ENTOURAGE HEALTH CORP

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023

NOVEMBER 27, 2023

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MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 nine months ended September 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 nine months ended September 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 November 27, 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

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.

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

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.

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

DISTRIBUTION

As of September 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 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 hold the top 6 spot nationwide.

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 87% 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 in the fiscal year 2023. The redirection of our operational footprint facilitates the pointed allocation of resources toward high-potential growth areas.

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 nine months ended September 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.

- As at September 30, 2023, the Company was in breach of certain financial covenants and obligations under its senior secured credit facilities with an affiliate of the LiUNA Pension Fund of Central and Eastern Canada (the "Senior Lender"). The Company has received a forbearance letter from the Senior Lender noting the Company in default of the Credit Facilities and temporarily waiving the Company's breaches until December 8, 2023, subject to the satisfaction or waiver of certain conditions. The Company is working collaboratively with the Senior Lender to reach an agreement on the terms of a new forbearance.

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.

- Entourage amended its Supply Agreement with HEXO Corp., which was assumed by Aphria Inc., Tilray Brands, Inc.'s operating subsidiary, after Tilray acquired HEXO. This strategic move ensures a continuous and high-quality partnership for contract growth, addressing the escalating product demand.

Sales and Marketing Highlights

- Color Cannabis achieved sales growth in the pre-roll segment, the industry's fastest-growing category. In Q3, it maintained a top ten position, securing the #6 spot. This success is attributed to expanded distribution channels and a focus on larger quantity pre-roll packs.

- Color and Saturday Cannabis brands have unveiled new product cultivars and formats to the market, driven by consumer insights, including the launch of new Color cultivar, Phantom Sunset, available in two product formats a 3.5g whole flower and 2 x 0.35g PRJ product across Ontario. Notably, Saturday infused pre-rolls entered the market in Night Mango Diesel, a 3 x .05g, recently launched in Alberta.

- Dimebag™ made a significant impact with the Ontario launch of the Pocket Puffs, a 4 x 0.5g pre-roll, swiftly becoming a top-seller in the category. Dimebag's affordable premium cannabis is resonating with consumers, driving popularity and demand.

- The Company's retail distribution remains strong, despite the influx of competitor SKUs especially in larger markets including Ontario, Alberta, and British Columbia, maintaining a sizeable presence, covering over 80% of the retail market across nearly 3,000 stores nationwide.

- Starseed achieved a patient renewal rate of 87% for Q3, demonstrating customer loyalty and commitment to providing valuable patient healthcare solutions.

- Additionally, Starseed introduced Remidose Micro Inhalers, revolutionary heat-free products offering a classic inhaler format for rapid onset. Both 1:1 and THC-dominant formulations were made available providing diverse options for 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

	Q3 2023	Q2 2023	Q1 2023	Q4 2022
Total Revenue	$ 12,251,059	$ 13,365,382	$ 15,107,445	$ 12,141,125
Revenue, Net	8,750,103	10,174,126	11,833,736	8,702,084
Gross profit (loss) before change in fair value	2,399,500	2,151,441	3,002,193	(7,509,055)
Loss and comprehensive loss	(9,905,081)	(9,571,828)	(9,515,560)	(87,923,167)
Basic and diluted (loss) per share from continuing operations	(0.03)	(0.03)	(0.03)	(0.29)
Basic and diluted (loss) attributable to the shareholders	$ (0.03)	$ (0.03)	$ (0.03)	$ (0.29)

	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Total Revenue	$ 13,438,320	$ 13,185,209	$ 15,770,569	$ 13,538,872
Revenue, Net	10,075,302	9,690,712	12,423,970	10,600,507
Gross profit (loss) before change in fair value	(4,890,887)	474,243	2,737,184	(2,800,620)
Loss and comprehensive loss	(17,432,184)	(9,027,497)	(8,763,599)	(44,509,174)
Basic and diluted (loss) per share from continuing operations	(0.06)	(0.03)	(0.03)	(0.17)
Basic and diluted (loss) attributable to the shareholders	$ (0.06)	$ (0.03)	$ (0.03)	$ (0.17)

