Entourage
HEALTH CORP

ENTOURAGE HEALTH CORP.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2022

May 1, 2023

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MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE TO TWELEVE MONTHS ENDED DECEMBER 31, 2022

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 twelve months ended December 31, 2022. All amounts are in Canadian dollars unless otherwise specified. This MD&A should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2022, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") for consolidated financial statements issued by the International Accounting Standards Board.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 Continuous Disclosure Obligations of the Canadian Securities Administrators. Additional information regarding the Company, including the latest Annual Information Form, is available on our website at www.entouragehealthcorp.com or through the SEDAR website at www.sedar.com.

The 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 based on current plans and expectations. These forward-looking statements are affected by risks and uncertainties that are discussed in this document on future prospects. Readers are cautioned that actual results could vary.

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

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.

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.

A**djusted Earnings Before Interest, Tax, Depreciation, and Amortization (Adjusted EBITDA):** Adjusted EBITDA is income (loss) and comprehensive income (loss) excluding interest, tax, depreciation and amortization, impairment of property, plant and equipment, impairment of inventory, 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 in this MD&A, including forward-looking statements, is based on information available to management as of May 1, 2023.

COMPANY OVERVIEW

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

Entourage, through its wholly-owned subsidiaries, is a licensed producer under the Cannabis Act and is currently permitted to produce, buy, sell and process cannabis. The Company is focused on building a portfolio of brands in the Canadian market, including its premium brand Color Cannabis®, mainstream brand Saturday Cannabis®, medical cannabis product brand Starseed Medicinal™ and its health and wellness brand Syndicate Cannabis™. The Company produces a diverse portfolio of cannabis and cannabis derivative products, including oils, capsules, edibles, topicals and vapes, for sale in Canada in the medical and adult-use markets.

Entourage, through Starseed Medicinal was one of the first cannabis companies in the medical channel to develop a unique platform that targets captive customer bases with paid benefits covering medical cannabis. Forming an industry-first, exclusive partnership with LiUNA, 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.

OPERATIONS

The primary goal of the Company is to produce and distribute high quality consistent cannabis products to consumers across Canada. Achieving this objective requires the establishment of a robust, adaptable, and effective cannabis organization with a focus on improving and extending its influence in the medicinal and adult-use cannabis sectors. Entourage aims to emerge as a dominant force in the Canadian cannabis market, securing a place among the top ten market leaders.

Aylmer Packaging and Distribution Facility

Entourage owns and operates a 26,000 sq. ft. indoor facility in Aylmer, Ontario (the "Aylmer Facility), specializing in product development and fulfillment for both adult-use and medical cannabis. The Company has strengthened its manufacturing, labelling, packaging, and shipping capabilities with several upgrades and automation opportunities.

The Company has recognized the importance of keeping up with technological advancements and industry innovations to ensure that it can produce and distribute high-quality cannabis products effectively. Therefore, it has made a conscious effort to adapt its infrastructure continually, refining and optimizing its environment to enhance production and distribution processes, including recently investing in automation, strategically procuring four pre-roll production machines, allowing the Company to produce over 100,000 pre-roll products per day, reducing manual labour costs.

The Company currently has stellar fill rates recording consecutive perfect fulfillment performance aligning with an increase in consumer and product demand. Additionally, Entourage has built a robust quality assurance (QA) and quality control (QC) program for labeling packaging and distribution of all products in compliance with the Cannabis Act and our customers' high standards.

Strathroy Facility

Entourage owns a 158-acre property in Strathroy, Ontario, that is approximately 522,720 square feet ("sq. ft.") with 240,000 sq ft of completed greenhouse footprint, delivering the quality and control of indoor facilities and up to 100 acres of outdoor cultivation area (the "Strathroy Facility").

On November 15, 2022, the Company made the strategic decision to cease cultivation and decommission the Strathroy facility over a six-month period, with all cultivation activities completed by April 1, 2023. As a result of this business decision, the Company is outsourcing cultivation to a third-party supplier, taking the necessary steps to optimize production and reduce costs will enable the Company to better reach profitability targets. This will be realized through improved productivity, reduced fixed costs, and a strengthened firm agreement to sell the Strathroy facility to a third party for $9,400,000, less customary transaction costs, land transfer tax, and brokerage fees.

BRAND PORTFOLIO

Adult-Use

Color
cannabis

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

Another successful product line is pre-rolls, which have become increasingly popular among consumers. These pre-rolls are made with high-quality cannabis and infused with additional ingredients, to enhance the overall experience. Consumers have responded positively to these products, and they have contributed to Color's success in the market. According to recent retail data, Entourage pre-rolls are ranked fourth for national sales in 2022, capturing a 5% share of total sales. (Source: Buddi)

Overall, Color has positioned itself as a leader in the cannabis market, this success can be attributed to the brand's commitment to producing premium products, investing in innovation, and a deep understanding of the needs and preferences of its consumers.

SATURDAY

The Company's acquisition of Starseed in December 2019 brought the Saturday Cannabis® brand into its portfolio. This addition marked a significant step for the Company, as it sought to expand its offerings in the Canadian cannabis market. The Saturday brand has been built around leveraging its value proposition, providing high-quality products at affordable prices to consumers.
Looking ahead, the Company will continue to invest in the Saturday brand and expand its offerings to meet the evolving needs of consumers. By focusing on innovation and delivering high-quality products at affordable prices, the brand is well-positioned to capture market share and grow in the highly competitive Canadian cannabis industry.

Medical & Wellness Brands

The Company distributes its medical products directly to patients across Canada under its own Starseed Medicinal brand, which has grown over 50% since merging under the Entourage family of brands in late 2019. The Company has expanded partnerships with unions, employers, insurers and benefit providers which has seen a surge in patient registrations over recent months. Starseed offers exclusively available products such as acclaimed U.S.-wellness brands Mary's Medicinals and Irwin Naturals.

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

Syndicate direct-to-patient medical cannabis marketplace showcasing a portfolio of premium craft cannabis products sourced both in-house and from third-party micro-cultivators and producers. The Company is one of the first to launch a medical-marketplace collective of craft producers, available to Ontario customers with the expansion across Canada planned throughout 2023 and 2024.

PRODUCT FORMATS CURRENTLY IN ADULT-USE AND MEDICAL MARKET

Dried Flower: The Company's dried flower SKUs for both medical and adult use cover a wide range of formats representing consumers' varied preferences, including; 3.5g, 15g, and large format 28g whole flower. Introducing new and unique cultivars to the market, including Pedro's Sweet Sativa and Mango Haze, focusing on high THC as well as balanced and CBD offerings tailoring to the Company's medical and wellness markets.

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

Vapes: Vapes represent the second largest product category in the Canadian adult-use portfolio. The custom-made, unique terpene blends have been popular across our Saturday brand. Black Sugar Rose ranks were among the top-sellers at the Ontario Cannabis Store in 2022.

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

Topicals: In partnership with Mary's Medicinal, consumers include product formats transdermal balms and patches and are available to both medical and direct-to-consumer markets.

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

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

DISTRIBUTION

As of December 31, 2022, the Company held adult-use distribution agreements in the following provinces:

Ontario Cannabis Retail Corporation: Representing the largest consumer demographic. The Purchase agreement with the province of Ontario to supply cannabis for the adult-use market.
Province of Quebec: Partnership agreement with Rose Life Science Inc, representing the second largest market and fourth largest in terms of adult-use cannabis sales.
Alberta Gaming and Liquor-Commission:
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.
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.
Cannabis New Brunswick: Company received first purchase order from Cannabis NB, making its adult-use products now available coast-to-coast.

The Company has a distribution coverage of over 80% of the addressable retail market in Canada.

