Entourage Health Corp.

Management's Discussion & Analysis

For the three and nine months ended September 30, 2022

November 14, 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 nine months ended September 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 nine months ended September 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 November 14, 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 September 30, 2022

Leadership Appointments and Corporate News

- The appointment of James Afara as the Company's Chief Operating Officer (COO) effective September 16, 2022. His leadership comes at a pivotal time as the Company integrates all functional teams in cultivation, tissue culture, production, operations and supply chain under one leader, to align core competencies and resources for maximum output.

Financing and Credit Facilities

- In July 2022, Entourage announced debentureholders approved certain amendments to the outstanding 9.0% unsecured convertible debentures of the Company's subsidiary CannTx Life Sciences Inc.

- $30 million in funding availability under the credit facility will be made available to Entourage in two equal tranches of $15 million each: the first tranch on October 31, 2022 , and the second 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. The Credit Facility 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. LPF's security under the Credit Facility is in second position to the Company's senior creditor.

Sales, Marketing and Business Development Highlights

Adult-Use and Medical Highlights

- Entourage announced the Canadian debut of The Boston Beer Company's (BBC) new cannabis-infused iced tea beverages 'TeaPot'. Entourage is 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.

- Later in July, Entourage announced the expansion of its medical offerings with the launch of new services, signing with HelloMD, a telehealth network to support high volume of patient consultations. The Company also debuted its customized, first-of-its-kind digital Patient Treatment Plan for registered patients looking for tailored products along with dosing guidelines.

- 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.

- Entourage signed four new union groups to its Starseed Medicinal program in August 2022, in partnership with leading benefits provider Union Benefits – the administrator of group benefits to over 12,000 members. With addition, Entourage confirms it has 10 union groups, five insurance providers and 24 clinics.

- In September 2022, Entourage launched Syndicate, a 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. Syndicate complements the Company's popular medical platform Starseed Medicinal which specializes as a medical cannabis provider to clients with insurance benefits coverage. With Syndicate, patients without insurance coverage can access a comprehensive catalogue of cannabis products, formats, and brands at a competitive price point.

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 CO_2 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:

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) strains, 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 September 30, 2022, Mary's Medicinals held 40% 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 September 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, subsequently expanding into Ontario in October 2022. 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.

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 September 30, 2022.

KEY FINANCIAL HIGHLIGHTS

HISTORICAL QUARTERLY RESULTS

	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Total Revenue	$ 13,438,320	$ 13,185,209	$ 15,770,569	$ 13,538,871
Revenue, Net	10,075,302	9,690,712	12,423,970	10,600,507
Gross profit (loss) before change in fair value	(4,890,887)	474,243	2,737,184	(2,800,620)
Loss and comprehensive loss	(17,432,184)	(9,027,497)	(8,763,599)	(44,509,174)
Basic and diluted (loss) per share from continuing operations	(0.06)	(0.03)	(0.03)	(0.17)
Basic and diluted (loss) attributable to the shareholders	$ (0.06)	$ (0.03)	$ (0.03)	$ (0.17)

	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Total Revenue	$ 14,978,879	$ 13,811,639	$ 12,899,981	$ 6,961,763
Revenue, Net	10,788,812	10,604,447	10,278,068	5,076,652
Gross profit (loss) before change in fair value	(4,155,264)	3,112,579	250,740	(22,532,631)
Loss and comprehensive loss	(17,467,138)	(9,950,886)	(7,007,935)	(45,545,046)
Basic and diluted (loss) per share from continuing operations	(0.07)	(0.04)	(0.03)	(0.22)
Basic and diluted (loss) attributable to the shareholders	$ (0.07)	$ (0.04)	$ (0.03)	$ (0.22)

As disclosed in the Company's condensed interim consolidated financial statements for the three months ended June 30, 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 September 30, 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 and third quarters. 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	September 30, 2022	September 30, 2021	$ or Weight Difference	% Change
Revenue	$ 13,438,320	$ 14,978,879	$ (1,540,559)	(10%)
Kilograms equivalent sold - cannabis	3,633	4,136	(503)	(12%)
Kilograms harvested	3,725	3,822	(97)	(3%)
Average yield per plant (grams)	148	186	(38)	(20%)
Weighted average cost per gram from clone to harvest of plants on hand	$ 0.92	$ 0.32	$ 0.60	188%
Weighted average cost per gram of inventory on hand	$ 0.95	$ 0.55	$ 0.40	73%

