods

| | For the six months ended | | | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | $ Change | % Change |
| Loss and comprehensive loss | **$ (17,791,096)** | $ (16,958,821) | **$ (832,275)** | 5% |
| Add (Deduct) | | | | |
| Depreciation and Amortization* | 3,524,743 | 5,737,324 | (2,212,581) | (39%) |
| Finance costs | 9,129,624 | 4,909,376 | 4,220,248 | 86% |
| **EBITDA** | **(5,136,729)** | (6,312,121) | **1,175,392** | (19%) |
| Inventory adjustments | 1,309,874 | 4,074,756 | (2,764,882) | (68%) |
| Provision for returns | 1,246,819 | — | 1,246,819 | 100% |
| One-time cost of sales expenses | 3,304,296 | — | 3,304,296 | 100% |
| Severance | 762,666 | 1,545,806 | (783,140) | (51%) |
| Realized fair value amounts included in inventory sold | 4,902,400 | 7,171,036 | (2,268,636) | (32%) |
| Unrealized loss (gain) on changes in fair value of biological assets | (180,360) | (4,638,042) | 4,457,682 | (96%) |
| Impairment of property, plant and equipment | 687,798 | — | 687,798 | 100% |
| Share based compensation | 354,547 | 668,362 | (313,815) | (47%) |
| Gain on lease modification | (805,324) | — | (805,324) | (100%) |
| Gain on modification of loan and borrowings | (3,195,964) | — | (3,195,964) | (100%) |
| Gain on extinguishment of unsecured convertible debentures | (5,106,000) | — | (5,106,000) | (100%) |
| Government grants | — | (2,149,401) | 2,149,401 | (100%) |
| Other income, net | — | (4,088,067) | 4,088,067 | (100%) |
| **Adjusted EBITDA [1]** | **$ (1,855,977)** | $ (3,727,671) | **$ 1,871,694** | (50%) |

* For six months ended June 30, 2022, includes depreciation of $2,816,610 (June 30, 2021- $3,679,736) amount expensed in cost of goods sold

[1]Adjusted EBITDA is not a recognized measurement under IFRS and this data may not be comparable to data presented by other companies. Management believes Adjusted EBITDA is an important measure of the Company's day-to-day operations, by excluding interest, tax, depreciation and amortization, share-based compensation, fair value changes and other non-cash items, and non-cash items, and non-recurring items.

## *EBITDA*

Earnings before interest, tax, depreciation and amortization ("EBITDA") increased by $3,456,683 or 67% to negative $1,710,970 and increased by $1,175,392 or 19% to negative $5,136,729 during the three and six months ended June 30, 2022, compared to the same period of 2021 due to reduction in expenses due to operational efficiencies. Increase in EBITDA due to higher interest expense addbacks, slightly offset by higher losses and lower depreciation

## *Adjusted EBITDA*

Adjusted EBITDA is a non-GAAP financial measure. For information on how we define and calculate Adjusted EBITDA, and a reconciliation of net loss to Adjusted EBITDA, refer to "Non-GAAP Financial Measures".

Adjusted EBITDA increased by the $876,139 or 27% to negative $2,419,423 and increased by $1,871,694 or 50% to negative $1,855,977 during the three and six months ended June 30, 2022 compared to the same period of 2021 mainly due to reduction in expenses due to higher add backs largely driven by: (a) one time transactions related to debt extinguishment, (b) reduction in fair value inventory adjustments given vegetative state of bioassets, and (c) one time sales expenses incurred for which activity has not yet transpired

