Entourage
HEALTH CORP

ENTOURAGE HEALTH CORP

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023

AUGUST 29, 2023

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MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023

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 months and six months ended June 30, 2023. All amounts are in Canadian dollars unless otherwise specified. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and accompanying notes thereto as at and for the three and six months ended June 30, 2023, which have been prepared in accordance with International Accounting Standards 34 - Interim Financial Reporting ("IAS 34") of the International Financial Reporting Standards ("IFRS"), as well as the Company's audited consolidated financial statements and related unaudited MD&A for the year ended December 31, 2022.

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.sedarplus.ca*.

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.

Adjusted Earnings Before Interest, Tax, Depreciation, and Amortization (Adjusted EBITDA): Adjusted EBITDA is income (loss) and comprehensive income (loss) excluding interest, tax, depreciation and amortization, 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 August 29, 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 craft cannabis brand Syndicate Cannabis™. The Company produces a diverse portfolio of cannabis and cannabis derivative products, including oils, capsules, soft chews, topicals, beverages and vapes, for sale in both the medical and adult-use markets across Canada.

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.

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 customer' standards.

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.

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 accessible 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

★ STARSEED
Medicinal

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. 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

Syndicate is both a direct-to-patient medical cannabis marketplace brand and an adult use craft brand. In both channels, Syndicate strives to showcase 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, 7g, 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 4 x .5g 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 third largest product category in the Canadian adult-use portfolio. The custom-made, unique terpene blends have been popular across our Saturday brand.

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.

Softgels: Softgels are easy to swallow capsules that are pre-measured to provide an accurate and consistent dosage. Available in a number of products formulations, recently introducing new cannabinoids CB4 and CBG.

Topicals: In partnership with Mary's Medicinals, 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: 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.

Beverages: 'TeaPot', a line of cannabis-infused iced tea beverages, developed and formulated alongside Boston Beer's cannabis subsidiary BBCCC Inc. ("BBC"), and Windsor-based Peak Processing Solutions ("Peak"), TeaPot is BBC's first infused beverage offering which is across Canada.

DISTRIBUTION

As of June 30, 2023, the Company held adult-use distribution agreements in the following provinces:

Ontario Cannabis Retail Corporation: Representing the largest consumer demographic. The Purchase agreement with the province of Ontario to supply cannabis for the adult-use market.
Province of Quebec: Partnership agreement with Rose Life Science Inc, representing the second largest market and fourth largest in terms of adult-use cannabis sales.
Alberta Gaming and Liquor-Commission:
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: With the Company's first purchase order from Cannabis NB in 2022, its adult-use products are now available coast-to-coast.

The Company has a distribution coverage of just under 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 now outsources cultivation activities and purchases 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.

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 pre-roll sales accounted for 3.0%of the national pre-roll sales. Additionally, in British Columbia, it holds significant share of 8.3% in the pre-roll segment. (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. The average renewal rate for Starseed medical patients was 100% in the quarter, 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 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.

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 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 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 and THC 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. 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 goals, 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 EBITDA GROWTH

The Company committed to achieving adjusted EBITDA growth in 2023 through a focus on cost containment and strategic rationalizations. To achieve this goal a comprehensive review of its operating model, shared services, and organizational structure was conducted in October 2022. The strategic plan highlighted the following areas:

- **Operational Efficiency:** The strategic blueprint prioritized significant reductions in selling, general, and administrative (SG&A) costs. These reductions aim to reduce administrative costs to 51% of net revenue and are expected to fortify our financial foundation and support future endeavours.
- **Streamlined Production:** In pursuit of cost optimization, a more streamlined production approach was outlined, resulting in a meaningful 35% reduction in production staff. Alongside this, a strategic decision was made to divest from underperforming business channels, yielding noteworthy, annualized savings. This reallocation of resources enables a refocusing of efforts towards avenues of heightened potential and maximized returns, while also recognizing the impact on our dedicated team members.
- **Asset Optimization:** Through strategic consolidation of leased properties and the sale of equipment, the Company's objective is to improve its liquidity and reduce operating cash burn, capturing savings that bolster earnings.
- **Facility Rationalization:** A cornerstone of the strategic plan involved the phased decommissioning of cultivation and extraction facilities. Despite its complexity, this deliberate measure is forecasted to realize $5.1 million in annualized savings. The redirection of our operational footprint facilitates the pointed allocation of resources toward high-potential growth areas.

The Company is confident in its ability to achieve our goal of adjusted EBITDA growth 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. In May 2023, the Strathroy facility sale was consummated, and all internal grow operations ceased. As well, in April 2023, the Company began receiving product from its third-party provider.

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. During the quarter, the Company completed a SKU rationalization assessment and adjusted its go-forward commercialization strategy.

The third prong of the strategy is to drive the business toward profitability as quickly as possible. Throughout the six months ended June 30, 2023 the Company implemented various operational efficiency and automation initiatives resulting in a reduction in reliance on temporary labour. 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.

Financing and Credit Facilities

- 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 an 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 sale closed on May 18, 2023 and the net proceeds were paid to BMO in partial repayment of its outstanding secured credit facility.