For the nine months ended	September 30, 2022	September 30, 2021	$ or Weight Difference	% Change
Revenue	$ 42,394,098	$ 41,690,499	$ 703,599	2%
Kilograms equivalent sold - cannabis	12,737	12,566	171	1%
Kilograms harvested	8,303	11,341	(3,038)	(27%)
Average yield per plant (grams)	148	130	18	14%
Weighted average cost per gram from clone to harvest of plants on hand	$ 0.92	$ 0.32	$ 0.60	188%
Weighted average cost per gram of inventory on hand	$ 0.95	$ 0.55	$ 0.40	73%

The Company harvested 3,725 kg and 8,303 kg of cannabis in the three and nine months ended September 30, 2022, compared to 3,822 kg and 11,341 kg respectively, in the same period of 2021, decreasing by 97 kg and 3,038 kg respectively.

Due to a one time event, being the closure of cultivation rooms for remediation in Q1 and Q2, yields declined due to fewer plants being harvested. Although some costs were mitigated, allocated overhead costs did not decline. The result is an increase to a weighted average cost per gram of $ 0.92, compared to $0.32 in the comparable 2021 period.

For the three and nine months ended September 30, 2022 yield per plant averaged 148 g per plant compared to 186 g and 130 g per plant respectively, for the same period in 2021 as a result of growing smaller plants with higher cannaboids. The weighted average cost per gram of inventory on hand increased to $0.95 in Q3 2022 compared to $0.55 in the comparable 2021 period.

Summary of Q3 Results and Results of Operations

	For the three months ended			
	September 30, 2022	September 30, 2021	$ Change	% Change
Total Revenue	$13,438,320	$ 14,978,879	$ (1,540,559)	(10%)
Net revenue	10,075,302	10,788,812	(713,510)	(7%)
Cost of goods sold	(14,966,189)	(14,944,076)	(22,113)	0%
Gross (loss) profit before changes in fair value	(4,890,887)	(4,155,264)	(735,623)	18%
Gross (loss) profit before changes in fair value - as % of Net Revenue	-49%	-39%	N/A	(10%)
Realized FV amounts included in inventory sold	1,205,218	4,936,165	(3,730,947)	(76%)
Unrealized loss (gain) on changes in fair value of biological assets	(134,073)	1,191,650	(1,325,723)	(111%)
Gross (loss)	(5,962,032)	(10,283,079)	4,321,047	(42%)
Loss and comprehensive loss	(17,432,184)	(17,467,138)	34,954	(0%)
Adjusted EBITDA [1]	(2,932,848)	(4,115,253)	1,182,405	(29%)
Cash provided by (used in) operations	(5,465,160)	(2,248,251)	(3,216,909)	143%
Basic loss per share	(0.06)	(0.07)		
Diluted loss per share	$ (0.06)	$ (0.07)		

	For the nine months ended			
	September 30, 2022	September 30, 2021	$ Change	% Change
Total Revenue	$ 42,394,098	$ 41,690,499	$ 703,599	2%
Net revenue	32,189,984	31,671,327	518,657	2%
Cost of goods sold	(33,869,444)	(32,463,272)	(1,406,172)	4%
Gross (loss) profit before changes in fair value	(1,679,460)	(791,945)	(887,515)	112%
Gross (loss) profit before changes in fair value - as % of Net Revenue	-5%	-3%	N/A	(3%)
Realized FV amounts included in inventory sold	6,107,618	12,107,201	(5,999,583)	(50%)
Unrealized loss (gain) on changes in fair value of biological assets	(314,433)	(3,446,392)	3,131,959	(91%)
Gross (loss)	(7,472,645)	(9,452,754)	1,980,109	(21%)
Loss and comprehensive loss	(35,223,280)	(34,425,959)	(797,321)	2%
Adjusted EBITDA [1]	(4,788,825)	(7,842,924)	3,054,099	(39%)
Cash provided by (used in) operations	(22,651,351)	(21,261,745)	(1,389,606)	7%
Basic loss per share	(0.12)	(0.15)		
Diluted loss per share	$ (0.12)	$ (0.15)		

[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.