## *Liquidity and Capital Resources*

| | For the three months ended | | | |
|---|---|---|---|---|
| | June 30, 2022 | June 30, 2021 | $ Change | % Change |
| Cash provided by (used in): | | | | |
| Operating activities | $ (9,802,778) | $ (4,232,997) | $ (5,569,781) | 132% |
| Investing activities | (28,254) | 1,689,094 | (1,717,348) | (102%) |
| Financing activities | 14,200,907 | (2,660,801) | 16,861,708 | (634%) |
| (Decrease) increase in cash | $ 4,369,875 | $ (5,204,704) | $ 9,574,579 | (184%) |

| | | For the six months ended | | | |
|---|---|---|---|---|---|
| | | June 30, 2022 | June 30, 2021 | $ Change | % Change |
| Cash provided by (used in): | | | | | |
| Operating activities | $ | (17,186,191) $ | (19,013,494) $ | 1,827,303 | (10%) |
| Investing activities | | (1,272,094) | 1,662,131 | (2,934,225) | (177%) |
| Financing activities | | 11,196,066 | 10,338,657 | 857,409 | 8% |
| (Decrease) increase in cash | $ | (7,262,219) $ | (7,012,706) $ | (249,513) | 4% |

## *Cash flow from operating activities*

Cash used in operating activities was $9,802,778 and $17,186,191 during the three and six months ended June 30, 2022, respectively, compared to $4,232,997 and $19,013,494 during the same periods of 2021, respectively. Lower spending for the three and six months ending June 30, 2022 was a result of the benefits from the business transformation activities which began in Q3 2021.

## *Cash flow from investing activities*

Cash used in investing activities was $28,254 and $1,272,094 during the three and six months ended June 30, 2022, respectively, compared to cash provided by investing activities of $1,689,094 and $1,662,131 during the same periods of 2021, respectively, mainly due to capital investments made in 2022 to support the infrastructure of the Strathroy facility as well as costs to improve products, whereas in 2021, proceeds were received from disposal of assets held for sale.

## *Cash flow from financing activities*

Cash provided by financing activities was $14,200,907 and $11,196,066 during the three and six months ended June 30, 2022, respectively, compared to cash used in financing activities was $2,660,801 and cash provided in financing activities was $10,338,657 during the same periods of 2021, respectively. The increase of $16.8 million represents capital injection received through debt from LPF, whereas activity for the three and six months ended June 30, 2021, was related to transactional activity targeted at an equity raise.

## *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 at June 30, 2022, the Company had cash and cash equivalents of $14,153,854 (December 31, 2021: $21,416,073). Total current assets for the same period were $53,088,251 (December 31, 2021: $61,425,413), including inventory and biological assets of $28,853,287 (December 31, 2021: $30,247,728), with current liabilities of $14,733,228 (December 31, 2021: $116,392,767) resulting in working capital of $38,355,023 (negative working capital of December 31, 2021: $54,967,354).

The Company's current ratio at June 30, 2022 was 3.60 compared to 0.53 at December 31, 2021 driven by classification of loans pertaining to Facility 1, 2 and 3 which will mature based on amended maturity date of June 30, 2024; the credit facility with the LiUNA Pension Fund of Central and Eastern Canada ("LPF") which will mature based on amended maturity date of December 31, 2024; and due to the maturity on June 30, 2022 of the unsecured convertible debentures issued on September 25, 2019, and repayment on maturity at a discount of 40% on the principal amount (The repayment was made by obtaining an additional loan from LPF).

## Going Concern

As of June 30, 2022, the Company had a working capital of $38,355,023 (December 31, 2021 – negative working capital of $54,967,354) and an accumulated deficit of $214,012,670 (December 31, 2021 - $196,221,574). For the six months ended, the Company used cash in operating activities of $17,186,191 (six months ended June 30, 2021 - $19,013,494), resulting primarily from the net loss of $17,791,096 (six months ended June 30, 2021 - $16,958,821) offset by items not affecting cash such as depreciation, amortization, and stock-based compensation.

Management believes the Company will require additional financing in order to conduct its planned business operations, meet its ongoing levels of corporate overheads and discharge its liabilities and commitments as they come due.