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		September 30, 2023		September 30, 2022		$ or Weight Difference		% Change
Revenue	$	12,251,059	$	13,438,320	$	(1,187,261)	$	(9%)
Kilograms equivalent sold - cannabis		3,927		3,633		295		8%
Kilograms harvested		—		3,725		(3,725)		(100%)
Average yield per plant (grams)		—		148		(148)		(100%)
Weighted average cost per gram from clone to harvest of plants on hand		—		0.92		(0.92)		(100%)
Weighted average cost per gram of inventory on hand	$	0.58	$	0.95	$	(0.37)	$	(39%)

For the nine months ended		September 30, 2023		September 30, 2022		$ or Weight Difference		% Change
Revenue	$	40,723,886	$	42,394,098	$	(1,670,212)	$	(4%)
Kilograms equivalent sold - cannabis		12,082		12,737		(655)		(5%)
Kilograms harvested		1,539		8,303		(6,764)		(81%)
Average yield per plant (grams)		49		148		(99)		(67%)
Weighted average cost per gram from clone to harvest of plants on hand		1.70		0.92		0.78		85%
Weighted average cost per gram of inventory on hand	$	0.58	$	0.95	$	(0.37)	$	(39%)

The Company harvested Nil kg and 1,539 kg of cannabis in the three and nine months ended September 30, 2023, compared to 3,725 kg and 8,303 kg respectively, in the same period of 2022, decreasing by 6,764 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 nine months ended September 30, 2023, the weighted average cost per gram increased to $1.70, compared to $0.92 in the comparable 2022 period. Additionally, for the nine months ended September 30, 2023, yield per plant averaged 49 g per plant compared to 148 g per plant, as a result of extraction cessation. The weighted average cost per gram of inventory on hand decreased to $0.58 in Q3 2023 compared to $0.95 in the comparable 2022 period.

Summary of Q3 Results and Results of Operations

		For the three months ended						
		September 30, 2023		September 30, 2022		$ Change		% Change
Total Revenue	$	12,251,059	$	13,438,320	$	(1,187,261)	$	(9%)
Net revenue		8,750,103		10,075,302		(1,325,199)		(13%)
Cost of goods sold		(6,350,603)		(14,966,189)		8,615,586		(58%)
Gross profit before changes in fair value		2,399,500		(4,890,887)		7,290,387		(149%)
Gross profit before changes in fair value - as % of Net revenue		27%		(49%)		N/A		N/A
Realized fair value amounts previously included in inventory		(39,659)		1,205,218		(1,244,877.00)		(103%)
Unrealized loss (gain) on changes in fair value of biological assets		—		(134,073)		134073		(100%)
Gross profit (loss)		2,439,159		(5,962,032)		8,401,191		(141%)
Loss and comprehensive loss		(9,905,081)		(17,432,184)		7,527,103		(43%)
Adjusted EBITDA		(4,531,212)		(2,932,848)		(1,598,364)		54%
Cash provided by (used in) operations		849,548		(5,465,160)		6,314,708		(116%)
Basic loss per share		**(0.03)**		(0.06)				
Diluted loss per share	$	(0.03)	$	(0.06)				

	For the nine months ended			
	September 30, 2023	September 30, 2022	$ Change	% Change
Total Revenue	$ 40,723,886	$ 42,394,098	$ (1,670,212)	$ (4%)
Net revenue	30,757,965	32,189,984	(1,432,019)	(4%)
Cost of goods sold	(23,204,831)	(33,869,444)	10,664,613	(31%)
Gross profit before changes in fair value	7,553,134	(1,679,460)	9,232,594	(550%)
Gross profit before changes in fair value - as % of Net revenue	25%	(5%)	N/A	N/A
Realized fair value amounts previously included in inventory	(2,440,702)	6,107,618	(8,548,320.00)	(140%)
Unrealized loss (gain) on changes in fair value of biological assets	501,501	(314,433)	815934	(259%)
Gross profit (loss)	9,492,335	(7,472,645)	16,964,980	(227%)
Loss and comprehensive loss	(28,992,469)	(35,223,280)	6,230,811	(18%)
Adjusted EBITDA	(9,461,783)	(4,788,825)	(4,672,958)	98%
Cash provided by (used in) operations	(12,066,941)	(22,651,351)	10,584,410	(47%)
Basic loss per share	(0.09)	(0.12)		
Diluted loss per share	$ (0.09)	$ (0.12)		