	September 30, 2022	December 31, 2021
Total assets	$ 120,496,246	$ 144,223,828
Total non-current liabilities	117,226,316	6,405,050
Total liabilities	133,856,650	122,797,817
Cash and cash equivalent	8,085,310	21,416,073
Working capital	27,122,688	(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			
	September 30, 2022	September 30, 2021	$ Change	% Change
Net Revenue*				
Medical	$ 3,086,722	$ 2,936,781	$ 149,941	5%
Adult Use	$ 6,988,580	$ 7,492,563	(503,983)	(7%)
Bulk	$ —	$ 359,468	(359,468)	(100%)
Total Net Revenue	$ 10,075,302	$ 10,788,812	$ (713,510)	(7%)

* Revenue less Excise taxes

	For the nine months ended			
	September 30, 2022	September 30, 2021	$ Change	% Change
Net Revenue*				
Medical	$ 13,649,215	$ 11,616,396	$ 2,032,819	17%
Adult Use	$ 18,322,707	$ 19,221,615	(898,908)	(5%)
Bulk	$ 218,062	$ 833,316	(615,254)	(74%)
Total Net Revenue	$ 32,189,984	$ 31,671,327	$ 518,657	2%

* 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 $10,075,302 and $32,189,984 for the three and nine months ended September 30, 2022, representing a decrease of 7% and increase of 2%, respectively compared to the same period in 2021. The decrease for the three months ended September 30, 2022 was driven by a decline in adult use and bulk revenue of $503,983 or negative 7% and $359,468 respectively, which are slightly offset by growth in medical revenue of $149,941 or 5%. The unavailability of the company's proprietary cultivars reduced the case fill rate for adult use products in addition to softer sales than antincipated in whole flower. Medical sales growth represents a growth in registered patients in addition to larger basket size purchases.

The increase in net revenue for the nine months ended September 30, 2022 represents growth in medical revenue of $2,032,819 or 17%, slightly offset by decrease in adult use and bulk revenue by $898,908, or negative 5% and 615,254 or negative 74% respectively. 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 larger than anticipated decline in whole flower sales.

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

	For the three months ended			
Grams sold	**September 30, 2022**	**September 30, 2021**	**Weight Change**	**% Change**
Medical	1,003,965	545,063	458,902	84%
Adult Use	2,628,591	3,077,420	(448,829)	(15%)
Bulk	—	513,525	(513,525)	(100%)
Total grams sold	3,632,556	4,136,008	(503,452)	(12%)

Grams sold	For the nine months ended September 30, 2022	September 30, 2021	Weight Change	% Change
Medical	3,813,408	2,222,203	1,591,205	72%
Adult Use	7,764,888	6,882,013	882,875	13%
Bulk	1,158,710	3,461,331	(2,302,621)	(67%)
Total grams sold	12,737,006	12,565,547	171,459	1%

Total dried cannabis sold for three and nine months ended September 30, 2022 was 3,632,556 g and 12,737,006 g compared to 4,136,008 g and 12,565,547 g for the same period in 2021, representing a decrease of 503,452 g or negative 12% and increase of 171,459 g or 1%.

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 September 30, 2022	September 30, 2021	$ Change	% Change
Medical	$ 3.07	$ 5.39	$ (2.31)	(43%)
Adult Use	2.66	2.43	0.21	9%
Bulk	—	0.70	(0.70)	(100%)
	$ 2.77	$ 2.61	$ 0.17	6%

Average selling price (net of excise taxes) per gram	For the nine months ended September 30, 2022	September 30, 2021	$ Change	% Change
Medical	$ 3.58	$ 5.23	$ (1.65)	(32%)
Adult Use	2.36	2.79	(0.44)	(16%)
Bulk	0.19	0.24	(0.06)	(26%)
	$ 2.53	$ 2.52	$ 0.01	0%

For the three months and nine months ended September 30, 2022, the total average selling price per gram increased by $0.17 or 6% and $0.01 or nil% respectively, compared to the same period in 2021. For the nine months ended September 30, 2022, average selling price per gram of medical, adult use and bulk decreased by 32% 16% and 26% respectively, compared to the same period in 2021. The reduction in selling price per gram for medical and adult use is largely attributed to material increases in sales discount and allowances.