## 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

| | June 30, 2022 | December 31, 2021 | $ Change | % Change |
|---|---|---|---|---|
| Dried cannabis | $ 18,699,339 | $ 17,736,539 | $ 962,800 | 5% |
| Harvested work in progress | 1,495,016 | 4,121,413 | (2,626,397) | (64%) |
| Extracts | | | | |
| Resin | 146,851 | 144,616 | 2,235 | 2% |
| Crude oil | 1,440,315 | 998,714 | 441,601 | 44% |
| Finished oil | 3,738,568 | 4,391,981 | (653,413) | (15%) |
| Total extracts | 25,520,089 | 27,393,263 | (1,873,174) | (7%) |
| Non-cannabis inventory | 2,192,919 | 2,247,290 | (54,371) | (2%) |
| | $ 27,713,008 | $ 29,640,553 | $ (1,927,545) | (7%) |

Total inventory decreased by $1,927,545 or negative 7% from December 31, 2021 to June 30, 2022 mainly due to the temporary room closures throughout the second quarter.

## Loans and borrowings

Credit Facility with Bank of Montreal (BMO)

Under the Credit agreement with Bank of Montreal (BMO) dated September 30, 2020, the Company was to maintain until the Conversion Date a total funded debt to tangible net worth ratio of not more than 1:1. From July 2020, the Company was to maintain Liquidity coverage of not less than $2,000,000.

At or after the Conversion Date the Company must maintain

- a minimum fixed charge coverage ratio of 1.25:1,
- a senior funded debt to EBITDA ratio of not more than 3:1,
- a total funded debt to EBITDA ratio of not more than 4:1.

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 the June, 30, 2022 amendment the Company is to maintain liquidity coverage of not less than $1,000,000 at all times. As part of the conditions necessary for the amendment of the loan with BMO, the Company was required to settle its unsecured convertible debentures on or before the amendment date. Further, the company was required to extend the maturity date, of convertible debentures acquired through the CannTx transaction to a minimum of December 31, 2024 by no later than July 30th, 2022 (refer to note 24 of the Condensed Interim Consolidated Financial Statements).

<u>Credit facility with LiUNA Pension Fund of Central and Eastern Canada (“LPF”)</u>

On April 29, 2022, the Company received additional disbursement of $15 million proceeds from LPF for use by the Company for general working capital purposes, maturing in August 2022 and bearing a 15.25% interest rate per annum and shall accrue daily and be payable monthly in arrears, with a payment-in-kind option at the Company's discretion, to add interest accrued to the principal loan amount.

On June 27, 2022, the Company entered into an arrangement with LPF to repay in full the unsecured convertible debenture holders of the Company including its related expenses ($8.2 million is towards repayment of its debenture holders and $698,489 towards its related expenses) and agreed to increase the loan by $8.9 million on the same terms as noted above. The unsecured convertible debenture holders including its related expenses were directly settled by LPF.

On June 30, 2022, the Company secured an extension of the maturity date of the LPF loan from August 2022 to December 31, 2024, and a deferral of certain of its financial covenants to January 1, 2024, subject to certain conditions. 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 the June, 30, 2022 amendment the Company is to maintain liquidity coverage of not less than $1,000,000 at all times. As part of the conditions necessary for the amendment of the loan with LPF, the Company was required to settle its unsecured convertible debentures on or before the amendment date. Further, the company was required to extend the maturity date, of convertible debentures acquired through the CannTx transaction to a minimum of December 31, 2024 by no later than July 30th, 2022 (refer to note 24).

The company was in compliance with applicable financial covenants as at June 30, 2022. (In the first quarter of the six months ended June 30, 2022 and for the year ended December 31, 2021, the Company was in breach of one of the covenants related to total funded debt to tangible net worth ratio of not more than 1:1, however the Company received a written waiver from the lender prior to the issuance of the financial statements relating to those periods.)

<u>Convertible Debentures</u>

The company was required, as a condition of the amendments to its loans with its senior secured creditors, to extend the maturity date of the 9.0% convertible debentures acquired through the CannTx transaction to a minimum of December 31, 2024 by no later than July 30th, 2022 (refer to note 24 of the Condensed Interim Consolidated Financial Statements).