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

	September 30, 2023	December 31, 2022
Total assets	$ 38,799,774	$ 46,466,628
Total non-current liabilities	6,234,144	5,826,600
Total liabilities	168,775,122	147,705,563
Cash and cash equivalents	9,322,196	9,075,257
Working capital	(130,671,121)	(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			
	September 30, 2023	September 30, 2022	$ Change	% Change
Net Revenue*				
Medical	$ 3,161,349	$ 3,086,722	$ 74,627	2%
Adult use	$ 5,588,754	$ 6,988,580	(1,399,826)	(20%)
Bulk	$ —	$ —	—	0%
Total Net Revenue	$ 8,750,103	$ 10,075,302	$ (1,325,199)	(13%)

* Revenue less excise taxes

	For the nine months ended			
	September 30, 2023	September 30, 2022	$ Change	% Change
Net Revenue*				
Medical	$ 13,296,686	$ 13,649,215	$ (352,529)	(3%)
Adult use	$ 17,235,888	$ 18,322,707	(1,086,819)	(6%)
Bulk	$ 225,391	$ 218,062	7,329	3%
Total Net Revenue	$ 30,757,965	$ 32,189,984	$ (1,432,019)	(4%)

* 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 $8,750,103 and $30,757,965 for the three and nine months ended September 30, 2023, representing decreases of 13% and of 4% respectively, compared to the same period in 2022. The decrease for the three months ended September 30, 2023, was driven by a decrease in adult use of $(1,399,826) or negative (20)%, and an increase in medical of $74,627 or by 2%. 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 decrease in net revenue for the nine-month period ending on September 30, 2023, can be attributed to the following factors: a 6% decline in adult use, amounting to $1,086,819; a 3% increase in bulk revenue, totaling $7,329; and a reduction of (352,529) or negative 3%, in medical revenue.

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

	For the three months ended			
Grams Sold	**September 30, 2023**	**September 30, 2022**	**$ Change**	**% Change**
Medical	1,158,552	1,003,965	154,587	15%
Adult use	2,768,678	2,628,591	140,087	5%
Bulk	—	—	—	—
Total grams sold	3,927,230	3,632,556	294,674	8%

	For the nine months ended			
Grams Sold	**September 30, 2023**	**September 30, 2022**	**$ Change**	**% Change**
Medical	4,228,040	3,813,408	414,632	11%
Adult use	7,753,375	7,764,888	(11,513)	(0%)
Bulk	100,175	1,158,710	(1,058,535)	(91%)
Total grams sold	12,081,590	12,737,006	(655,416)	(5%)

Total dried cannabis sold for three and nine months ended September 30, 2023, was 3,927,230 g and 12,081,590 g compared to 3,632,556 g and 12,737,006 g respectively, for the same period in 2022, representing an increase of 294,674 g or 8% and a decrease of 655,416 g or 5%.

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	**September 30, 2023**	**September 30, 2022**	**$ Change**	**% Change**
Medical	$ 2.73	$ 3.07	$ (0.35)	(11%)
Adult use	2.02	2.66	(0.64)	(24%)
Bulk	—	—	—	—
	$ 2.23	$ 2.77	$ (0.55)	(20%)

	For the nine months ended			
Average selling price (net of excise taxes) per gram	**September 30, 2023**	**September 30, 2022**	**$ Change**	**% Change**
Medical	$ 3.14	$ 3.58	$ (0.43)	(12%)
Adult use	2.22	2.36	(0.14)	(6%)
Bulk	2.25	0.19	2.06	1084%
	$ 2.55	$ 2.53	$ 0.02	1%

For the three months and nine months ended September 30, 2023, the total average selling price per gram declined from $2.77 to $2.23, $(0.55) or (20%) and increased by $0.02 or 1% respectively, compared to the same period in 2022.