- In May, a pivotal financial milestone was reached as the Company successfully finalized the sale of its Strathroy facility. By divesting of this asset, the Company strengthened its balance sheet while aligning its production infrastructure to its updated strategy. The net proceeds from the sale of the Strathroy facility paid down a significant portion of the Company's senior secured credit facility with BMO (the "Credit Facility").

- In June, the remaining balance of the Credit Facility, approximately $14.6 million, was assumed by the Company's other secured lender, an affiliate of LiUNA Pension Fund of Central and Eastern Canada ("LPF"). The arrangement resulted in the complete repayment of the Credit Facility to BMO. This step simplifies the Company's debt structure, enhances its financial stability, and positions it for future fiscal agility.

Company Updates

- In March 2023, Entourage announced it had added a new union group to its full-service, proprietary medical cannabis program in partnership with leading benefits provider Union Benefits – the administrator of union group benefits to over 12,000. With these additions, Entourage confirms it has 10 union groups, five insurance providers and 24 clinics.

- In June, Entourage held its Annual General Meeting. All director nominees, including George Scorsis, Gail Paech, Bruce Croxon, Luciano Cacioppo, and Jason Alexander, were resoundingly elected, garnering a combined average shareholder approval rating of 98%. Furthermore, the Company's shareholders approved the reappointment of MNP LLP as auditor.

- In June, the Company entered into a two-year agreement with the University of Guelph to store its genetics in-vitro and research its proprietary genetics. This collaboration allows the Company to ensure that the safeguard, maintenance, and value of proprietary genetics remain a priority.

- June marked another milestone for the Company with the seamless sale, execution, and fulfillment of its first international order—an impressive 100kg of bulk medicinal cannabis dispatched to Australia through a partnership with Lyphe Australia Pty Ltd., a fully-owned subsidiary of Lyphe Group Ltd. Four of the Company's premium strains will now be available to medicinal cannabis patients through Lyphe, cementing our global market presence and accelerates our strategic growth agenda.

Sales and Marketing Highlights

- Earlier this year, Color Cannabis was announced as a winner of the 2022 ADCANN Award for Canadian Marketing Campaign of the Year for 'Just Add Color.'

- Entourage in partnership with The Boston Beer Company, expanded distribution of their cannabis-infused iced tea beverages, known as 'TeaPot,' into the Quebec and Saskatchwan markets.

- The Company has a record 3.0% national market share of pre-rolls, with British Columbia showing the strongest growth at 8.3% in the second quarter.

- As of June 2023, Year-to-Date (YTD) sales of Saturday vapes in Ontario have surged, demonstrating an impressive 139% year-over-year increase.[1]

- The Company launched 18 new SKU's across the Canadian marketplace under both the Color and Saturday portfolio in a variety of new cultivars and formats including; 'Garlic and Gas ready-to-roll,' 'Sour Berry 1g Vape' and 'Ghost Fuel Infused Pre-Rolls.' The Company's ongoing commitment to crafting distinctive products infused with unique flavours and rare cannabinoids is poised to resonate strongly with consumers and enhance sales.

- During the second quarter, Teapot introduced two new flavours, 'Good Day Iced Tea Mango Green Tea' and 'Good Evening Iced Tea Blueberry Chamomile.' Notably, Quebec emerges as the frontrunner with a TeaPot commanding a market share of over 29% in this segment.

- The Company launched an innovative and comprehensive education program tailored to enhance budtender engagement and elevate product knowledge. This program reflects the Company's commitment to customer satisfaction and our dedication to creating a well-informed and knowledgeable cannabis community.

- Medicinal platform Starseed remains a top-five medical channel in Canada. Starseed Medicinal's active patient base experienced a notable 7% growth. The Company also experienced 100% renewal rate. These substantial increases highlight the Company's ability to attract and retain a growing patient base.

- Starseed has expanded its medical platform, continually adding to its product portfolio. In partnership with Remidose, Starseed will introduce a range of controlled delivery inhaler products available in both a THC and balanced profile exclusively for medical patients.

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 the acclaimed product line, Mary's Medicinals ("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. 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, and Peak Processing Solutions 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

	Q2 2023	Q1 2023	Q4 2022	Q3 2022
Total Revenue	$ 13,365,382	$ 15,107,445	$ 12,141,125	$ 13,438,320
Revenue, Net	10,174,126	11,833,736	8,702,084	10,075,302
Gross profit (loss) before change in fair value	2,151,441	3,002,193	(7,509,055)	(4,890,887)
Loss and comprehensive loss	(9,571,828)	(9,515,560)	(87,923,167)	(17,432,184)
Basic and diluted (loss) per share from continuing operations	(0.03)	(0.03)	(0.29)	(0.06)
Basic and diluted (loss) attributable to the shareholders	$ (0.03)	$ (0.03)	$ (0.29)	$ (0.06)

	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Total Revenue	$ 13,185,209	$ 15,770,569	$ 13,538,872	$ 14,978,879
Revenue, Net	9,690,712	12,423,970	10,600,507	10,788,812
Gross profit (loss) before change in fair value	474,243	2,737,184	(2,800,620)	(4,155,264)
Loss and comprehensive loss	(9,027,497)	(8,763,599)	(44,509,174)	(17,467,138)
Basic and diluted (loss) per share from continuing operations	(0.03)	(0.03)	(0.17)	(0.07)
Basic and diluted (loss) attributable to the shareholders	$ (0.03)	$ (0.03)	$ (0.17)	$ (0.07)

The company has showcased a rebound in revenue following the inventory shortages experienced in fiscal year 2022. A series of consistent, successive quarters of performance illustrates the recapture of lost market share, underscored by strategic endeavors aimed at enhancing production efficiency and curbing internal costs.