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 nine months ended September 30, 2022 decreased by $735,623 or negative 18% and by $887,515 or 112% respectively, compared to same period in 2021.

For the three months and nine months ended September 30, 2022, cost of goods sold increased by $22,113 and $1,406,172, compared to same period in 2021, majorly due to:

	For the three months ended September 30, 2022	September 30, 2021	$ Change	% Change
Provision & Write Down	7,680,702	610,298	7,070,404	1159%
Freight Cost	1,405,626	701,572	704,054	100%
Operating Expenses	5,879,861	13,632,206	(7,752,345)	(57%)
Total	$ 14,966,189	$ 14,944,076	$ 22,113	0%

	For the nine months ended			
	September 30, 2022	September 30, 2021	$ Change	% Change
Provision & Write Down	8,990,576	4,685,054	4,305,522	92%
Freight Cost	4,244,214	1,588,836	2,655,378	167%
Operating Expenses	20,634,654	26,189,382	(5,554,728)	(21%)
Total	$ 33,869,444	$ 32,463,272	$ 1,406,172	4%

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 $Nil and $3,304,296 during the three and nine months ended September 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 nine months ended September 30 , 2022, Gross loss decreased by $4,321,047 or negative 42% and $1,980,109 or negative 21% 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 nine months ended September 30, 2022 increased by $2,352,777 or negative 52% and $458,524 or negative 2% respectively, compared to the same period in 2021. The increase versus 2021 is mainly driven by increase in selling, marketing and promotional expenses, salaries and benefits, consulting fees, office & administrative expenses and research and development and partially offset by an decrease in professional fees.

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

	For the three months ended			
	September 30, 2022	September 30, 2021	$ Change	% Change
Salaries and benefits	$ 3,135,592	$ 2,234,860	$ 900,732	40%
Selling, marketing and promotion	1,565,961	374,632	1,191,329	318%
Office & Administrative	1,079,294	1,009,008	70,286	7%
Professional fees	553,830	644,888	(91,058)	(14%)
Consulting fees	441,036	182,394	258,642	142%
Research and development	67,001	44,155	22,846	52%
Total	$ 6,842,714	$ 4,489,937	$ 2,352,777	52%

	For the nine months ended			
	September 30, 2022	September 30, 2021	$ Change	% Change
Salaries and benefits	$ 10,582,564	$ 9,817,570	$ 764,994	8%
Selling, marketing and promotion	3,543,415	1,412,740	2,130,675	151%
Office & Administrative	3,218,220	4,063,761	(845,541)	(21%)
Professional fees	2,320,801	2,249,399	71,402	3%
Consulting fees	1,518,158	3,074,308	(1,556,150)	(51%)
Research and development	167,805	274,661	(106,856)	(39%)
Total	$ 21,350,963	$ 20,892,439	$ 458,524	2%

Salaries and benefits

Salaries and benefits increased by $900,732 or 40% to $3,135,592 and $764,994 or 8% to $10,582,564, during the three and nine months ended September 30, 2022, compared to the same period in 2021. The increase is primarily attributed to increases in severance, benefits and general salaries.

Selling, marketing, and promotion

Selling, marketing, and promotion increased by $1,191,329 or 318% to $1,565,961 and $2,130,675 or 151% to $3,543,415 during the three and nine months ended September 30, 2022, compared to the same period in 2021. An increase in sales and marketing costs are related to a higher volume of in-store initiatives intended to offset revenue losses from our proprietary cultivars and anticipated costs associated with the launch of Syndicate, our new medical channel.