## *Off-balance sheet arrangements*

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

## Contractual obligations

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

## Transactions with related parties

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

The balances outstanding are as follows:

| | | June 30, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ | — | $ | 115,543 |

For the three and six months ended June 30, 2022 and 2021, total remuneration/service fees/ share-based compensation expensed pertaining to the key management is as follows:

| | For the three months ended | | | | For the six months ended | | | |
|---|---|---|---|---|---|---|---|---|
| | | June 30, 2022 | | June 30, 2021 | | June 30, 2022 | | June 30, 2021 |
| Share based Compensation | $ | 273,787 | $ | 131,932 | $ | 608,358 | $ | 279,669 |
| Salaries | | 520,910 | | 227,086 | | 840,918 | | 684,702 |
| Bonuses | | 346,000 | | 11,250 | | 346,000 | | 148,750 |
| Severance payments | | — | | 243,003 | | — | | 761,400 |
| Fees | | 35,724 | | — | | 35,724 | | — |
| | $ | 1,176,421 | $ | 613,271 | $ | 1,831,000 | $ | 1,874,521 |

## Deferred share units

On March 31, 2022, the Company determined and authorized the grant of an aggregate of 1,911,290 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 the first quarter of 2022. 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 $204,155.

On June 10, 2022, the Company determined and authorized the grant of an aggregate of 788,793 deferred share units ("DSUs") to certain directors and employees 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 second quarter of 2022. 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 $43,384.

On June 30, 2022, the Company determined and authorized the grant of an aggregate of 1,454,544 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 a portion of the cash compensation for services rendered during the second quarter of 2022. 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 $95,938.

During three and six months ended June 30, 2022, the Company granted 50,000 options to an employee of the Company which were valued based on the value of the instruments as the value of the services was not reliably determinable. Each option is exercisable into one common share at an exercise price of $0.40, until December 8, 2026. One third options are vested every 6 months. The fair value of the Options has been estimated using the Black-Scholes option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 159.49%; (iii) risk-free interest rate of 1.51%; (iv) share price of $0.075; (v) forfeiture rate of nil; and (vi) expected life of 60 months. The total fair value of the options is $3,172.

Total share-based compensation for the three and six months ended June 30, 2022 is $144,976 and $354,547 respectively (June 30, 2021 was $269,158 and $668,362 respectively).

## *Disclosure of outstanding share data*

As at August 29, 2022, the following were outstanding:

| **Outstanding Shares** | **at August 29, 2022** |
|---|---|
| Common shares | 306,744,396 |
| Warrants | 36,047,165 |
| Stock and broker compensation options | 11,280,278 |
| | **354,071,839** |

## *RISK FACTORS*

There are various risk factors that could impact the Company's ability to successfully execute its key strategies and may materially affect future events, performance or results, including without limitation:

- 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

## Risks related to COVID-19

The COVID-19 pandemic and related government responses could have a material and adverse effect on our business, financial condition, and results of operations by impacting our operations, supply chains, interactions with consumers and counterparties, ability to meet consumer demand, and financial condition. While we believe the height of the pandemic has passed, the impact of infectious diseases and pandemics on our business could vary depending on the duration, severity, and scope of the outbreak and the actions taken by applicable governmental entities to address and mitigate the infectious disease or pandemic.

The Company has cultivation and processing facilities in Strathroy and Aylmer in Ontario, which produce cannabis plants, dried cannabis, oil, topicals, extracts and edibles. The facilities have been deemed essential, remaining open and producing according to schedule. If our manufacturing operations at Strathroy and Aylmer are deemed non-essential, and are required to close for a significant period of time, The Company's operational and financial performance would be significantly impacted.