Key Operating Metrics

For the three months ended		June 30, 2023		June 30, 2022		$ or Weight Difference	% Change
Revenue	$	13,365,382	$	13,185,209	$	180,173	1%
Kilograms equivalent sold - cannabis		4,369		4,160		209	5%
Kilograms harvested		—		2,318		(2,318)	(100%)
Average yield per plant (grams)		—		149		(149)	(100%)
Weighted average cost per gram from clone to harvest of plants on hand	$	—	$	1.51	$	(1.51)	(100%)
Weighted average cost per gram of inventory on hand	$	1.57	$	1.21	$	0.36	30%

For the six months ended		June 30, 2023		June 30, 2022		$ or Weight Difference	% Change
Revenue	$	28,472,827	$	28,955,778	$	(482,951)	(2%)
Kilograms equivalent sold - cannabis		8,154		9,104		(950)	(10%)
Kilograms harvested		1,539		4,578		(3,039)	(66%)
Average yield per plant (grams)		49		149		(100)	(67%)
Weighted average cost per gram from clone to harvest of plants on hand	$	1.70	$	1.51	$	0.19	13%
Weighted average cost per gram of inventory on hand	$	1.57	$	1.21	$	0.36	30%

The Company harvested Nil kg and 1,539 kg of cannabis in the three and six months ended June 30, 2023, compared to 2,318 kg and 4,578 kg respectively, in the same period of 2022, decreasing by 3,039 kg.

In November 2022 the Company announced closure of its extraction facilities which eliminated the need for trim, and other components of Grade C product. As such, for the six months ended June 30, 2023, the weighted average cost per gram increased to $1.70, compared to $1.51 in the comparable 2022 period. Additionally, for the six months ended June 30, 2023, yield per plant averaged 49 g per plant compared to 149 g per plant, as a result of extraction cessation. The weighted average cost per gram of inventory on hand increased to $1.57 in Q2 2023 compared to $1.21 in the comparable 2022 period.

Summary of Q2 Results and Results of Operations

		For the three months ended					
		June 30, 2023		June 30, 2022		$ Change	% Change
Total Revenue		$13,365,382	$	13,185,209	$	180,173	1%
Net revenue		10,174,126		9,690,712		483,414	5%
Cost of goods sold		(8,022,685)		(9,216,469)		1,193,784	(13%)
Gross profit before changes in fair value		2,151,441		474,243		1,677,198	354%
Gross profit before changes in fair value - as % of Net Revenue		21%		5%		N/A	16%
Realized fair value amounts previously included in inventory		(907,070)		3,575,701		(4,482,771)	(125%)
Unrealized loss (gain) on changes in fair value of biological assets		—		347,931		(347,931)	(100%)
Gross profit (loss)		3,058,511		(3,449,389)		6,507,900	(189%)
Loss and comprehensive loss		(9,571,828)		(9,027,497)		(544,331)	6%
Adjusted EBITDA [1]		(1,746,760)		(2,419,423)		672,663	(28%)
Cash provided by (used in) operations		(5,351,032)		(9,802,778)		4,451,746	(45%)
Basic loss per share		(0.03)		(0.03)			
Diluted loss per share	$	(0.03)	$	(0.03)			

	For the six months ended			
	June 30, 2023	**June 30, 2022**	**$ Change**	**% Change**
Total Revenue	$ 28,472,827	$ 28,955,778	$ (482,951)	(2%)
Net revenue	22,007,862	22,114,682	(106,820)	(0.5%)
Cost of goods sold	(16,854,228)	(18,903,255)	2,049,027	(11%)
Gross profit before changes in fair value	5,153,634	3,211,427	1,942,207	60%
Gross profit before changes in fair value - as % of Net Revenue	23%	15%	N/A	9%
Realized fair value amounts previously included in inventory	(2,401,043)	4,902,400	(7,303,443)	(149%)
Unrealized loss (gain) on changes in fair value of biological assets	501,501	(180,360)	681,861	(378%)
Gross profit (loss)	7,053,176	(1,510,613)	8,563,789	(567%)
Loss and comprehensive loss	(19,087,388)	(17,791,096)	(1,296,292)	7%
Adjusted EBITDA [1]	(5,121,243)	(1,855,977)	(3,265,266)	176%
Cash provided by (used in) operations	(12,916,489)	(17,186,191)	4,269,702	(25%)
Basic loss per share	(0.06)	(0.06)		
Diluted loss per share	$ (0.06)	$ (0.06)		

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

	June 30, 2023	**December 31, 2022**
Total assets	$ 37,305,676	$ 46,466,628
Total non-current liabilities	6,093,898	5,826,600
Total liabilities	157,531,943	147,705,563
Cash and cash equivalent	9,442,720	9,075,257
Working capital	(120,287,938)	(101,793,647)

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 regulated distributors ("Bulk").