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 increased by $70,286 or 7% to $1,079,294 and decreased by $845,541 or negative 21% to $3,128,220 during the three and nine months ended September 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 decreased by $91,058 or 14% to $553,830 and increased by $71,402 or 3% to $2,320,801 during the three and nine months ended September 30, 2022, compared to the same period of 2021 due to additional audit fees and other professional services associated with CannTx integration offset by reduction in legal fees.

Consulting fees

Consulting fees increased by $258,642 or 142% to $441,036 and decreased by $1,556,150 or negative 51% to $1,518,158 during the three and nine months ended September 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 increased by $22,846 or 52% to $67,001 and negative $106,856 or negative 39% to $167,805 during the three and nine months ended September 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 $132,072 or negative 62% to $82,318 and $445,887 or negative 51% to $436,865 during the three and six months ended September 30, 2022, compared to the same period in 2021, mainly as a result of reduction of the number of deferred stock units granted to management, employees, directors and consultants of the Company in 2022.

Depreciation and Amortization

Total depreciation and amortization expense increased by $328,125 or 20% to $1,947,617 and decreased by $1,884,456 or negative 26% to 5,472,360 for the three and nine months ended September 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			
	September 30, 2022	**September 30, 2021**	**$ Change**	**% Change**
Loss and comprehensive loss	**$ (17,432,184)**	$ (17,467,138)	**$ 34,954**	(0.20%)
Add (Deduct)				
Depreciation and Amortization*	1,947,617	1,619,492	328,125	20%
Finance costs	3,917,799	2,491,246	1,426,553	57%
EBITDA	**(11,566,768)**	(13,356,400)	**1,789,632**	(13%)
Inventory adjustments	7,680,702	3,479,779	4,200,923	121%
Provision for returns	(231,745)	—	(231,745)	(100%)
One-time cost of sales expenses	—	—	—	0%
Severance	109,082	225,727	(116,645)	(52%)
Realized fair value amounts included in inventory sold	1,205,218	4,936,165	(3,730,947)	(76%)
Unrealized loss (gain) on changes in fair value of biological assets	(134,073)	1,191,650	(1,325,723)	(111%)
Impairment of property, plant and equipment	—	—	—	0%
Share based compensation	82,318	214,390	(132,072)	(62%)
Loss on disposal of property, plant and equipment	22,018	16,422	5,596	34%
Gain on lease modification	—	—	—	0%
Gain on modification of loan and borrowings	—	—	—	0%
Gain on extinguishment of unsecured convertible debentures	(48,866)	—	(48,866)	(100%)
Government grants	—	(822,986)	822,986	(100%)
Other income, net	(50,735)	—	(50,735)	(100%)
Adjusted EBITDA [1]	**$ (2,932,848)**	$ (4,115,253)	**$ 1,182,405**	(29%)

* For three months ended September 30, 2022, includes depreciation of $1,314,371 (September 30, 2021- $1,151,319) amount expensed in cost of goods sold

	For the nine months ended			
	September 30, 2022	**September 30, 2021**	**$ Change**	**% Change**
Loss and comprehensive loss	**$ (35,223,280)**	$ (34,425,959)	**$ (797,321)**	2%
Add (Deduct)				
Depreciation and Amortization*	5,472,360	7,356,816	(1,884,456)	(26%)
Finance costs	13,047,423	7,400,622	5,646,801	76%
EBITDA	**(16,703,497)**	(19,668,521)	**2,965,024**	(15%)
Inventory adjustments	8,990,576	7,554,535	1,436,041	19%
Provision for returns	1,015,074	—	1,015,074	100%
One-time cost of sales expenses	3,304,296	—	3,304,296	100%
Severance	871,748	1,771,533	(899,785)	(51%)
Realized fair value amounts included in inventory sold	6,107,618	12,107,201	(5,999,583)	(50%)
Unrealized loss (gain) on changes in fair value of biological assets	(314,433)	(3,446,392)	3,131,959	(91%)
Impairment of property, plant and equipment	687,798	—	687,798	100%
Share based compensation	436,865	882,752	(445,887)	(51%)
Loss on disposal of property, plant and equipment	22,018	16,422	5,596	34%
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	(5,154,866)	—	(5,154,866)	(100%)
Government grants	—	(2,972,387)	2,972,387	(100%)
Other income, net	(50,735)	(4,088,067)	4,037,332	(99%)
Adjusted EBITDA [1]	**$ (4,788,825)**	$ (7,842,924)	**$ 3,054,099**	(39%)