CORPORATE STRATEGY

Building Powerful Brands That Earn the Trust of Consumers & Patients Through Innovation, Expertise, and Education.
The Company sells its products primarily through two core sales channels: adult-use and medical. As highlighted above, the Company's brand portfolio includes Color Cannabis, Saturday Cannabis, Starseed Medicinal and Syndicate Cannabis, all of which have seen significant market success.

By focusing on product innovation, strong brands and enhanced distribution; the Company aims to become a long-term supplier of premium cannabis products to the Canadian adult-user and medical markets.

Historically, the primary vertical of the Company has been cultivation. However, under its business transformation plan, the Company will now outsource cultivation activities and buy third-party biomass, which allows the Company to opportunistically distribute cannabis to maximize sales of Entourage's house of brands. The Company remains committed to excellent customer service in both channels, with a full team of client care representatives based in Ontario supporting the medical channels and territory managers in Ontario, Alberta and British Columbia representing the Company's adult-use brands.

With the industry's maturity, a lean production option will enable the Company to meet the increasing demand for Color, Saturday, Starseed, and Syndicate products. In addition to reducing the Company's cost structure, outsourcing cultivation to a third-party helps the Company strengthen its manufacturing, labelling, packaging, and shipping capabilities. The Company intends to become a leader in the Canadian cannabis market and reach overall profitability as a long-standing, licensed producer in the medical and adult-use cannabis markets.

1. INCREASE MARKET POSITION IN CANADIAN ADULT-USE MARKET

Color Cannabis is the Company's pillar. This strong brand delivers premium products to the market and is consistently a top-selling brand among competitors. Saturday Cannabis focuses on delivering quality products or services at an affordable price point, that meet the needs and expectations of its target audience. Together, these two brands cover every market segment, from value to premium. Over the 2022 fiscal year 37 products were launched across six different geographical markets, resulting in 61 unique SKUs introduced, spanning from infused pre-rolls, new cultivars, and large format flower.

The Company continues to focus on market share gains by launching innovative products in the three largest product categories: dried flower, pre-rolls and vapes. Entourage's sales and marketing teams have bolstered their teams to respond to market trends to drive sales velocity of an expanded adult-use portfolio.

This strategy has paid off for the Company, as Entourage has secured the fourth position for national pre-roll sales, accounting for 5% of the total sales in Canada Additionally, it ranked second in British Columbia, holding a significant share of 11.4% in the pre-roll market. (Data: Buddi)

2. LEADERSHIP IN MEDICAL

The medical sales channel in Canada is core to the Company and represents a stable growth and higher margin revenue stream, driven by the recurring ordering patterns of our active patient base and referrals from third-party clinics and union groups. Net revenue in medical grew 15% accounting for a record of $17.2 million. This was a direct result of growth in insured patient registrations and continued expansion of product offerings. The average renewal rate for Starseed medical patients was over 95%, indicating high satisfaction and trust among customers towards the quality of the services provided.

In addition, 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. The Starseed System™ is the first of its kind to be launched in Canada and is a testament to the Company's dedication to patients for ease of access.

The Company has also partnered with HelloMD, a leading online cannabis telehealth company with access to experienced and knowledgeable healthcare practitioners across Canada. In addition, 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 Company also launched a same-day/next-day delivery service with Pineapple Express for select areas in Ontario.

Through these efforts, Starseed has cemented its position as a leader in the industry, making significant strides forward in improving access for the medical cannabis community in Canada. With its commitment to quality and patient care, Starseed will continue leading the way in the medical cannabis industry and solidify its position as a market leader.

3. PRODUCT INNOVATION

The Company has invested in a strong product development team focusing on continuous innovation. The Company works to identify consumer preferences, behaviours and to introduce advanced formulations and quality enhancements, aligning with industry trends as they evolve.

The innovation team has led the expansion of Color Cannabis and Saturday Cannabis adult-use product line introducing; unique cultivars, infused pre-rolls, live resin soft chews, and large format flower. The Company recently partnered with Boston Beer Company, a well-known North American beverage conglomerate to release Teapot, a line of cannabis-infused drinks.

Entourage continues to solidify its position as an industry leader leveraging innovative medical cannabis and wellness-focused products. The Company recently announced a line of CBD products in partnership with Irwin Naturals, a renowned nutraceuticals and herbal supplement formulator of popular branded wellness products sold across North America. In addition, medical patients will also have access to CBD chewing gum, one of only two companies who have brought this innovative product to the market.

As a result of these initiatives, the Company is continuously pushing the boundaries of innovation in the cannabis industry, setting a new standard for product development and quality.

4. QUALITY AND CONSISTENCY

Strengthening the Entourage commitment to quality, the Company has established an interdepartmental Quality Control (QC) unit that holds accountability for inspecting products at various supply chain stages, ensuring compliance with brand standards. The primary objective is to ensure that Entourage products offer a consistent, superior consumer experience, and the Company achieves this by defining better product quality standards and conducting quantitative assessments that align with current market trends and consumer expectations.

To meet these objectives, the Company has implemented QC screening on all biomass in the supply chain and has leveraged critical control points such as procurement, product receipt, storage, and packaging. Additionally, the Company has optimized inventory allocation and enhanced the inventory management system to ensure that only the highest quality cannabis is going to market.

The Company is driving a quality culture change that reflects its brands' values, consumer experience, and quality standards. Through these initiatives, the Company is committed to ensuring that products exceed the expectations of customers and remain consistent with the Company's brand standards.

5. ADJUSTED EDITDA PROFITABILITY

The Company is committed to achieving adjusted EBITDA profitability by Q4 2023 through a focus on cost containment and strategic rationalizations. Additionally, the Company is dedicated to achieving its longer-term objectives, which was outlined after completing a comprehensive review of its operating model, shared services, and organizational structure in October 2022. The strategic plan included:

- $2.7 million in annualized selling, general, and administrative (SG&A) labour and non-labour reductions
- 35% reduction in production staff and divestment of unprofitable business channels that represents $6.1 million in annualized savings
- $1.0 million in savings through the strategic consolidation of leased properties and equipment sales
- $5.4 million in annualized savings through the decommissioning of cultivation and extraction facilities

The Company is confident in its ability to achieve our goal of adjusted EBITDA profitability in 2023. The Company has established a strong organizational infrastructure, forged strategic distribution relationships, and secured valuable partnership agreements that position it to reignite growth in its key brands.

In addition to the already implemented cost containment measures, the Company has heavily invested in automating its pre-roll production process, a product category that accounted for 63% of adult-use revenues in Q4, ensuring consistent quality while also significantly reducing the marginal cost per unit. Furthermore, the Company's strategic decision to outsource its cultivation process to achieve a lower cost per gram will enable sustainable long-term growth and profitability.

The Company is dedicated to continuously improving its operational practices to streamline its operating model and drive efficiency. In pursuit of this goal, The Company will implement further innovative measures to optimize its procurement practices and reduce costs, while maintaining the highest standards of quality and consistency in its products.

Moreover, The Company recognizes that innovation and adaptation are key to remaining competitive in the rapidly evolving cannabis industry. As such, it remains committed to investing in product development initiatives that will enable it to stay ahead of the curve and capitalize on emerging market trends. Through its unwavering dedication to operational excellence, innovation, and adaptability, The Company is well-positioned to drive continued growth and success in the years ahead.

COMPANY OUTLOOK

In the fourth quarter of 2022, Entourage defined a three-pronged strategy for 2023 that focuses on optimizing and developing efficiencies to drive a positive impact on the Company's long-term profitability and cash flow. The Company's first goal is to capitalize on third-party supply to outsource cultivation and maintain high-quality flower at a lower cost, leading to improved product offerings entering the market in the first quarter.