The table below summarizes revenue by channel:

	For the three months ended			
	June 30, 2023	**June 30, 2022**	**$ Change**	**% Change**
Net Revenue*				
Medical	$ 4,162,516	$ 4,339,069	$ (176,553)	(4%)
Adult Use	$ 5,786,219	$ 5,351,643	434,576	8%
Bulk	$ 225,391	$ —	225,391	100%
Total Net Revenue	$ 10,174,126	$ 9,690,712	$ 483,414	5.0%

* Revenue less Excise taxes

	For the six months ended			
	June 30, 2023	**June 30, 2022**	**$ Change**	**% Change**
Net Revenue*				
Medical	$ 10,135,337	$ 10,562,493	$ (427,156)	(4%)
Adult Use	$ 11,647,134	$ 11,334,127	313,007	3%
Bulk	$ 225,391	$ 218,062	7,329	3%
Total Net Revenue	$ 22,007,862	$ 22,114,682	$ (106,820)	(0.5%)

* Revenue less Excise taxes

The Company recorded net revenue, defined as revenue (i.e., gross revenue less discounts and returns and customer incentives) less excise taxes, of $10,174,126 and $22,007,862 for the three and six months ended June 30, 2023, representing an increase of 5% and decrease of 0.5% respectively, compared to the same period in 2022. The increase for the three months ended June 30, 2023, was driven by an increase in adult use of $434,576 or 8%, an increase in bulk sales of $225,391 or 100% and a reduction in medical of $176,553 or by negative 4%. Adult Use revenue growth in the quarter was primarily driven by Color pre-roll SKUs and Saturday infused pre-rolls. Medical revenue declined vs. prior year due primarily to patient seasonality changes from an updated product allocation policy.

The modest decrease in net revenue for the six-month period ending on June 30, 2023, can be attributed to the following factors: a 3% growth in adult use, amounting to $313,007; a 3% increase in bulk revenue, totaling $7,329; and a reduction of $427,156, or negative 4%, in medical revenue.

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

	For the three months ended			
Grams sold	**June 30, 2023**	**June 30, 2022**	**Weight Change**	**% Change**
Medical	1,300,861	1,285,437	15,424	1%
Adult Use	2,967,633	2,874,247	93,386	3%
Bulk	100,175	—	100,175	100%
Total grams sold	4,368,669	4,159,684	208,985	5%

	For the six months ended			
Grams sold	**June 30, 2023**	**June 30, 2022**	**Weight Change**	**% Change**
Medical	3,069,488	2,809,443	260,045	9%
Adult Use	4,984,697	5,136,297	(151,600)	(3%)
Bulk	100,175	1,158,710	(1,058,535)	(91%)
Total grams sold	8,154,360	9,104,450	(950,090)	(10%)

Total dried cannabis sold for three and six months ended June 30, 2023, was 4,368,669 g and 8,154,360 g compared to 4,159,684 g and 9,104,450 g respectively, for the same period in 2022, representing an increase of 208,985 g or 5% and a decrease of 950,090 g or 10%.

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	**June 30, 2023**	**June 30, 2022**	**$ Change**	**% Change**
Medical	$ 3.20	$ 3.38	$ (0.18)	(5%)
Adult Use	1.95	1.86	0.08	4%
Bulk	2.25	—	2.25	100%
	$ 2.33	$ 2.33	$ (0.00)	(0%)

	For the six months ended			
Average selling price (net of excise taxes) per gram	**June 30, 2023**	**June 30, 2022**	**$ Change**	**% Change**
Medical	$ 3.30	$ 3.76	$ (0.46)	(12%)
Adult Use	2.34	2.21	0.12	5%
Bulk	2.25	0.19	2.05	1090%
	$ 2.70	$ 2.43	$ 0.27	11%

For the three months and six months ended June 30, 2023, the total average selling price per gram remained the same at $2.33 or 0% and decrease by $0.27 or 11% respectively, compared to the same period in 2022.

For the six months ended June 30, 2023, average selling price per gram of medical decreased by 12%, while adult use and bulk increased by 5% and 1090% respectively, compared to the same period in 2022. Lower selling price per gram in medical revenue can be attributed to product mix, higher discounts, and promotional offers.

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 profit before changes in fair value for the three and six months ended June 30, 2023, increased by $1,677,198 or 354% and $1,942,207 or 60% respectively, compared to the same period in 2022.
For the three and six months ended June 30, 2023, cost of goods sold decreased by $1,193,784 or 13% and $2,049,027 or 11% respectively, as compared to the same period in 2022.

