Management's Discussion and Analysis

For the three and six month periods ended June 30, 2022 and 2021

Dated: August 15, 2022

Index

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(For the three and six month periods ended June 30, 2022 and 2021)

Forward-Looking Statements

Certain statements in this Management's Discussion and Analysis ("MD&A") constitute forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include, but are not limited to, statements made under the headings "*Our Business and Growth Strategy*", "*Highlights*", "*Strategic Priorities*", "*Business Strategy and Outlook*" and "*Risks and Uncertainties*" and other statements concerning CareRx Corporation's ("CareRx" or the "Company") objectives, growth strategies and strategic priorities as well as statements with respect to management's beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts, including in regards to the acquisition of the Hogan LTC Pharmacy Business and integration of the MPGL LTC Pharmacy Business. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans" or "continue", or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those contemplated by such statements. Factors that could cause such differences include general business risks, the Company's exposure to and reliance on government regulation and funding, the Company's liquidity and capital requirements, the Company's ability to complete and integrate acquisitions as expected, exposure to epidemic or pandemic outbreak, the highly competitive nature of the Company's industry, reliance on contracts with key care operators and other such risk factors described under the heading "*Risks and Uncertainties*" and from time to time in the reports and disclosure documents filed by the Company with Canadian securities regulatory agencies and commissions.

This list is not exhaustive of the factors that may impact the Company's forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. The factors underlying current expectations are dynamic and subject to change.

This MD&A contains certain forward-looking statements with respect to the Hogan LTC Pharmacy Business, some of which have not been prepared in accordance with IFRS, including expected run-rate annualized revenue and Adjusted EBITDA contribution. These forward-looking statements involve certain risks and uncertainties, including in particular, the risks described under the heading "*Risks and Uncertainties – Acquisitions and Integration*".

This MD&A also contains certain forward-looking statements with respect to management's current estimate of the impact of the loss of a large customer contract and certain pricing adjustments under the agreement between the pCPA and CGPA on net income before taxes and Adjusted EBITDA. The estimated impact on Adjusted EBITDA has not been prepared in accordance with IFRS. Further, these forward-looking statements involve certain risks and uncertainties, including in particular, the risks described under the heading "*Risks and Uncertainties – Reliance on Contracts with Key Care Operators*" and "*Risks and Uncertainties - Government Regulation and Funding*," respectively.

Management has provided certain growth targets under the heading "Our Business and Growth Strategy" with respect to beds under care and revenue. These targets are management growth objectives and are not intended to constitute forward-looking statements. There can be no assurance that these growth targets will be achieved.

Although the forward-looking statements contained in this MD&A are based on what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements included in this MD&A may be considered "financial outlook" for the purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A. All forward-looking statements in this MD&A are qualified by these cautionary statements. Other than as specifically required by applicable laws, we are under no obligation and we expressly disclaim any such obligation to update or alter the forward-looking statements whether as a result of new information, future events or otherwise except as may be required by law. These forward-looking statements are made as of the date of this MD&A.

The following is a discussion of the consolidated statements of financial position and the consolidated statements of income and comprehensive income of the Company for the three and six month periods ended June 30, 2022 and 2021 and of certain factors that the Company believes may affect its prospective financial condition, cash flows and results of operations. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements and notes thereto for the three and six month periods ended June 30, 2022 and 2021. The unaudited condensed interim consolidated financial statements for the three and six month periods ended June 30, 2022 and 2021 are prepared in accordance with International Financial Reporting Standards 34, Interim Financial Reporting as outlined by International Financial Reporting Standards ("IFRS") and its interpretations as issued by the International Accounting Standards Board ("IASB"). The Company's significant accounting policies are summarized in detail in note 2 of the consolidated financial statements for the year ended December 31, 2021.

Non-IFRS Financial Measures

This MD&A includes certain measures which have not been prepared in accordance with IFRS, such as "EBITDA", "Adjusted EBITDA", "Adjusted EBITDA Margin" and "Adjusted EBITDA per share". Management of the Company believes that these non-IFRS measures provide useful information to investors regarding the Company’s financial condition and results of operations as they provide additional key metrics of performance. The Company believes that Adjusted EBITDA is a meaningful financial metric as it measures cash generated from operations which the Company can use to fund working capital requirements, service interest and principal debt repayments and fund future growth initiatives. The Company's agreements with lenders are also structured with certain financial performance covenants which includes Adjusted EBITDA as a key component of the covenant calculations.