The second prong of the strategy is to implement commercial strategies within the Canadian domestic market to maximize gross profit for each unit produced and deliver increased quality of flower and higher THC, ultimately advancing retail velocity and supporting profitable revenue growth.

The third prong of the strategy is to drive the business toward profitability as quickly as possible with the aim of being cashflow positive and Adjusted EBITDA profitable in 2023. By focusing on these three prongs, coupled with Entourage's strong brand portfolio and increased sales, the Company will be well-positioned to continue delivering on its commitments.

Appointment of Chief Financial Officer

- The appointment of Vaani Maharaj as the Company's Chief Financial Officer (CFO), effective May 4, 2022. A seasoned financial executive with broad experience in corporate finance, healthcare and consumer-packaged goods (CPG).

Appointment of Chief Operating Officer

- The appointment of James Afara as the Company's Chief Operating Officer (COO) effective September 16, 2022. A results-driven leader with an exceptional track record, James brings over 15 years of operations and supply chain experience.

Company News

- In March, Entourage launched the 'Joints for Justice' retail campaign to raise funds and awareness in support of Cannabis Amnesty.
- In May, Entourage reported record Fiscal Year 2021 financial results with $55.2 Million in Total Revenue for a 56% year-over-year increase.

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 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 entered into an amendment with BMO to extend the maturity if its term credit facility to June 30, 2024, and modifying certain of its financial covenants.

- 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.

- In October 2022, Entourage and LiUNA Pension Fund announced the upsizing of its additional $30 million in funding availability. The Credit Facility will be used by Entourage for general working capital purposes as the Company continues to execute its commercial goals to achieve sustainable, profitable growth.

- On January 31, 2023, the Company amended its credit facility with LPF and received the second tranche of funding of $15,000,000 less transaction costs of approximately $225,000. 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.

- On April 21, 2023, the Company entered into a firm agreement to sell the Strathroy facility to a third party for $9,400,000, less customary transaction costs, land transfer tax, and brokerage fees. The facility is a collateral for the credit facility payable to BMO. The Company is in the process of obtaining additional financing from its strategic investor (LPF) to settle any amounts arising from the shortfall between the expected sales proceeds related to the Strathroy Facility and the outstanding Credit Facilities with BMO.

Business Transformation Plan
Long-Term Supply Agreement HEXO

- On November 15th, 2022, the Company announced a Supply Agreement with HEXO under which the Company procures bulk dried cannabis and soft gel capsules, to be marketed to patients and consumers under Entourage's family of brands. The Supply Agreement has a three-year term, which can be renewed for an additional three years at Entourage's election on the same terms and conditions, subject to increased minimum annual purchase commitments over the course of the renewed term.

Commercial Highlights Adult-Use and Medical

- In May of 2022, Entourage announced a partnership with Pineapple Express to provide same-day medical cannabis delivery service to its 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 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.

- In July of 2022, 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 strategic partnership followed the release of recommendations for easing access to over-the-counter CBD products in Canadian pharmacies.

- Also in August, Entourage signed four new union groups to its Starseed Medicinal program, in partnership with leading benefits provider Union Benefits – the administrator of group benefits to over 12,000 members. With the 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 Starseed Medicinal medical platform 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.

- In November, 2022, the Company announced the launch of 15 innovative Color Cannabis and Saturday Cannabis products for its largest product call to date.

- Through 2022, 37 products were launched across 6 different geographical markets, resulting in a total of 61 unique SKUs introduced, spanning from infused pre-rolls, new cultivars and large format flower.

- Entourage's adult-use brand Color Cannabis secured the fourth position for national pre-roll sales, accounting for 5% of the total sales. Additionally, it ranked second in British Columbia, holding a significant share of 11.4% in the pre-roll market. (Source: *Buddi)*

- In 2022, the Net Medical Revenue grew 15% to a record of $17.2 million. driven by growth in insured patient registrations and continued expansion of product offerings.
- The average renewal rate for Starseed medical patients was over 95%, indicating a high level of satisfaction and trust among customers towards the quality of the services provided.

- As of September 2022, Starseed's share of active client registrations accounted for 5.7%, while their share of unit sales for the year 2022 up until September exceeded 7%, indicating a notable presence in the market. (Data: Health Canada)

PARTNERSHIPS

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 expanded 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.

Exclusive agreement with Irwin Naturals a nutraceuticals US wellness brand

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

KEY FINANCIAL HIGHLIGHTS

HISTORICAL QUARTERLY RESULTS

	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Total Revenue	$ 12,141,125	$ 13,438,320	$ 13,185,209	$ 15,770,569
Revenue, Net	8,702,084	10,075,302	9,690,712	12,423,970
Gross profit (loss) before change in fair value	(7,509,055)	(4,890,887)	474,243	2,737,184
Loss and comprehensive loss	(87,923,167)	(17,432,184)	(9,027,497)	(8,763,599)
Basic and diluted (loss) per share from continuing operations	(0.29)	(0.06)	(0.03)	(0.03)
Basic and diluted (loss) attributable to the shareholders	$ (0.29)	$ (0.06)	$ (0.03)	$ (0.03)

During the year ended December 31, 2022, there was a temporary closure of certain cultivation rooms at the Company's Strathroy Facility to facilitate the necessary remediation. As a result, cost of goods sold for the year ended December 31, 2022 include expenses of $3,304,296 representing costs incurred in connection with the remediation work.

Key Operating Metrics

For the three months ended	December 31, 2022	December 31, 2021	$ or Weight Difference	% Change
Revenue	$ 12,141,125	$ 13,538,872	$ (1,397,747)	(10%)
Kilograms equivalent sold - cannabis	3,852	3,730	122	3%
Kilograms harvested	2,931	3,899	(968)	(25%)
Average yield per plant (grams)	121	134	(13)	(10%)
Weighted average cost per gram from clone to harvest of plants on hand	$ 1.84	$ 0.63	$ 1.21	192%
Weighted average cost per gram of inventory on hand	$ 1.33	$ 0.66	$ 0.67	102%

For the year ended	December 31, 2022	December 31, 2021	$ or Weight Difference	% Change
Revenue	$ 54,535,223	$ 55,229,370	$ (694,147)	(1%)
Kilograms equivalent sold - cannabis	16,589	16,999	(410)	(2%)
Kilograms harvested	11,234	15,459	(4,225)	(27%)
Average yield per plant (grams)	132	134	(2)	(1%)
Weighted average cost per gram from clone to harvest of plants on hand	$ 1.84	$ 0.63	$ 1.21	192%
Weighted average cost per gram of inventory on hand	$ 1.33	$ 0.66	$ 0.67	102%

The Company harvested 2,931 kg and 11,234 kg of cannabis in the three and twelve months ended December 31, 2022, compared to 3,899 kg and 15,459 kg respectively, in the same period of 2021, decreasing by 968 kg and 4,225 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 $1.84, compared to $0.63 in the comparable 2021 period.

For the three and twelve months ended December 31, 2022, yield per plant averaged 121 g and 132 g per plant compared to 134 g and 134 g per plant respectively, for the same period in 2021 as a result of growing smaller plants with higher cannabinoids. The weighted average cost per gram of inventory on hand increased to $1.33 in Q4 2022 compared to $0.66 in the comparable 2021 period.