For the nine months ended September 30, 2023, average selling price per gram of medical decreased by 12%, while adult use decreased by (6%) and bulk increased by 1084% respectively, compared to the same period in 2022. Lower selling price per gram 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 nine months ended September 30, 2023, increased by $7,290,387 and $9,232,594 respectively, compared to the same period in 2022.

For the three and nine months ended September 30, 2023, cost of goods sold decreased by $8,615,586 or 58% and $10,664,613 or 31% respectively, as compared to the same period in 2022.

	For the three months ended			
	September 30, 2023	September 30, 2022	$ Change	% Change
Provision & Write down	$ (1,615,948)	$ 7,680,702	$ (9,296,650)	(121%)
Freight Cost	612,891	1,405,626	(792,735)	(56%)
Operating expenses	7,353,660	5,879,861	1,473,799	25%
Total	$ 6,350,603	$ 14,966,189	$ (8,615,586)	(58%)

	For the nine months ended			
	September 30, 2023	September 30, 2022	$ Change	% Change
Provision & Write down	$ 1,038,450	$ 8,990,576	$ (7,952,126)	(88%)
Freight Cost	3,206,393	4,244,214	(1,037,821)	(24%)
Operating expenses	18,959,988	20,634,654	(1,674,666)	(8%)
Total	$ 23,204,831	$ 33,869,444	$ (10,664,613)	(31%)

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.

Gross profit (loss)

Gross profit (loss) represents revenue (net of excise taxes) including adjustments in fair value for the products sold in the period and fair value adjustments for the biological assets in production. For the three and nine months ended September 30, 2023, Gross profit increased by $8,401,191 and $16,964,980 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 nine months ended September 30, 2023, our selling, general, and administrative (SG&A) expenses decreased by $790,892 or 12% and $517,345 or 2% respectively, compared to the same period in 2022. The decrease in SG&A expenses during the nine months ended is largely due to significant reductions to salaries and benefits offset by restructuring costs.

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

	For the three months ended			
	September 30, 2023	September 30, 2022	$ Change	% Change
Salaries and benefits	$ 2,337,279	$ 3,135,592	$ (798,313)	(25%)
Office & Administrative	1,019,023	1,079,294	(60,271)	(6%)
Professional/Consulting Fees	1,138,565	994,866	143,699	14%
Selling, marketing and promotion	1,495,602	1,565,961	(70,359)	(4%)
Restructuring expenses	61,353	—	61,353	100%
Research and development	—	67,001	(67,001)	(100%)
Total	$ 6,051,822	$ 6,842,714	$ (790,892)	(12%)

	For the nine months ended			
	September 30, 2023	September 30, 2022	$ Change	% Change
Salaries and benefits	$ 7,324,493	$ 10,582,564	$ (3,258,071)	(31%)
Office & Administrative	3,841,417	3,218,220	623,197	19%
Professional/Consulting Fees	4,056,877	3,838,959	217,918	6%
Selling, marketing and promotion	4,187,696	3,543,415	644,281	18%
Restructuring expenses	1,380,697	—	1,380,697	100%
Research and development	42,438	167,805	(125,367)	(75%)
Total	$ 20,833,618	$ 21,350,963	$ (517,345)	(2%)

Salaries and benefits

Salaries and benefits encompass substantial changes, marking a decline of $798,313 or 25% to $2,337,279 for the three months and $3,208,071 or 31% to $7,324,493 for the nine months concluding on September 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 nine months ended September 30, 2023, office and administrative expenses decreased by $60,271 or 6% to $1,019,023 and increased by $623,197 or 19% to $3,841,417, compared to the same period in 2022. The increase in office and administrative expenses for the 9 month period include certain overhead costs incurred in Q1 2023 related to biomass production that could not be capitalized into inventory.

Professional/Consulting fees

Professional fees increased by $143,699 or 14% to $1,138,565 for the three months, and by $217,918 or 6% to $4,056,877 for the nine months ending on September 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.