	For the three months ended			
	June 30, 2023	**June 30, 2022**	**$ Change**	**% Change**
Provision & Write Down	$ 1,539,831	$ 717,406	$ 822,425	115%
Freight Cost	1,369,031	1,155,679	213,352	18%
Operating Expenses	5,113,823	7,343,384	(2,229,561)	(30%)
Total	$ 8,022,685	$ 9,216,469	$ (1,193,784)	(13%)

	For the six months ended			
	June 30, 2023	**June 30, 2022**	**$ Change**	**% Change**
Provision & Write Down	$ 2,654,400	$ 1,309,874	$ 1,344,526	103%
Freight Cost	2,593,502	2,149,929	443,573	21%
Operating Expenses	11,606,326	15,443,452	(3,837,126)	(25%)
Total	$ 16,854,228	$ 18,903,255	$ (2,049,027)	(11%)

Operating expenses encompass costs associated with biomass sold, production expenses, and overhead allocation. The significant reduction in operating expenses can primarily be attributed to the Company's strategic, long-term supply agreement with Hexo, enabling access to cost-effective biomass. Additionally, the successful integration of automation and operational efficiencies has yielded marked reductions in production costs, further bolstering the notable decrease in our overall operating expenses.

These efficiencies and operational improvements are offset by critical dynamics within the Company and the cannabis industry. Notably, the increase in provision allowance and write downs, can be attributed to our enhanced focus on risk management and regulatory compliance. This deliberate approach accounts for evolving industry standards around marketable characteristics of biomass. Similarly, the rise in freight charges and administrative costs reflects both heightened logistical intricacies and increases in costs to sell greater volumes through our medical and adult-use channels.

Gross profit (loss)

Gross profit (loss) represents revenue (net of excise taxes) including adjustments in fair value for the products sold in the period and fair value adjustments for the biological assets in production. For the three and six months ended June 30, 2023, Gross profit increased by $6,507,900 or 189% and $8,563,789 or 567% respectively, compared to the same period in 2022 largely as a result of lower biomass cots, operational efficiencies and pre-roll automation.

Selling, general and administrative expenses

During the three and six months ended June 30, 2023, our selling, general, and administrative (SG&A) expenses decreased by $988,870 or 13% and increased by $273,547 or 2% respectively, compared to the same period in 2022. The increase in SG&A expenses during the six months ended is largely due restructuring costs incurred to execute the final stage of exiting from cultivation, office and administrative costs, professional fees, selling, marketing and promotion expenses, which was offset by decreases in salaries and benefits, consulting fees and research and development expenses.

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

	For the three months ended			
	June 30, 2023	**June 30, 2022**	**$ Change**	**% Change**
Salaries and benefits	$ 1,758,956	$ 3,818,712	$ (2,059,756)	(54%)
Office & Administrative	1,288,802	1,415,764	(126,962)	(9%)
Professional fees	1,162,710	794,255	368,455	46%
Consulting fees	143,061	814,004	(670,943)	(82%)
Selling, marketing and promotion	1,176,630	943,260	233,370	25%
Restructuring expenses	1,319,344	—	1,319,344	100%
Research and development	178	52,556	(52,378)	(100%)
Total	$ 6,849,681	$ 7,838,551	$ (988,870)	(13%)

	For the six months ended			
	June 30, 2023	**June 30, 2022**	**$ Change**	**% Change**
Salaries and benefits	$ 4,987,214	$ 7,446,972	$ (2,459,758)	(33%)
Office & Administrative	2,822,394	2,138,926	683,468	32%
Professional fees	2,472,963	1,766,971	705,992	40%
Consulting fees	445,349	1,077,122	(631,773)	(59%)
Selling, marketing and promotion	2,692,094	1,977,454	714,640	36%
Restructuring expenses	1,319,344	—	1,319,344	100%
Research and development	42,438	100,804	(58,366)	(58%)
Total	$ 14,781,796	$ 14,508,249	$ 273,547	2%

Salaries and benefits

Salaries and benefits encompass substantial changes, marking a decline of $2,059,756 or 54% to $1,758,956 for the three months and $2,459,758 or 33% to $4,987,214 for the six months concluding on June 30, 2023, in comparison to the equivalent periods in 2022. This discernible reduction stems from a strategic head count reduction, predominantly linked to the cessation of cultivation activities in March 2023.

Office and administrative

During the three and six months ended June 30, 2023, office and administrative expenses decreased by $126,962 or 9% to $1,288,802 and increased by $683,468 or 32% to $2,822,394 respectively, compared to the same period in 2022. The increase in office and administrative expenses reflects higher costs in insurance, electricity, and heating.

Professional fees

Professional fees increased by $368,455 or 46% to $1,162,710 for the three months, and by $705,992 or 40% to $2,472,963 for the six months ending on June 30, 2023, compared to the same period in 2022. This increase can be attributed to legal support during the restructuring of our debt facilities, higher costs to complete the year-end financial audit, and the fees paid for external parties providing accounting and support services in transitioning internal processes into our enhanced operating model.

Consulting fees

Consulting fees experienced a substantial reduction, marking a decline of $670,943 or 82% to $143,061 for the three months, and a decrease of $631,773 or 59% to $445,349 for the six months concluding on June 30, 2023, in comparison to the corresponding period of 2022. This decline is principally ascribed to a decreased reliance on consultants engaged in advisory and support capacities related to our cultivation and production environment.