Summary of Q4 Results and Results of Operations

	For the three months ended			
	December 31, 2022	December 31, 2021	$ Change	% Change
Total Revenue	$12,141,125	$ 13,538,872	$ (1,397,747)	(10%)
Net revenue	8,702,084	10,600,507	(1,898,423)	(18%)
Cost of goods sold	(16,211,139)	(13,401,127)	(2,810,012)	21%
Gross (loss) profit before changes in fair value	(7,509,055)	(2,800,620)	(4,708,435)	168%
Gross (loss) profit before changes in fair value - as % of Net Revenue	(86%)	(26%)	N/A	(60%)
Realized fair value amounts previously included in inventory	69,262	(1,485,562)	1,554,824	(105%)
Unrealized loss (gain) on changes in fair value of biological assets	4,839,992	947,110	3,892,882	411%
Gross (loss)	(12,418,309)	(2,262,168)	(10,156,141)	449%
Loss and comprehensive loss	(87,923,167)	(44,509,174)	(43,413,993)	98%
Adjusted EBITDA [1]	(9,264,695)	(55,610)	(9,209,085)	16560%
Cash provided by (used in) operations	(7,515,035)	(8,745,330)	1,230,295	(14%)
Basic loss per share	(0.29)	(0.17)		
Diluted loss per share	$ (0.29)	$ (0.17)		

	For the year ended			
	December 31, 2022	December 31, 2021	$ Change	% Change
Total Revenue	$ 54,535,223	$ 55,229,370	$ (694,147)	(1%)
Net revenue	40,892,068	42,271,834	(1,379,766)	(3%)
Cost of goods sold	(50,080,583)	(45,864,399)	(4,216,184)	9%
Gross (loss) profit before changes in fair value	(9,188,515)	(3,592,565)	(5,595,950)	156%
Gross (loss) profit before changes in fair value - as % of Net Revenue	(22%)	(8%)	N/A	(14%)
Realized fair value amounts previously included in inventory	6,176,880	10,621,639	(4,444,759)	(42%)
Unrealized loss (gain) on changes in fair value of biological assets	4,525,559	(2,499,282)	7,024,841	(281%)
Gross (loss)	(19,890,954)	(11,714,922)	(8,176,032)	70%
Loss and comprehensive loss	(123,146,447)	(78,935,133)	(44,211,314)	56%
Adjusted EBITDA [1]	(14,053,521)	(9,293,515)	(4,760,006)	51%
Cash provided by (used in) operations	(30,166,386)	(30,007,076)	(159,310)	1%
Basic loss per share	(0.40)	(0.32)		
Diluted loss per share	$ (0.40)	$ (0.32)		

[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.

	December 31, 2022	December 31, 2021
Total assets	$ 46,466,628	$ 144,223,828
Total non-current liabilities	5,826,600	6,405,050
Total liabilities	147,705,563	122,797,817
Cash and cash equivalent	9,075,257	21,416,073
Working capital	(101,793,647)	(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			
	December 31, 2022	December 31, 2021	$ Change	% Change
Net Revenue*				
Medical	$ 3,702,487	$ 3,362,254	$ 340,233	10%
Adult Use	$ 4,999,597	$ 6,342,750	(1,343,153)	(21%)
Bulk	$ —	$ 895,503	(895,503)	(100%)
Total Net Revenue	$ 8,702,084	$ 10,600,507	$ (1,898,423)	(18%)

* Revenue less Excise taxes

	For the year ended			
	December 31, 2022	December 31, 2021	$ Change	% Change
Net Revenue*				
Medical	$ 17,351,702	$ 14,978,650	$ 2,373,052	16%
Adult Use	$ 23,322,304	$ 25,564,365	(2,242,061)	(9%)
Bulk	$ 218,062	$ 1,728,819	(1,510,757)	(87%)
Total Net Revenue	$ 40,892,068	$ 42,271,834	$ (1,379,766)	(3%)

* 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 $8,702,084 and $40,892,068 for the three and twelve months ended December 31, 2022, representing a decrease of 18% and decrease of 3%, respectively compared to the same period in 2021. The decrease for the three months ended December 31, 2022, was driven by a decline in adult use and bulk revenue of $1,343,153 or negative 21% and $895,503 or negative 100% respectively, which are slightly offset by growth in medical revenue of $340,233 or 10%. The unavailability of the company's proprietary cultivars reduced the case fill rate for adult use products in addition to softer sales than anticipated in whole flower. Medical sales growth represents continued growth in registered patients in addition to larger basket size purchases.

The decrease in net revenue for the twelve months ended December 31, 2022, was driven by a decline in adult use and bulk revenue of $2,242,061 or negative 9% and $1,510,757 or negative 87% respectively, which are slightly offset by growth in medical revenue of $2,373,052 or 16%. The growth in medical revenue is attributable to several factors, including new product formats, increased patient growth, expanded delivery options, and higher THC product distribution. The adult use segment encountered notable challenges throughout the reporting period, marked by substantial product shortages leading to unfulfilled orders and a larger-than-anticipated decline in sales of whole flower product formats. These factors had a discernable impact on overall operating performance.

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

	For the three months ended			
Grams sold	December 31, 2022	December 31, 2021	Weight Change	% Change
Medical	1,362,408	739,304	623,104	84%
Adult Use	2,489,422	2,600,281	(110,859)	(4%)
Bulk	600	390,456	(389,856)	(100%)
Total grams sold	3,852,430	3,730,041	122,389	3%
	For the year ended			
Grams sold	**December 31, 2022**	**December 31, 2021**	**Weight Change**	**% Change**
Medical	5,175,816	2,983,756	2,192,060	73%
Adult Use	10,254,310	10,217,431	36,879	0%
Bulk	1,159,310	3,797,646	(2,638,336)	(69%)
Total grams sold	16,589,436	16,998,833	(409,397)	(2%)

Total dried cannabis sold for three and twelve months ended December 31, 2022, was 3,852,430 g and 16,589,436 g compared to 3,730,041 g and 16,998,833 g for the same period in 2021, representing an increase of 122,389 g or 3% and decrease of 409,397g or negative 2%.

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

	For the three months ended			
Average selling price (net of excise taxes) per gram	December 31, 2022	December 31, 2021	$ Change	% Change
Medical	$ 2.72	$ 4.55	$ (1.83)	(40%)
Adult Use	2.01	2.44	(0.44)	(18%)
Bulk	—	2.29	(2.29)	(100%)
	$ 2.26	$ 2.84	$ (0.58)	(21%)

Average selling price (net of excise taxes) per gram	For the year ended December 31, 2022	December 31, 2021	$ Change	% Change
Medical	$ 3.35	$ 5.02	$ (1.67)	(33%)
Adult Use	2.27	2.50	(0.24)	(9%)
Bulk	0.19	0.46	(0.28)	(61%)
	$ 2.46	$ 2.49	$ (0.02)	(1%)

For the three months and twelve months ended December 31, 2022, the total average selling price per gram decreased by $0.58 or 21% and decreased by $0.02 or 1% respectively, compared to the same period in 2021. For the twelve months ended December 31, 2022, average selling price per gram of medical, adult use and bulk decreased by 33%, 9% and 61% respectively, compared to the same period in 2021. The reduction in selling price per gram for both medical and adult use products during the reporting period can be attributed to two primary factors. Firstly, there were material increases in sales discounts and allowances offered to customers. Secondly, the intensifying competition in the cannabis industry necessitated a pricing adjustment to remain competitive and retain market share. These factors combined had a notable impact on the Company's financial performance during the reporting period.

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 twelve months ended December 31, 2022, decreased by $4,708,435 or negative 168% and by $5,595,950 or negative 156% respectively, compared to the same period in 2021.

For the three months and twelve months ended December 31, 2022, cost of goods sold increased by $2,810,012 and $4,216,184, respectively, as compared to the same period in 2021. This increase was primarily due to two factors.