Given the ongoing and dynamic nature and significance of COVID-19 and its impact globally, we are unable to cover all potential risks to our business. Any of the negative impacts of COVID-19, including those described above, alone or in combination with others, may have a material adverse effect on our business, results of operations or financial condition.

In addition, any of these negative impacts, alone or in combination with others, could exacerbate many of the other risk factors outlined in "Note 2" of the condensed interim consolidated financial statements .

## 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 condensed interim 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 20" of the condensed interim 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.

The carrying values of cash (Level 1), trade and other receivables (Level 2), accounts payable (Level 2) and accrued liabilities (Level 2), short term loan and borrowings (Level 2) approximate their fair values because of the short-term nature of these financial instruments. Long term loan and borrowings and unsecured convertible debentures are recorded at amortized cost.

### 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 and other receivables which has a balance of $6,632,251 (December 31, 2021: $7,677,210).

As at June 30, 2022, 91% (December 31, 2021: 54%) of the Company's trade and other receivables balance, is owing from 3 customer (December 31, 2021: 1 customers), each representing more than 10% of trade and other receivables.

Cash is generally invested in cash accounts held in Canadian chartered banks, in short-term GICs or in-trust. Restricted cash is generally 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 participants in the cannabis industry and are received within a short period of time. Management expects credit risk to be minimal.

### 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 reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due; maintains an adequate working capital to repay trade creditors as they become due.

The Company has total current liabilities of $14,733,228 (December 31, 2021: $116,392,767) with cash on hand of $14,153,854 (December 31, 2021: $21,416,073). In the opinion of management, the liquidity risk exposure to the Company is moderate. The Company will manage the risk exposure through increased future sales, minimizing expenses by increasing efficiency and productivity, accessing the Revolving Credit Facility, 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:

| | | 2022-23 (Year 1) | | 2023-24 (Year 2) | | 2024-25 (Year 3) | | 2025-26 (Year 4) | | 2026 and later | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Lease liabilities | $ | 672,662 | $ | 190,563 | $ | 125,671 | $ | 128,253 | $ | 480,455 | $ | 1,597,604 |
| Loans and borrowings | | 2,531,952 | | 32,358,389 | | 118,856,662 | | 310,500 | | 5,129,375 | | 159,186,878 |
| Unsecured convertible debentures | | 91,175 | | 1,081,431 | | — | | — | | — | | 1,172,606 |
| Other commitments | | 9,833 | | 9,038 | | 2,479 | | — | | — | | 21,350 |
| Accounts payables and accrued liabilities | | 12,168,300 | | — | | — | | — | | — | | 12,168,300 |
| **Total** | $ | 15,473,922 | $ | 33,639,421 | $ | 118,984,812 | $ | 438,753 | $ | 5,609,830 | $ | 174,146,738 |

### *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.

## SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events up to August 29, 2022, the date the unaudited condensed interim consolidated financial statements were issued and determined the following events:

On July 29, 2022, the Company announced it has amended all of the outstanding 9.0% unsecured convertible debentures of the Company's subsidiary CannTx Life Sciences Inc. in a principal amount of CDN $1,013,050, in order to: (i) extend the maturity date of the Debentures to December 31, 2025; (ii) in certain cases, allow for the interest accrued under the Debentures to be paid in cash or Entourage common shares; and (iii) reduce the conversion price of the Debentures to $0.15 per Entourage common share.

In August 2022, Entourage announced it entered into an exclusive licensing agreement with U.S.-based Irwin Naturals, a renowned nutraceuticals and herbal supplement formulator. Under the agreement, Entourage will produce and distribute Irwin Naturals Cannabis products in Canada. The first line of products are expected to be available to Starseed Medicinal patients in Q4, 2022 with eventual expansion into adult-use retail stores. The strategic partnership follows recent release of recommendations for easing access to over-the-counter CBD products in Canadian pharmacies.

Also in early August 2022, the Company appointed Vincent Doré to Chief Legal Officer and Corporate Secretary, followed by the appointment of James Afara to Chief Operating Officer later in the month.