* For nine months ended September 30, 2022, includes depreciation of $4,059,903 (September 30, 2021- $3,120,371) 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 $1,789,632 or 13% to negative $11,566,768 and increased by $2,965,024 or 15% to negative $16,703,497 during the three and nine months ended September 30, 2022, compared to the same period of 2021 due to reduction in cultivation expenses and operational efficiencies. Seperately, a portion of increases is 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 $1,182,405 or 29% to negative $2,932,848 and increased by $3,054,099 or 39% to negative $4,788,825 during the three and nine months ended September 30, 2022 compared to the same period of 2021. The increases are mainly due to a reduction in expenses, largely attributed to higher add backs in the following areas : (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			
	September 30, 2022	September 30, 2021	$ Change	% Change
Cash provided by (used in):				
Operating activities	$ (5,465,160)	$ (2,248,251)	$ (3,216,909)	143%
Investing activities	(25,103)	(265,279)	240,176	(91%)
Financing activities	(578,281)	(698,850)	120,569	(17%)
(Decrease) increase in cash	$ (6,068,544)	$ (3,212,380)	$ (2,856,164)	89%

	For the nine months ended			
	September 30, 2022	September 30, 2021	$ Change	% Change
Cash provided by (used in):				
Operating activities	$ (22,651,351)	$ (21,261,745)	$ (1,389,606)	7%
Investing activities	(1,297,197)	1,396,852	(2,694,049)	(193%)
Financing activities	10,617,785	9,639,807	977,978	10%
(Decrease) increase in cash	$ (13,330,763)	$ (10,225,086)	$ (3,105,677)	30%

Cash flow from operating activities

Cash used in operating activities was $5,464,160 and $22,651,351 during the three and nine months ended September 30, 2022, respectively, compared to $2,248,251 and $21,261,745 during the same periods of 2021, respectively. Higher spending for the three and nine months ending September 30, 2022 was a result of the increase in selling marketing and promotional expenses, freight cost and salaries and benefits.

Cash flow from investing activities

Cash used in investing activities was $25,103 and $1,297,197 during the three and nine months ended September 30, 2022, respectively, compared to cash used by investing activities of $265,279 and cash provided by $1,396,852 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 used by financing activities was $578,281 and cash provided was $10,617,785 during the three and nine months ended September 30, 2022, respectively, compared to cash used in financing activities was $698,850 and cash provided in financing activities was $9,639,807 during the same periods of 2021, respectively. The increase in cash provided by financing activity was due to higher repayment of loan and borrowings for the nine months period ended September 30, 2021.

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 September 30, 2022, the Company had cash and cash equivalents of $8,085,310 (December 31, 2021: $21,416,073). Total current assets for the same period were $43,753,022 (December 31, 2021: $61,425,413), including inventory and biological assets of $25,628,930 (December 31, 2021: $30,247,728), with current liabilities of $16,630,334 (December 31, 2021: $116,392,767) resulting in working capital of $27,122,688 (negative working capital of December 31, 2021: $54,967,354).

The Company's current ratio at September 30, 2022 was 2.63 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 September 30, 2022, the Company had a working capital of $27,122,688 (December 31, 2021 – negative working capital of $54,967,354) and an accumulated deficit of $231,444,854 (December 31, 2021 - $196,221,574). For the nine months ended, the Company used cash in operating activities of $22,651,351 (nine months ended September 30, 2021 - $21,261,745), resulting primarily from the net loss of $35,223,280 (nine months ended September 30, 2021 - $34,425,959) 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