	For the three months ended			
	December 31, 2022	December 31, 2021	$ Change	% Change
Provision & Write Down	$ 5,259,857	$ 9,852,627	$ (4,592,770)	(47%)
Freight Cost	136,907	445,442	(308,536)	(69%)
Operating Expenses	10,814,375	3,103,058	7,711,318	249%
Total	$ 16,211,139	$ 13,401,127	$ 2,810,012	21%
	For the year ended			
	December 31, 2022	**December 31, 2021**	**$ Change**	**% Change**
Provision & Write Down	$ 14,250,433	$ 17,407,162	$ (3,156,729)	(18%)
Freight Cost	4,381,121	2,034,278	2,346,842	115%
Operating Expenses	31,449,029	26,422,959	5,026,071	19%
Total	$ 50,080,583	$ 45,864,399	$ 4,216,184	9%

Firstly, the temporary closure of rooms. The excess capacity with no production resulted in fixed overhead costs being included in the cost of goods sold. These overhead costs include expenses related to rent, utilities, and maintenance, which could not be allocated to any product during the period of closure. Resultantly, included in cost of goods sold are expenses of $Nil and $3,304,296 during the three and twelve months ended December 31, 2022.

Secondly, The Company incurred significant provisions and write-downs during the period, primarily related to changes in the fair value of its assets, and the destruction of a significant amount of unusable inventory. These charges, combined with lower selling volumes, weighed heavily on the Company's gross margin, reducing its profitability.
The impairment of certain assets was necessary due to the challenging market conditions faced by the Company during the period. In particular, a decline in demand for certain products and increased competition in the cannabis industry had a negative impact on the value of some of The Company's assets. These impairment charges had a significant impact on the Company's financial performance.

Gross profit (loss)

Gross profit (loss) represents revenue (net of excise taxes) including adjustments in fair value for the products sold in the period and fair value adjustments for the biological assets in production. For the three and twelve months ended December 31, 2022, Gross loss increased by $10,156,141 or negative 449% and $8,176,032 or negative 70% compared to the same period in 2021 due to the destruction and write-off of certain assets. These charges were mainly due to a one-time event, being the closure of cultivation rooms for remediation in Q1 and Q2, which resulted in lower yields, and the need to destroy certain products that did not meet quality standards. The Company has taken steps to mitigate similar events from occurring in the future..

Selling, general and administrative expenses

During the three and twelve months ended December 31, 2022, our selling, general, and administrative (SG&A) expenses increased by $1,104,654 or negative 14% and by $1,563,178 or negative 5%, respectively, compared to the same period in 2021. The increase in SG&A expenses during the three and twelve months ended is majorly due to the provision created for restructuring and decommissioning expenses and selling marketing and promotion.

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

	For the three months ended			
	December 31, 2022	December 31, 2021	$ Change	% Change
Salaries and benefits	$ 2,030,748	$ 2,128,994	$ (98,246)	(5%)
Office & Administrative	2,160,313	1,832,627	327,686	18%
Professional fees	1,562,784	1,447,394	115,390	8%
Consulting fees	220,055	258,955	(38,900)	(15%)
Selling, marketing and promotion	1,996,477	2,046,060	(49,583)	(2%)
Provision for restructuring expenses	521,808	—	521,808	100%
Provision for decommissioning costs	415,000	—	415,000	100%
Research and development	33,802	122,303	(88,501)	(72%)
Total	$ 8,940,987	$ 7,836,333	$ 1,104,654	14%

	For the year ended			
	December 31, 2022	December 31, 2021	$ Change	% Change
Salaries and benefits	$ 12,613,312	$ 11,946,564	$ 666,748	6%
Office & Administrative	5,378,533	5,896,388	(517,855)	(9%)
Professional fees	3,883,585	3,696,793	186,792	5%
Consulting fees	1,738,213	3,333,263	(1,595,050)	(48%)
Selling, marketing and promotion	5,539,892	3,458,800	2,081,092	60%
Provision for restructuring expenses	521,808	—	521,808	100%
Provision for decommissioning costs	415,000	—	415,000	100%
Research and development	201,607	396,964	(195,357)	(49%)
Total	$ 30,291,950	$ 28,728,772	$ 1,563,178	5%

Salaries and benefits

Salaries and benefits decreased by $98,246 or 5% to $2,030,748 and $666,748 or negative 6% to $12,613,312 during the three and twelve months ended December 31, 2022, compared to the same period in 2021. The increase can be attributed in part to severance payouts, employee benefits, and retention bonuses. These payments were made to provide support to our employees who were affected by our planned restructuring efforts and to ensure a smooth transition during the decommissioning of our cultivation facilities.

Office and administrative

During the three and twelve months ended December 31, 2022, office and administrative expenses increased by $327,686 or negative 18% to $2,160,313 and decreased by $517,855 or 9% to $5,378,533 respectively, compared to the same period in 2021. This reduction in office and administrative expenses can be attributed to several factors, including the implementation of more efficient and cost-effective systems and processes, as well as a shift in our business focus towards more profitable product lines.

Professional fees

Professional fees increased by $115,390 or negative 8% to $1,562,784 and increased by $186,792 or negative 5% to $3,883,585 during the three and twelve months ended December 31, 2022, compared to the same period of 2021 due to utilization of external services, and other professional services.

Consulting fees

Consulting fees decreased by $38,900 or 15% to $220,055 and decreased by $1,595,050 or 48% to $1,738,213 during the three and twelve months ended December 31, 2022, compared to the same period in 2021. The decrease is primarily attributed to a reduced reliance on external consultants and a general shift of internal resources towards critical functions.

Selling, marketing, and promotion

Selling, marketing, and promotion decreased by $49,583 or 2% to $1,996,477 and increased by $2,081,092 or negative 60% to $5,539,892 during the three and twelve months ended December 31, 2022, compared to the same period in 2021. The increase was primarily related to our efforts to offset revenue losses from our proprietary cultivars and to build awareness for the launch of Syndicate, our new medical channel. The Company also invested in a higher volume of in-store initiatives to help drive sales growth and customer engagement

Provision for restructuring expenses

Provision for restructuring expenses increased by $521,808 or negative 100% to $521,808 during the three and twelve months ended December 31, 2022, compared to the same period in 2021. The increase was primarily related to the phasing out of its Strathroy and Guelph Facilities to align with their strategic priorities and address ongoing business transformation plans. The restructuring also included a reduction to the number of employees across the organization in an effort to reduce spending.

Provision for decommissioning costs

Provision for decommissioning costs increased by $415,000 or negative 100% to $415,000 during the three and twelve months ended December 31, 2022, compared to the same period in 2021. The increase was primarily related to the phasing out of its Guelph Facilities to align with their strategic priorities and address ongoing business transformation plans.

Research and Development

During the three and twelve months ended December 31, 2022, the Company's Research and Development expenses decreased by $88,501 or 72% to $33,802 and $195,357 or 49% to $201,607 compared to the same period in 2021. The decrease is attributable to several factors. Firstly, the Company completed certain research and development projects that were in the development phase during the prior year. Secondly, the Company temporarily shifted its focus towards optimizing existing products and services rather than investing in new research and development initiatives.

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 increased by $67,542 or negative 295% to $44,636 and decreased $378,345 or 44% to $481,501 during the three and twelve months ended December 31, 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 $1,148,870 or negative 103% to $2,266,893 and by $986,272 or 15% to 7,739,253 for the three and twelve months ended December 31, 2022, compared to the same periods in 2021. The increase in depreciation and amortization is mainly due to leasehold improvements due to acquisition of Canntx towards the end of Q4 2021 leading to a higher depreciation in the periods of 2022.