Selling, marketing, and promotion

Selling, marketing, and promotion decreased by $70,359 or 4% to $1,495,602 and increased by $644,281 or 18% to $4,187,696 during the three and nine months ended September 30, 2023, respectively, compared to the same period in 2022. A large portion of the increase is due to larger royalty expenses, as we continue to introduce new licensed products to market. The increase includes increased expenditure 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 nine months ended September 30, 2023, the Company recognized restructuring expenses, of $61,353 and $1,380,697 respectively, 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 nine months ended September 30, 2023, the Company's Research and Development expenses decreased by $67,001 or 100% to nil and decreased by $125,367 or 75% 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 increased by $73,682 or 90% to 156,000 and decreased $212,431 or 50% to $213,364 during the three and nine months ended September 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 September 30, 2023.

Depreciation and Amortization

Total depreciation and amortization expense decreased by $1,798,664 or 92% to $148,953 and $5,060,978 or 92% to $411,382 during the three and nine months ended September 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			
	September 30, 2023	September 30, 2022	$ Change	% Change
Loss and comprehensive loss	$ (9,905,081)	$ (17,432,184)	$ 7,527,103	(43%)
Add (Deduct)				
Depreciation and amortization*	148,953	1,947,617	(1,798,664)	(92%)
Finance costs	6,355,994	3,917,799	2,438,195	62%
EBITDA	(3,400,134)	(11,566,768)	8,166,634	(71%)
Impairment of inventory included in cost of goods sold	(1,615,948)	7,680,702	(9,296,650)	(121%)
Provision for returns	366,927	(231,745)	598,672	(258%)
One-time cost of sales expenses	—	—	—	0%
Severance	—	109,082	(109,082)	(100%)
Restructing expenses	—	—	—	0%
Realized fair value amounts previously included in inventory	(39,659)	1,205,218	(1,244,877)	(103%)
Unrealized loss (gain) on changes in fair value of biological assets	—	(134,073)	134,073	(100%)
Impairment of property, plant and equipment	—	—	—	0%
One-time lease termination expenses	—	—	—	0%
Share based compensation	156,000	82,318	73,682	90%
Loss on disposal of property, plant and equipment	—	22,018	(22,018)	(100%)
Gain on sale of assets held for sale	—	—	—	0%
Gain on lease modification	—	—	—	0%
Gain on modication of loans and borrowings	—	—	—	0%
Gain on extinguishment of unsecured convertible debentures	—	(48,866)	48,866	(100%)
Other income, net	1,602	(50,735)	52,337	(103%)
Adjusted EBITDA	$ (4,531,212)	$ (2,932,849)	$ (958,831)	33%

* For three months ended September 30, 2023 includes depreciation of $nil (September 30, 2022 - $1,314,371) amount expensed in cost of goods sold

	For the nine months ended			
	September 30, 2023	September 30, 2022	$ Change	% Change
Loss and comprehensive loss	$ (28,992,469)	$ (35,223,280)	$ 6,230,811	(18%)
Add (Deduct)				
Depreciation and amortization*	411,382	5,472,360	(5,060,978)	(92%)
Finance costs	17,958,650	13,047,423	4,911,227	38%
EBITDA	(10,622,437)	(16,703,497)	6,081,060	(36%)
Impairment of inventory included in cost of goods sold	1,038,450	8,990,576	(7,952,126)	(88%)
Provision for returns	366,927	1,015,074	(648,147)	(64%)
One-time cost of sales expenses	—	3,304,296	(3,304,296)	(100%)
Severance	—	871,748	(871,748)	(100%)
Restructing expenses	1,319,344	—	1,319,344	0%
Realized fair value amounts previously included in inventory	(2,440,702)	6,107,618	(8,548,320)	(140%)
Unrealized loss (gain) on changes in fair value of biological assets	501,501	(314,433)	815,934	(259%)
Impairment of property, plant and equipment	—	687,798	(687,798)	(100%)
One-time lease termination expenses	412,500	—	412,500	0%
Share based compensation	213,364	436,865	(223,501)	(51%)
Loss on disposal of property, plant and equipment	—	22,018	(22,018)	(100%)
Gain on sale of assets held for sale	(279,746)	—	(279,746)	0%
Gain on lease modification	—	(805,324)	805,324	(100%)
Gain on modication of loans and borrowings	—	(3,195,964)	3,195,964	(100%)
Gain on extinguishment of unsecured convertible debentures	—	(5,154,866)	5,154,866	(100%)
Other income, net	29,016	(50,735)	79,751	(157%)
Adjusted EBITDA	$ (9,461,783)	$ (4,788,826)	$ (4,822,708)	101%