	September 30, 2022	December 31, 2021	$ Change	% Change
Dried cannabis	$ 14,876,972	$ 17,736,539	$ (2,859,567)	(16%)
Harvested work in progress	1,941,488	4,121,413	(2,179,925)	(53%)
Extracts				
Resin	74,572	144,616	(70,044)	(48%)
Crude oil	1,676,339	998,714	677,625	68%
Finished oil	3,884,210	4,391,981	(507,771)	(12%)
Total extracts	22,453,581	27,393,263	(4,939,682)	(18%)
Non-cannabis inventory	1,900,158	2,247,290	(347,132)	(15%)
	$ 24,353,739	$ 29,640,553	$ (5,286,814)	(18%)

Total inventory decreased by $5,286,814 or negative 18% from December 31, 2021 to September 30, 2022 mainly due to the temporary room closures throughout the second quarter and a provision created for destruction of inventory in the third 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.

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

On April 29, 2022, the Company received additional disbursement of $15 million loan 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 transaction costs ($8.2 million is towards repayment of its debenture holders and $331,491 towards its transaction costs) and received additional cash proceeds of $366,998, resulting in an increase in the loan balance 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.

The company was in breach to comply with one of the financial covenants to maintain a certain minimum quarterly EBITDA target as at September 30, 2022, however the Company is in discussions with the lender to obtain the written waiver. (In the first quarter of the nine months ended September 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.)

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, Chief Legal Officer, Chief Operating Officer and all directors. Transactions with related parties include salaries, share based compensation and service fees.

The balances outstanding are as follows:

	September 30, 2022	December 31, 2021
Accounts payable and accrued liabilities	**$ —**	$ 115,543

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

	Three months ended		Nine months ended	
	September 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Share based Compensation and director fees	**$ 150,018**	$ 134,954	**$ 758,376**	$ 414,623
Salaries	499,360	284,490	1,340,278	969,192
Bonus	—	8,644	346,000	157,394
Severance payments	10,524	131,111	10,524	892,511
Fees	—	—	35,724	—
Total	**$ 659,902**	$ 559,199	**$ 2,490,902**	$ 2,433,720

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 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 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 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.

On September 30, 2022, the Company determined and authorized the grant of an aggregate of 2,666,668 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 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 $82,079.

During three and nine months ended September 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 nine months ended September 30, 2022 is $82,318 and $436,865 respectively (for the three and nine months ended September 30, 2021 is $214,390 and $882,752 respectively).

Disclosure of outstanding share data

As at November 14, 2022, the following were outstanding:

Outstanding Shares	**As at November 14, 2022**
Common shares	306,744,396
Warrants	26,866,666
Stock and broker compensation options	11,180,278
	344,791,340

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 $6,411,004 (December 31, 2021: $7,677,210).

As at September 30, 2022, 94% (December 31, 2021: 54%) of the Company's trade and other receivables balance, is owing from 4 customers (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 $16,630,334 (December 31, 2021: $116,392,767) with cash on hand of $8,085,310 (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	$ 390,914	$ 162,291	$ 126,317	$ 128,898	$ 448,016	$ 1,256,436
Loans and borrowings	2,608,084	31,773,945	118,856,662	310,500	5,051,750	158,600,941
Commodity tax payable	—	—	—	—	—	—
Unsecured convertible debentures	91,175	91,175	1,127,018	—	—	1,309,368
Other commitments	9,833	7,685	1,375	—	—	18,893
Accounts payables and accrued liabilities	14,337,405	—	—	—	—	14,337,405
Total	$ 17,437,411	$ 32,035,096	$ 120,111,372	$ 439,398	$ 5,499,766	$ 175,523,043

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 November 14, 2022, the date the unaudited condensed interim consolidated financial statements were issued and determined the following events:

On October 31, 2022, the Company amended its credit facility with LPF (the "Credit Facility") and received its first tranche of funding under the amended Credit Facility, amounting to $15 million. The second tranche of funding amounting to $15 million will be 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. The Credit Facility 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. LPF's security under the Credit Facility is in second position to the Company's senior creditor.

Also on October 31, 2022, the Company entered into an amended and restated credit agreement with its senior secured lender, Bank of Montreal, which reflected recent amendments to the agreement. No additional significant amendments were made.