EBITDA and Adjusted EBITDA

	For the three months ended			
	December 31, 2022	December 31, 2021	$ Change	% Change
Loss and comprehensive loss	**$ (87,923,167)**	$ (44,509,174)	**$ (43,413,993)**	97.54%
Depreciation and Amortization*	379,870	1,118,023	(738,153)	(66%)
Finance costs	4,529,994	3,624,014	905,980	25%
EBITDA	**(83,013,303)**	(39,767,137)	**(43,246,166)**	109%
Impairment of inventory included in cost of goods sold	5,259,857	9,852,627	(4,592,770)	(47%)
Provision for returns	(449,293)	—	(449,293)	100%
One-time cost of sales expenses	—	—	—	0%
Provision for trade receivables	536,817	—	536,817	100%
Severance	473,917	44,209	429,708	972%
Realized fair value amounts previously included in inventory	69,262	(1,485,562)	1,554,824	(105%)
Unrealized loss (gain) on changes in fair value of biological assets	4,839,992	947,110	3,892,882	411%
Impairment of property, plant and equipment	61,954,656	31,165,073	30,789,583	99%
Share based compensation	44,636	(22,906)	67,542	(295%)
Acquisition-related expenses	—	140,020	(140,020)	(100%)
Unrealized loss on investments	—	232,500	(232,500)	(100%)
Loss on disposal of property, plant and equipment	—	145,137	(145,137)	(100%)
Loss on sale of assets held for sale	—	(332,696)	332,696	(100%)
Gain on lease modification	—	—	—	0%
Gain on modification of loan and borrowings	(423,502)	227,156	(650,658)	(286%)
Gain on extinguishment of unsecured convertible debentures	514,458	—	514,458	100%
Provision for decommissioning costs	415,000	—	415,000	100%
Provision for restructuring expenses	521,808	—	521,808	100%
Government grants	—	670,530	(670,530)	(100%)
Other income, net	(9,000)	(1,871,671)	1,862,671	(100%)
Adjusted EBITDA [1]	**$ (9,264,695)**	$ (55,610)	**$ (9,209,085)**	16560%

* For three months ended December 31, 2022, includes depreciation of $964,058 (December 31, 2021- $895,587) amount expensed in cost of goods sold

	For the year ended			
	December 31, 2022	December 31, 2021	$ Change	% Change
Loss and comprehensive loss	**$ (123,146,447)**	$ (78,935,133)	**$ (44,211,314)**	56%
Depreciation and Amortization*	5,852,230	6,752,981	(900,751)	(13%)
Finance costs	17,577,417	11,024,636	6,552,781	59%
EBITDA	**(99,716,800)**	(61,157,516)	**(38,559,284)**	63%
Impairment of inventory included in cost of goods sold	14,250,433	17,407,162	(3,156,729)	(18%)
Provision for returns	565,781	—	565,781	100%
One-time cost of sales expenses	3,304,296	—	3,304,296	100%
Provision for trade receivables	536,817	—	536,817	100%
Severance	1,345,665	1,815,742	(470,077)	(26%)
Realized fair value amounts previously included in inventory	6,176,880	10,621,639	(4,444,759)	(42%)
Unrealized loss (gain) on changes in fair value of biological assets	4,525,559	(2,499,282)	7,024,841	(281%)
Impairment of property, plant and equipment	62,642,454	31,165,073	31,477,381	101%
Share based compensation	481,501	859,846	(378,345)	(44%)
Acquisition-related expenses	—	466,897	(466,897)	(100%)
Unrealized loss on investments	—	232,500	(232,500)	(100%)
Loss on disposal of property, plant and equipment	22,018	161,559	(139,541)	(86%)
Loss on sale of assets held for sale	—	(332,696)	332,696	(100%)
Gain on lease modification	(805,324)	—	(805,324)	100%
Gain on modification of loan and borrowings	(3,619,466)	227,156	(3,846,622)	(1693%)
Gain on extinguishment of unsecured convertible debentures	(4,640,408)	—	(4,640,408)	100%
Provision for decommissioning costs	415,000	—	415,000	100%
Provision for restructuring expenses	521,808	—	521,808	100%
Government grants	—	(2,301,857)	2,301,857	(100%)
Other income, net	(59,735)	(5,959,738)	5,900,003	(99%)
Adjusted EBITDA [1]	**$ (14,053,521)**	$ (9,293,515)	**$ (4,760,006)**	51%

* For the year ended December 31, 2022, includes depreciation of $5,023,961 (December 31, 2021- $4,015,998) 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") decreased by $43,246,167 or negative 109% to negative $83,013,303 and $38,559,284 or negative 63% to negative $99,716,800 during the three and twelve months ending December 31, 2022, respectively, could be attributed to several factors. Firstly, the Company recorded lower revenues than anticipated. This was attributed to a significant shortage of its best-selling cultivars, largely induced by the structural issues at its Strathroy facility in the first quarter; this challenge was further exacerbated by broad pricing pressure and the intensification of competition in the cannabis industry. Secondly, finance costs also increased significantly from $11,024,636 in 2021 to $17,577,417 in 2022, which is attributed to higher interest rates and increased borrowing. Additionally, the impairment of property, plant, and equipment, goodwill, intangible assets, and right-of-use assets contributed to a loss and comprehensive loss of $123,146,447 in 2022, which represents a significant non-cash expense. These factors have impacted the Company's financial performance, which may affect its ability to meet its financial obligations in the future.

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 decreased by $9,209,085 or negative 16,560% to negative $9,264,695 and $4,760,006 or negative 51% to negative $14,053,521 during the three and twelve months ended December 31, 2022, compared to the same period of 2021. The decreases are mainly due to an increase in expenses, largely attributed to the following areas: (a) impairment of property, plant and equipment, (b) one-time sales expenses incurred for which activity has not yet transpired, (c) one-time cost to sell on assets held for sale, (d) provision for returns and (e) provision for decommissioning.

Liquidity and Capital Resources

	For the three months ended			
	December 31, 2022	**December 31, 2021**	**$ Change**	**% Change**
Cash provided by (used in):				
Operating activities	$ (7,515,035)	$ (8,745,331)	$ 1,230,296	(14%)
Investing activities	(19,752)	444,571	(464,323)	(104%)
Financing activities	10,524,734	14,423,836	(3,899,102)	(27%)
(Decrease) increase in cash	$ 2,989,947	$ 6,123,076	$ (3,133,129)	(51%)

	For the year ended			
	December 31, 2022	**December 31, 2021**	**$ Change**	**% Change**
Cash provided by (used in):				
Operating activities	$ (30,166,386)	$ (30,007,076)	$ (159,310)	1%
Investing activities	(1,316,949)	1,841,423	(3,158,372)	(172%)
Financing activities	21,142,519	24,063,643	(2,921,124)	(12%)
(Decrease) increase in cash	$ (10,340,816)	$ (4,102,010)	$ (6,238,806)	152%

Cash flow from operating activities

Cash used in operating activities was $7,515,035 and $30,166,386 during the three and twelve months ended December 31, 2022, respectively, compared to $8,745,331 and $30,007,076 during the same periods of 2021, respectively. Higher spending for the three and twelve months ending December 31, 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 $19,752 and $1,316,949 during the three and twelve months ended December 31, 2022, respectively, compared to cash provided by investing activities of $444,571 and $1,841,423 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 $10,524,734 and $21,142,519 during the three and twelve months ended December 31, 2022, respectively, compared to cash provided by financing activities was $14,423,836 and $24,063,643 during the same periods of 2021, respectively. The decrease in cash provided by financing activity was due to repayment to convertible debenture holders in 2022.