* For nine months ended September 30, 2023 includes depreciation of $237,491 (September 30, 2022 - $4,059,903) 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, increasing by $8,166,634 or 71% to negative $3,400,134 for the three months, and by $6,081,060 or 36% to negative $10,622,437 for the nine months ending on September 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 decreased by $958,831 or 33% to negative $4,531,212 and decreased by $4,822,708 or 101% to negative $4,822,708 during the three and nine months ended September 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 and prior year gains on debt instruments.

Liquidity and Capital Resources

	For the three months ended			
	September 30, 2023	September 30, 2022	$ Change	% Change
Cash provided by (used in):				
Operating activities	$ 849,548	$ (5,465,160)	$ 6,314,708	(116%)
Investing activities	(921,625)	(25,103)	(896,522)	3571%
Financing activities	(48,447)	(578,281)	529,834	(92%)
Decrease in cash	$ (120,524)	$ (6,068,544)	$ 5,948,020	(98%)

	For the nine months ended			
	September 30, 2023	September 30, 2022	$ Change	% Change
Cash provided by (used in):				
Operating activities	$ (12,066,941)	$ (22,651,351)	$ 10,584,410	(47%)
Investing activities	7,540,013	(1,297,197)	8,837,210	(681%)
Financing activities	2,773,867	10,617,785	(7,843,918)	(74%)
Decrease in cash	$ (1,753,061)	$ (13,330,763)	$ 11,577,702	(87%)

Cash flow from operating activities

Cash provided/(used) by operating activities was $849,548 and ($12,066,941) during the three and nine months ended September 30, 2023 respectively, compared to ($5,465,160) and ($22,651,351) during the same periods of 2022. Lower spending for the three- and nine-months ending September 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/(used) from investing activities amounted to $(921,625) for the three months and $7,540,013 for the nine months concluding on September 30, 2023. In comparison, during the corresponding periods of 2022, cash outflow of $25,103 and $1,297,197 was recorded. This substantial shift can be attributed primarily to purchased automated machinery along with 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 ($48,477) for the three months and $2,773,887 for the nine months concluding on September 30, 2023. This stands in contrast to figures of ($578,281) and $10,617,785 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 September 30, 2023, the Company had cash and cash equivalents of $9,332,196 (December 31, 2022: $9,075,257). Total current assets for the same period were $31,869,857 (December 31, 2022: $40,085,316), including inventory and biological assets of $15,744,233 (December 31, 2022: $14,088,980), with current liabilities of $162,540,978 (December 31, 2022: $141,878,963) resulting in negative working capital of $130,671,121 (negative working capital of December 31, 2022: $101,793,647).

The Company's current ratio at September 30, 2023 was 0.20 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 September 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 September 30, 2022 of the unsecured convertible debentures issued on September 25, 2019, and repayment on maturity at a discount of 40% on the principal amount. The repayment was made by obtaining an additional loan from LPF.

Going Concern

As of September 30, 2023, the Company had a working capital deficiency of $(130,671,121) and an accumulated deficit of $348,360,490. For the period ended September 30, 2023, the Company used cash in operating activities of $12,066,941, resulting primarily from the net loss of $28,992,469 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 strategic partnerships to access diverse markets and categories.
- Divesting non-core or redundant assets; and
- Strengthening third-party commercial arrangements for the manufacture and packaging of cannabis products

Inventory

	September 30, 2023	December 31, 2022	$ Change	% Change
Dried cannabis	$ 10,578,168	$ 10,646,652	$ (68,484)	(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	2,782,210	1,281,679	1,500,531	117%
Total extracts	13,459,365	12,830,125	629,240	5%
Non-cannabis inventory	2,284,868	1,258,855	1,026,013	82%
	$ 15,744,233	$ 14,088,980	$ 1,655,253	12%

Total inventory increased by $1,655,253 or 12% from December 31, 2022, to September 30, 2023.