Selling, marketing, and promotion

Selling, marketing, and promotion increased by $233,370 or 25% to $1,176,630 and $714,640 or 36% to $2,692,094 during the three and six months ended June 30, 2023, respectively, compared to the same period in 2022. . The increase was primarily related to the Company's efforts to build awareness at retail for the Adult-Use business through a larger investment in retail selling tools - as the number of SKUs in the Company's product portfolio grows as does the number of individual retail stores carrying Entourage products.

Restructuring expenses

Over the three and six months ended June 30, 2023, the Company recognized restructuring expenses, of $1,319,344, whereas no such costs were incurred in the same period of 2022. This line items represents severance and direct overhead costs incurred due to the decommissioning of Strathroy.

Research and Development

During the three and six months ended June 30, 2023, the Company's Research and Development expenses decreased by $52,378 or 100% to $178 and decreased by $58,366 or 58% to $42,438 respectively compared to the same period in 2022.

Share Based Compensation

Share based compensation includes non-cash expenses associated with options and deferred share units ("DSUs") granted to directors, officers, employees, and consultants for services rendered. Share based compensation decreased by $120,290 or 83% to $24,686 and $297,183 or 84% to $57,364 during the three and six months ended June 30, 2023, respectively, compared to the same period in 2022, mainly as a result of strategic changes in the determinants for options / DSUs granted to management, employees, directors and consultants of the Company in the period ended June 30, 2023.

Depreciation and Amortization

Total depreciation and amortization expense decreased by $1,979,455 or 99% to $23,153 and $3,436,963 or 98% to $87,780 during the three and six months ended June 30, 2023, respectively, compared to the same periods in 2022. The decrease in depreciation and amortization is mainly due to impairment of property, plant and equipment recorded towards the end of Q4 2022 leading to a lower depreciation in the periods of 2023.

EBITDA and Adjusted EBITDA

	For the three months ended			
	June 30, 2023	**June 30, 2022**	**$ Change**	**% Change**
Loss and comprehensive loss	**$ (9,571,828)**	$ (9,027,497)	**$ (544,331)**	6.03%
Add (Deduct)				
Depreciation and Amortization*	23,153	2,002,608	(1,979,455)	(99%)
Finance costs	6,035,843	5,313,919	721,924	14%
EBITDA	**(3,512,832)**	(1,710,970)	**(1,801,862)**	105%
Impairment of inventory included in cost of goods sold	1,539,831	717,406	822,425	115%
Provision for returns	—	1,246,819	(1,246,819)	(100%)
One-time cost of sales expenses	—	1,524,692	(1,524,692)	(100%)
Severance	(324,819)	153,512	(478,331)	(312%)
Restructuring expenses	1,319,344	—	1,319,344	100%
Realized fair value amounts previously included in inventory	(907,070)	3,575,701	(4,482,771)	(125%)
Unrealized loss (gain) on changes in fair value of biological assets	—	347,931	(347,931)	(100%)
Impairment of property, plant and equipment	—	687,798	(687,798)	(100%)
One-time lease termination expenses	412,950	—	412,950	100%
Share based compensation	24,686	144,976	(120,290)	(83%)
Gain on sale of assets held for sale	(279,746)	—	(279,746)	(100%)
Gain on lease modification	—	(805,324)	805,324	(100%)
Gain on modification of loan and borrowings	—	(3,195,964)	3,195,964	(100%)
Gain on extinguishment of unsecured convertible debentures	—	(5,106,000)	5,106,000	(100%)
Other income, net	(19,104)	—	(19,104)	(100%)
Adjusted EBITDA [1]	**$ (1,746,760)**	$ (2,419,423)	**$ 672,663**	(28%)

* For three months ended June 30, 2023, includes depreciation of $4,174 (June 30, 2022- $1,301,877) amount expensed in cost of goods sold

	For the six months ended			
	June 30, 2023	**June 30, 2022**	**$ Change**	**% Change**
Loss and comprehensive loss	**$ (19,087,388)**	$ (17,791,096)	**$ (1,296,292)**	7%
Add (Deduct)				
Depreciation and Amortization*	87,780	3,524,743	(3,436,963)	(98%)
Finance costs	11,602,656	9,129,624	2,473,032	27%
EBITDA	**(7,396,952)**	(5,136,729)	**(2,260,223)**	44%
Impairment of inventory included in cost of goods sold	2,654,400	1,309,874	1,344,526	103%
Provision for returns	—	1,246,819	(1,246,819)	(100%)
One-time cost of sales expenses	59,059	3,304,296	(3,245,237)	(98%)
Severance	—	762,666	(762,666)	(100%)
Restructuring expenses	1,319,344	—	1,319,344	100%
Realized fair value amounts previously included in inventory	(2,401,043)	4,902,400	(7,303,443)	(149%)
Unrealized loss (gain) on changes in fair value of biological assets	501,501	(180,360)	681,861	(378%)
Impairment of property, plant and equipment	—	687,798	(687,798)	(100%)
One-time lease termination expenses	412,950	—	412,950	100%
Share based compensation	57,364	354,547	(297,183)	(84%)
Gain on sale of assets held for sale	(279,746)	—	(279,746)	(100%)
Gain on lease modification	—	(805,324)	805,324	(100%)
Gain on modification of loan and borrowings	—	(3,195,964)	3,195,964	(100%)
Gain on extinguishment of unsecured convertible debentures	—	(5,106,000)	5,106,000	(100%)
Other income, net	(48,120)	—	(48,120)	(100%)
Adjusted EBITDA [1]	**$ (5,121,243)**	$ (1,855,977)	**$ (3,265,266)**	176%