Liquidity

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

As of December 31, 2022, the Company had cash and cash equivalents of $9,075,257 (December 31, 2021: $21,416,073). Total current assets for the same period were $40,085,316 (December 31, 2021: $61,425,413), including inventory and biological assets of $14,784,692 (December 31, 2021: $30,247,728), with current liabilities of $141,878,963 (December 31, 2021: $116,392,767) resulting in negative working capital of $101,793,647 (negative working capital of December 31, 2021: $54,967,354).

The Company's current ratio at December 31, 2022 was 0.28 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 December 31, 2022, the Company had a working capital deficiency of $(101,793,647) and an accumulated deficit of $319,368,021. For the year ended December 31, 2022, the Company used cash in operating activities of $30,166,386, resulting primarily from the net loss of $123,146,447 offset by items not affecting cash such as impairment, depreciation, amortization, and stock-based compensation. The Company's ability to continue as a going concern is dependent upon its ability to obtain sufficient additional funding and to generate sufficient revenues and positive cash flows from its operating activities to meet its obligations and fund its planned investments and operations. These conditions indicate the existence of a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern.

The Company anticipates it has sufficient cash on hand to service its liabilities and fund operating costs for the immediate future with the additional sources of funding actually received in February 2023, as well as additional funding expected during 2023. However, there is uncertainty as to how long these funds will last. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and obtain necessary financing to do so.

In November 2022, the Company announced the planned closure of its Strathroy facility that will be effective in early 2023 and the execution of a long-term cannabis supply agreement with Hexo Corp. These two strategic initiatives were done in an effort to attain profitability and positive cash flow from operations; however, the timing of when this will occur is subject to material uncertainty. The Company has obtained a waiver subsequent to year end for its credit facility with Liuna Pension Fund ("LPF"). The Company is also in the process of obtaining additional financing from its strategic investor and lender (LPF) to settle any amounts arising from the shortfall between the expected sales proceeds related to the Strathroy Facility and the outstanding Credit Facilities with BMO.

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

	December 31, 2022	December 31, 2021	$ Change	% Change
Dried cannabis	$ 10,646,652	$ 17,736,539	$ (7,089,887)	(40%)
Harvested work in progress	350,395	4,121,413	(3,771,018)	(91%)
Extracts				
Resin	64,948	144,616	(79,668)	(55%)
Crude oil	486,451	998,714	(512,263)	(51%)
Finished oil	1,281,679	4,391,981	(3,110,302)	(71%)
Total extracts	12,830,125	27,393,263	(14,563,138)	(53%)
Non-cannabis inventory	1,258,855	2,247,290	(988,435)	(44%)
	$ 14,088,980	$ 29,640,553	$ (15,551,573)	(52%)

Total inventory decreased by $15,551,573 or negative 52% from December 31, 2021, to December 31, 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

<u>Credit Facility with Financial Institution - Bank of Montreal (BMO)</u>

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

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

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

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

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

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

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

For all three facilities, the term was for 3 years, with a 10-year amortization period.

Conversion date originally was June 30, 2020 or such later date as the Lenders and the Borrower may agree provided that, as of the date of any request for extension of the then applicable conversion date, the Required Lenders are satisfied that:

(a) no Default or Event of Default has occurred and is continuing; and
(b) the Credit Parties shall be in compliance with all terms and conditions of the Loan Documents, including all financial covenants that apply after the Conversion Date.

The amount available under Facility 4 shall be added to the Revolving Credit Commitment (Facility 1) for the period commencing on the date that the Sixth Amendment to the Credit Agreement becomes effective until the earlier of (a) the date on which the Additional LiUNA Pension Fund of Central and Eastern Canada ("LPF") Loan becomes available or (b) December 31, 2021. On that date, Facility 4 terminates and the amount available under the Revolving Credit remains at $3,000,000. Any amount outstanding under the Revolving Facility in excess of $3,000,000 must be repaid immediately. Facility 4 expired on December 31, 2021.

On June 30, 2020, related to the Credit Facilities, the Company signed an amendment to its senior secured Credit Facilities entered into on March 29, 2019. Under the terms of the Credit Agreement Amendment, the conversion date was amended from June 30, 2020, to June 30, 2021, and was further extended to December 31, 2021, resulting in a deferral of certain covenants by another six months. In addition, the Company agreed to a 50-basis point increase in the applicable interest rate margin on the Credit Facility (first amendment), which was further increased by 25 basis points on October 18, 2021.

Due to the modification of interest and principal repayment (repayment of principal payment of $3,000,000 from restricted cash), the net present value of changes to the future contractual cash flows adjusts the carrying amount of the original debt with the difference immediately recognized in profit or loss. The adjusted carrying amount is then amortized over the remaining term of the (modified) liability using the original effective interest rate.

Under the Credit agreement with Bank of Montreal (BMO) dated September 30, 2020, the Company was required 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 required 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 December 23, 2021, related to the Credit Facilities, the Company announced that it had signed an amendment to its secured Credit Facilities entered into on March 29, 2019.Under the terms of the amendment, the Company secured a deferral of certain of its financial covenants to December 31, 2021, including the amendment of Conversion Date from December 31, 2021, to March 28, 2022. In addition, the Company agreed to a 25-basis point increase in the applicable interest rate margin on the Credit Facility and retains the option, at the Company's discretion, to add interest accrued to the principal loan amount. The Credit Facility provides the Company with non-dilutive financing and greater financial flexibility in alignment with market conditions.

There was no change in the principal repayment other than the restricted cash of $3 million was applied as a principal repayment.

Under the Credit Facilities until the Conversion Date the Company must maintain a total funded debt to tangible net worth ratio of not more than 1:1. 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 of not more than 3:1, and maintain a total funded debt to EBITDA ratio of not more than 4:1.

2022 Activity:

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

On May 31, 2022, pursuant to the Eight Amendment, the Company secured an extension of the maturity date of the Credit Facility from May 31, 2022 to June 30,2022.

On June 30, 2022, pursuant to the Ninth Amendment, the Company entered into an amendment to extend the maturity to June 30, 2024 and Conversion Date (previously defined) 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 required 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.

On October 28, 2022, the Company entered into an Amended and Restated credit agreement with its senior secured lender, which reflected increase in interest rate by 0.25%.

On December 30, 2022, pursuant to the First Amendment to the Amended and Restated credit agreement ("First Amendment"), the Company obtained a waiver to the breach of certain financial covenants for the period ended September 30, 2022 and modified certain of the financial covenants set out in the Credit Facilities. Specifically, the EBITDA target covenant was modified to reflect the Company's updated strategic plan as announced by the Company on November 15, 2022. Additionally, the liquidity covenant was amended to provide that the Company must maintain liquidity coverage of not less than $5,000,000 at all times. The First Amendment also requires additional security in the form of $2,000,000 to be maintained in a blocked account held by the senior lender, to be applied against the Credit Facility in certain events. As a result, as at December 31, 2022, the Company included $2,000,000 as restricted cash.

As these amendments impacted the maturity date and applicable margin, the Company assessed whether the amendments were considered extinguishments or modifications. The Company recorded a gain of $237,583 in the consolidated statements of loss and comprehensive loss.

The Company was in breach to comply with its financial covenant to maintain a certain minimum quarterly EBITDA target as at December 31, 2022. The Company is in the process of obtaining additional financing from its strategic investor and lender (LPF) to settle any amounts arising from the shortfall between the expected sales proceeds related to the Strathroy Facility and the outstanding Credit Facilities with BMO.

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

On September 23, 2020, the Company had entered into a credit facility with LPF. Under the terms, LPF provided the Company $30,000,000, maturing in August 2022 and bearing a 15% interest rate per annum and 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.

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

On October 28, 2021, pursuant to the First Amendment, the Company amended its existing credit facility ("Credit Facility") with LPF resulting in an interest rate increase of 25 basis points.