Loans and borrowings

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

During the three and nine months ended September 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.

As at September 30, 2023, the Company was in breach of certain financial covenants and obligations under its senior secured credit facilities with an affiliate of the LiUNA Pension Fund of Central and Eastern Canada (the "Senior Lender"). The Company has received a forbearance letter from the Senior Lender noting the Company in default of the Credit Facilities and temporarily waiving the Company's breaches until December 8, 2023, subject to the satisfaction or waiver of certain conditions. The Company is working collaboratively with the Senior Lender to reach an agreement on the terms of a new forbearance.

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During the three and nine months ended September 30, 2023, the Company incurred $155,250 and $310,500 (three and nine months ended September 30, 2022- $77,625 and $155,250) in interest and $(2,149) and $(7,464) (three and nine months ended September 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:

For the period ended	**September 30, 2023**	December 31, 2022
Accounts payable and accrued liabilities	**$ —**	$ —

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

	Three months ended		**Nine Months ended**	
	September 30, 2023	September 30, 2022	**September 30, 2023**	September 30, 2022
Salaries and bonus	**$ 337,506**	$ 499,360	**$ 1,200,490**	$ 1,686,278
Share based Compensation	**102,000**	150,018	**103,364**	758,376
Directors fee	**22,000**	—	**78,000**	35,724
Other compensation	**—**	10,524	**662,631**	10,524
Total	**461,506**	**659,902**	**2,044,485**	**2,490,902**

Deferred share units

Stock options expired during the three and nine months ended September 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 September 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 September 30, 2023, the Company determined and authorized the grant of an aggregate of 1,600,000 deferred share units ("DSUs") to certain directors of the Company based on the fair value of the services provided. The DSUs will vest immediately and are granted in lieu of cash compensation for services rendered during 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 nine months ended September 30, 2023 and 2022 are as follows:

	Three months ended		Nine Months ended	
	September 30, 2023	**September 30, 2022**	**September 30, 2023**	**September 30, 2022**
Share based compensation	$ —	—	$ —	$ 11,070
Deferred stock units issued	156,000	82,318	213,364	425,795
Total	**$ 156,000**	$ 82,318	**$ 213,364**	$ 436,865

Disclosure of outstanding share data

As at September 30, 2023, the following were outstanding:

Outstanding Shares	**As at September 30, 2023**
Common shares	308,387,453
Warrants	3,741,666
Stock and broker compensation options	3,437,140

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 September 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 $4,031,238 (December 31, 2022: $4,025,494).

As at September 30, 2023, 62% (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 20% of trade receivables and comprises of 9% of the revenue of the Company as at September 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 $162,540,978 (December 31, 2022: $141,878,963) with cash on hand of $9,332,196 (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.

As at September 30, 2023, the Company was in breach of certain financial covenants and obligations under its senior secured credit facilities with an affiliate of the LiUNA Pension Fund of Central and Eastern Canada (the "Senior Lender"). The Company has received a forbearance letter from the Senior Lender noting the Company in default of the Credit Facilities and temporarily waiving the Company's breaches until December 8, 2023, subject to the satisfaction or waiver of certain conditions. The Company is working collaboratively with the Senior Lender to reach an agreement on the terms of a new forbearance.

The contractual maturities of all liabilities and lease obligations as at September 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	$ 142,116	$ 125,671	$ 128,253	$ 130,834	$ 349,634
Loans and borrowings	14,789,263	165,086,090	310,500	5,051,750	—
Unsecured convertible debentures	91,175	91,175	1,035,844	—	—
Other commitments	9,038	2,479	—	—	—
Accounts payables and accrued liabilities	13,557,661	—	—	—	—
Total	**$ 28,589,253**	**$ 165,305,415**	**$ 1,474,597**	**$ 5,182,584**	**$ 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 November 27, 2023, the date the consolidated financial statements were issued and determined there were no material events to report.