* For the six months ended June 30, 2023, includes depreciation of $61,166 (June 30, 2022 - $2,816,610) 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") experienced significant change, declining by $1,801,862 or 105% to negative $3,512,832 for the three months, and by $2,260,223 or 44% to negative $7,396,952 for the six months ending on June 30, 2023, compared to the same period in 2022. This decline primarily stems from activities related to the decommissioning of our cultivation facilities, softer revenue figures, offset by lower SG&A charges and significant reductions in operating expenses. Additionally, higher finance costs, due to compounded interest accruals on the loan payable to LPF, further contributed to this shift.

Adjusted EBITDA

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

Adjusted EBITDA increased by $672,663 or 28% to negative $1,746,760 and decreased by $3,265,266 or 176% to negative $5,121,243 during the three and six months ended June 30, 2023, respectively, compared to the same period of 2022. The decrease is mainly due to the reversal of accounting adjustments for bio asset fair value allocations.

Liquidity and Capital Resources

	For the three months ended			
	June 30, 2023	June 30, 2022	$ Change	% Change
Cash provided by (used in):				
Operating activities	$ (5,351,032)	$ (9,802,778)	$ 4,451,746	(45%)
Investing activities	8,482,140	(28,254)	8,510,394	(30121%)
Financing activities	(11,239,445)	14,200,907	(25,440,352)	(179%)
(Decrease) increase in cash	$ (8,108,337)	$ 4,369,875	$ (12,478,212)	(286%)

	For the six months ended			
	June 30, 2023	June 30, 2022	$ Change	% Change
Cash provided by (used in):				
Operating activities	$ (12,916,489)	$ (17,186,191)	$ 4,269,702	(25%)
Investing activities	8,461,638	(1,272,094)	9,733,732	(765%)
Financing activities	2,822,314	11,196,066	(8,373,752)	(75%)
(Decrease) increase in cash	$ (1,632,537)	$ (7,262,219)	$ 5,629,682	(78%)

Cash flow from operating activities

Cash used in operating activities was $5,351,032 and $12,916,489 during the three and six months ended June 30, 2023 respectively, compared to $9,802,778 and $17,186,191 during the same periods of 2022. Lower spending for the three- and six-months ending June 30, 2023, was primarily the result of significant reductions in our biomass costs per gram in addition to a 35% reduction in production headcount.

Cash flow from investing activities

Cash generated from investing activities amounted to $8,482,140 for the three months and $8,461,638 for the six months concluding on June 30, 2023. In comparison, during the corresponding periods of 2022, cash outflow of $28,254 and $1,272,094 was recorded. This substantial shift can be attributed primarily to proceeds from the sale of assets held for sale, underscoring a marked change in investment activity.

Cash flow from financing activities

Cash utilization in financing activities amounted to negative $11,239,445 for the three months and $2,822,314 for the six months concluding on June 30, 2023. This stands in contrast to figures of $14,200,907 and $11,196,066 during the identical period in 2022. Notably, the reduction in cash provided by financing activities is attributed to the repayment of a loan extended during Q2 2023, illustrating a specific driver behind this change.

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 June 30, 2023, the Company had cash and cash equivalents of $9,442,720 (December 31, 2022: $9,075,257). Total current assets for the same period were $31,150,107 (December 31, 2022: $40,085,316), including inventory and biological assets of $15,010,982 (December 31, 2022: $14,784,692), with current liabilities of $151,438,045 (December 31, 2022: $141,878,963) resulting in negative working capital of $120,287,938 (negative working capital of December 31, 2022: $101,793,647).

The Company's current ratio at June 30, 2023 was 0.21 compared to 0.28 at December 31, 2022 driven by classification of loans pertaining to Facility 1, 2 and 3 which will mature based on amended maturity date of June 30, 2024; the credit facility with the LiUNA Pension Fund of Central and Eastern Canada ("LPF") which will mature based on amended maturity date of December 31, 2024; and due to the maturity on June 30, 2022 of the unsecured convertible debentures issued on September 25, 2019, and repayment on maturity at a discount of 40% on the principal amount. The repayment was made by obtaining an additional loan from LPF.

Going Concern

As of June 30, 2023, the Company had a working capital deficiency of $(120,287,938) and an accumulated deficit of $338,455,409. For the period ended June 30, 2023, the Company used cash in operating activities of $12,916,489, resulting primarily from the net loss of $19,087,388 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. 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.

Capital Resources

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

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

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

Inventory

	June 30, 2023	December 31, 2022	$ Change	% Change
Dried cannabis	$ 10,777,027	$ 10,646,652	$ 130,375	1%
Harvested work in progress	—	350,395	(350,395)	(100%)
Extracts				
Resin	98,987	64,948	34,039	52%
Crude oil	—	486,451	(486,451)	(100%)
Finished oil	2,845,359	1,281,679	1,563,680	122%
Total extracts	13,721,373	12,830,125	891,248	7%
Non-cannabis inventory	1,289,609	1,258,855	30,754	2%
	$ 15,010,982	$ 14,088,980	$ 922,002	7%

Total inventory increased by $922,002 or 7% from December 31, 2022, to June 30, 2023.