Pursuant to the Second Amendment dated December 23, 2021, the Company received additional disbursement of $20,000,000 million proceeds from LPF for use by the Company for general working Capital purposes, maturing in August 2022 and bearing a 15% 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. LPF is a major shareholder of the Company. As per the agreement, under the Credit Facilities until the Conversion Date, the Company must maintain a total funded debt to tangible net worth ratio of not more than 1:1. 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 of not more than 3:1, and maintain a total funded debt to EBITDA ratio of not more than 4:1.

For the year ended December 31, 2021, the Company was in breach to comply with only one of the covenants specific to total funded debt to tangible net worth ratio of not more than 1:1. Accordingly, the Credit Facilities were presented as current liabilities as at December 31, 2021.

2022 Activity:

On April 29, 2022, pursuant to the Third Amendment, a waiver was granted related to the Total Funded Debt to Tangible Net Worth Ratio covenant violation for the fiscal quarter ended December 31, 2021. In addition, the Company received additional disbursement of $15,000,000 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. Total transaction costs associated with the Third Amendment were $115,520.

On June 27, 2022, pursuant to the Fourth Amendment, the Company entered into an arrangement with LPF to repay in full the unsecured convertible debenture holders of the Company including its transaction costs ($8,201,513 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 $8,900,000. The additional loan has the same maturity date and interest rate as the April 29, 2022 Third Amendment loan 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, pursuant to the Fifth Amendment, 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 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 required to maintain liquidity coverage of not less than $1,000,000 at all times.

The amendment impacted the maturity date, the Company assessed whether the amendment was considered extinguishment or modification. The Company recorded a gain of $3,381,883 in the consolidated statements of loss and comprehensive loss.

As the Fifth Amendment amended the maturity date, the Company assessed whether the modification was considered an extinguishment or modification.

On October 31, 2022, pursuant to the Sixth Amendment, 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 $15,000,000. The second tranche of funding amounting to $15,000,000 was received on January 31, 2023. The Credit Facility continues to bear an interest rate of 15.25% with the option, at the Company's discretion, to capitalize interest in lieu of cash payments of interest and is set to mature on December 31, 2024. Total transaction costs associated with the Sixth Amendment were $138,132.

The amendment impacted the maturity date, the Company assessed whether the amendment was considered extinguishment or modification. The Company recorded a gain of $3,381,883 in the consolidated statements of loss and comprehensive loss.

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.

The Company was in breach to comply with its financial covenant to maintain a certain minimum quarterly EBITDA target as at December 31, 2022, however the Company has obtained a waiver from the lender subsequent to the year end. Accordingly, the Credit Facilities have been presented as current liabilities as at December 31, 2022.

<u>1217174 Ontario LTD</u>

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

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

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

During the year ended December 31, 2022, the Company incurred $362,250 (2021- $51,750) in interest and $226,188 (2021- $21,565) in accretion expense relating to these loans

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

The balances outstanding are as follows:

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

For the three and twelve months ended December 31, 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 year ended	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Salaries and bonus	$ 545,428	$ 737,069	$ 2,231,706	$ 1,863,655
Share based Compensation	44,636	329,680	481,501	744,303
Directors fee	80,000	115,543	401,511	368,709
Other compensation	74,063	219,965	120,311	859,310
	$ 744,127	$ 1,402,257	$ 3,235,029	$ 3,835,977

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.

On December 31, 2022, the Company determined and authorized the grant of an aggregate of 4,000,000 deferred share units ("DSUs") to directors of the Company based on the fair value of the services provided. The DSUs will vest immediately and are granted in lieu of cash compensation for services rendered during the third 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 $44,636.

During year ended December 31, 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.

Stock options expired during the years ended December 31, 2022 and 2021 as a result of unexercised employee options.

Total share-based compensation pertaining to options for the year ended December 31, 2022 and 2021 are as follows:

For the years ended December 31,		2022	2021
Share based compensation	$	11,309	217,826
Deferred stock units issued		470,192	642,020
Total	$	481,501	859,846

Disclosure of outstanding share data

As at May 1, 2023, the following were outstanding:

Outstanding Shares	**As at May 1, 2023**
Common shares	306,964,396
Warrants	3,741,666
Stock and broker compensation options	5,977,140
	316,683,202

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

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

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

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

RISK FACTORS

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

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The required disclosures provide information that assists users of consolidated financial statements in assessing the extent of risk related to financial instruments. Additional information on financial instruments and other instruments can be found in "Note 20" of the consolidated financial statements.

a. ***Fair value***

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

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

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

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

There are no financial instruments measured at fair value as at December 31, 2022 and 2021.
The carrying values of cash, trade and other receivables, accounts payable and accrued liabilities, and short-term loan and borrowings 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 $4,025,494(December 31, 2021: $7,677,210).

As at December 31, 2022, 83% (December 31, 2021: 54%) of the Company's trade and other receivables balance, is owing from 3 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 insurance agencies which generally have a low default risk. Credit risk for non-government wholesale customers is assessed on a case-by-case basis and represents 35% of accounts receivable and comprises of 12% of the revenue of the Company as at December 31, 2022. 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 manages its exposure to liquidity risk by ensuring that it documents when authorized payments become due and actively manages its working capital to repay trade creditors as they become due.

The Company has total current liabilities of $141,878,963 (December 31, 2021: $116,392,767) with cash on hand of $9,075,257 (December 31, 2021: $21,416,073). Subsequent to December 31, 2022, the Company received funding amounting to $15,000,000. The Company will manage the risk exposure through increased future sales, minimizing expenses by the phase out of the Strathroy and Guelph Facilities, 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:

	2023 (Year 1)	2024 (Year 2)	2025 (Year 3)	2026 (Year 4)	2027 and later
Lease liabilities	$ 332,477	$ 134,019	$ 126,962	$ 129,544	$ 415,578
Loans and borrowings	25,499,354	310,500	145,035,514	5,284,625	—
Unsecured convertible debentures	91,175	91,175	1,104,225	—	—
Other commitments	9,833	6,051	550	—	—
Accounts payables and accrued liabilities	13,170,713	—	—	—	—
Total	**$ 39,103,552**	**$ 541,745**	**$ 146,267,251**	**$ 5,414,169**	**$ 415,578**

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

e. ***Cash flow risk***

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

SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events up to May 1, 2023, the date the consolidated financial statements were issued and determined the following events:

i) On January 31, 2023, the Company amended its credit facility with LPF and received the second tranche of funding of $15,000,000 less transaction costs of approximately $225,000. 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.

ii) On April 21, 2023, the Company entered into a firm agreement to sell the Strathroy facility to a third party for $9,400,000, less customary transaction costs, land transfer tax, and brokerage fees. The facility is a collateral for the credit facility payable to BMO. The Company is in the process of obtaining additional financing from its strategic investor (LPF) to settle any amounts arising from the shortfall between the expected sales proceeds related to the Strathroy Facility and the outstanding Credit Facilities with BMO.

iii) In accordance with the provisions of its omnibus equity incentive compensation plan (the "Omnibus Plan"), the Company has authorized the issuance of an aggregate of 1,600,000 deferred share units ("DSUs") to non-management directors of the Company as compensation for their services. The DSUs will vest on March 31, 2024 and are granted in lieu of cash compensation for services rendered during the first quarter of 2023. The Company's board of directors (the "Board") approved a cap on the number of DSUs payable to each director as part of their quarterly fee payment at 400,000 DSUs.

iv) The Company entered into agreements to issue shares in lieu of compensation payable to certain senior employees, of 1,423,057 common shares in satisfaction of approximately $50,000 (net of employer deductions and withholdings) owing to such senior employees, subject to the approval by the TSXV.