Loans and borrowings

Credit Facility with Financial Institution - Bank of Montreal (BMO)

During the three and six months ended June 30, 2023, the Company used $8,500,000 pertaining to proceeds from sale of assets held for sale, $2,000,000 held in restricted cash and $907 from the cash balance to pay down a significant portion of the BMO loan.

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

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 $226,458. The Credit Facility continues to bear an interest rate of 15.25% with the option, at the Company's discretion, to capitalize interest in lieu of cash payments of interest and is set to mature on December 31, 2024.

On June 16, 2023, LPF assumed the remaining balance of the BMO loan and issued funding of $14,452,887 to BMO in repayment of the loan balance. The Company is in the process of finalizing revised terms of the BMO loan with LPF.

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 June 30, 2023. However, the Company is in the process of obtaining a written waiver for the breach hence classified as current liability in the statements of financial position as at June 30, 2023.

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During the three and six months ended June 30, 2023, the Company incurred $155,250 and $310,500 (three and six months ended June 30, 2022- $77,625 and $155,250) in interest and $(2,149) and $(7,464) (three and six months ended June 30, 2022- $69,299 and $132,886) 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:

	June 30, 2023	December 31, 2022
Accounts payable and accrued liabilities	$ —	$ —

For the three and six months ended June 30, 2023 and 2022, total remuneration/service fees/ share-based compensation expensed pertaining to the key management is as follows:

	For the three months ended		For the six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Salaries and bonus	$ 405,736	$ 866,910	$ 862,984	$ 1,186,918
Share based Compensation	686	273,787	1,364	608,358
Directors fee	24,000	35,724	56,000	35,724
Other compensation	166,800	—	662,631	—
	$ 597,222	$ 1,176,421	$ 1,582,979	$ 1,831,000

Deferred share units

Stock options expired during the three and six months ended June 30, 2023 and year ended December 31, 2022 as a result of unexercised employee options.

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.

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

On June 30, 2023, the Company determined and authorized the grant of an aggregate of 1,600,000 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 2023. The grant date fair value of the DSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be $24,686.

Total share-based compensation pertaining to options for the three and six months ended June 30, 2023 and 2022 are as follows:

	For the three months ended		For the six months ended	
	June 30, 2023	**June 30, 2022**	**June 30, 2023**	**June 30, 2022**
Share based compensation	$ —	$ 5,654	$ —	$ 11,070
Deferred stock units issued	24,686	139,322	57,364	343,477
Total	**$ 24,686**	$ 144,976	$ 57,364	$ 354,547

Disclosure of outstanding share data

As at August 29, 2023, the following were outstanding:

Outstanding Shares	**As at August 29, 2023**
Common shares	308,387,453
Warrants	3,741,666
Stock and broker compensation options	5,282,140
	317,411,259

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 June 30, 2023 and December 31, 2022.

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 $4,540,762 (December 31, 2022: $4,025,494).

As at June 30, 2023, 42 % (December 31, 2022: 83%) of the Company's trade receivables balance, is owing from 1 customer (December 31, 2022: 3 customer), each representing more than 10% of trade and other receivables.

Cash is generally invested in cash accounts held in Canadian chartered banks. Restricted cash is generally held as collateral to repay any outstanding balances related to the Company's loan and borrowings and 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 27% of trade receivables and comprises of 9% of the revenue of the Company as at June 30, 2023. 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 $151,438,045 (December 31, 2022: $141,878,963) with cash on hand of $9,442,720 (December 31, 2022: $9,075,257). 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 Company is in the process of obtaining a waiver from LPF related to its credit facility for its breach of the minimum EBITDA financial covenant as at June 30, 2023. The year 1 obligation includes the payout to the BMO Credit Facilities by LPF (loan transfer), terms of which are in the process of finalization.

The contractual maturities of all liabilities and lease obligations as at June 30, 2023 is as follows:

	2023- 2024 (Year 1)	2024 - 2025 (Year 2)	2025 - 2026 (Year 3)	2026 - 2027 (Year 4)	2027 and later
Lease liabilities	$ 190,563	$ 125,671	$ 128,253	$ 130,834	$ 349,634
Loans and borrowings	14,898,838	165,086,090	310,500	5,129,375	—
Commodity tax payable	—	—	—	—	—
Unsecured convertible debentures	91,175	91,175	1,058,637	—	—
Other commitments	9,038	2,479	—	—	—
Accounts payables and accrued liabilities	8,583,250	—	—	—	—
Total	$ 23,772,864	$ 165,305,415	$ 1,497,390	$ 5,260,209	$ 349,634

The contractual maturities of all liabilities and lease obligations as at December 31, 2023 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	$ 129,543	$ 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**	**$ 5,414,168**	**$ 415,578**

e. ***Cash flow risk***

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

SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events up to August 29, 2023, the date the consolidated financial statements were issued and determined there were no material events to report.