These non-IFRS measures are not recognized under IFRS, do not have any standardized meaning prescribed under IFRS and may differ from similarly-named measures as reported by other issuers, and accordingly may not be comparable. These measures should not be viewed as a substitute for the related financial information prepared in accordance with IFRS. See “*Reconciliation of Non-IFRS Measures*” in the MD&A for further information regarding these measures.

Non-IFRS Ratios

The Company uses certain non-IFRS ratios that are not standardized financial measures under IFRS, such as "Net Debt to Adjusted EBITDA". "Net Debt to Adjusted EBITDA" is a ratio of two non-IFRS financial measures - "Net Debt", being the sum of the outstanding principal balances of the Company's Senior Facility, Yorkville Facility and Ewing Convertible Debentures, net of cash and cash equivalents, and "Adjusted EBITDA", as described in "*Reconciliation of Non-IFRS Measures".*

Management of the Company believes that this non-IFRS ratio provides useful information to investors regarding the Company's financial condition, results of operations and capital management.

Key Performance Indicators

In addition to those measures identified under "Non-IFRS Financial Measures", management uses certain key performance indicators in order to compare the financial performance of the Company's operations between periods, such as "average beds serviced". Such performance indicators may not be comparable to similar indicators utilized by other companies.

Unless otherwise specified, amounts reported in this MD&A are in millions of dollars, except shares and per share amounts and percentages. The following MD&A is presented as of August 15, 2022.

All amounts are disclosed in Canadian dollars. Additional information about the Company, including the most recently filed Annual Information Form, is available on www.sedar.com.

Our Business and Growth Strategy

CareRx is Canada's largest and fastest growing provider of pharmacy services to seniors homes and other congregate care settings. We serve over 97,000 residents in over 1,600 seniors and other communities, including long-term care homes, retirement homes, assisted living facilities, and group homes, dispensing over 3.3 million prescriptions every month. We play an integral role in supporting our home care partners by providing high-volume, cost-effective solutions for the supply of chronic medication, ensuring the highest level of safety and adherence for individuals with complex medication regimes.

We are a national organization with the largest network of pharmacy fulfilment centres located across Canada. Our proximity to our customers allows us to deliver medications in a timely and cost-effective manner, and quickly respond to routine changes in medication management.

We utilize best-in-class technology that automates the preparation and verification of multi-dose compliance packaging of medication, providing the highest levels of safety and adherence for individuals with complex medication regimes. We are committed to the continued innovation in our service offering through the adoption of leading technology to further capitalize on our growing scale and enhance our service offering, in addition to pursuing adjacent strategic opportunities that leverage our core capabilities.

With a passionate team and organizational culture that has an unwavering commitment to delivering superior quality of care to the communities we serve, together with our home care partners, we are dedicated to achieving the highest service and ethical standards. This commitment is embodied in our mission, vision and values:

Mission: Our passionate team is driven to enhance the health of Canadians with unique or complex medication needs.

Vision: To be Canada's trusted leader providing innovative pharmacy solutions in partnership with communities we serve.

Values: Collaboration, Accountability, Responsiveness and Excellence.

Our growth strategy is focused on capitalizing on the favourable demographic trends that exist in the rapidly expanding seniors market, which is expected to more than double over the next decade and a half. We have a stated growth target of 130,000 beds under care and $500 million in revenue by 2024. To achieve this objective, we have a multi-pronged organic growth and acquisition strategy to increase our beds under care through winning significant new contracts and by making accretive acquisitions through the roll up of a highly fragmented market, which will enable us to leverage our national footprint and continue to increase our scale. We have a proven track record of rapidly integrating acquisitions and realizing significant synergies.

28
fulfilment centres

>1,600
long-term care and retirement homes

>97,000
beds

~3,300,000
prescriptions monthly

Highlights for the Three and Six Month Periods Ended June 30, 2022

Highlights for the Second Quarter of 2022

(All comparative figures are for the second quarter of 2021)

- **Revenue increased 95% to $96.9 million from $49.7 million**
  - Growth was driven primarily by the contribution of the prior year acquisitions of a portion of the Long-Term Care Pharmacy Services business of Rexall Health Solutions ("Rexall LTC Pharmacy Business") and Long-Term Care Pharmacy Division of Medical Pharmacies Group Limited ("MPGL LTC Pharmacy Business"), the partial contribution of the Hogan LTC Pharmacy Business that was acquired on May 30, 2022 and organic growth from new contracts that were onboarded during the last 12 months.
- **Adjusted EBITDA[1] increased by 103% to $8.8 million from $4.3 million**
  - Growth was driven primarily by the contribution of the MPGL LTC Pharmacy Business and from new contracts that were onboarded during the last 12 months; and
  - Adjusted EBITDA was partially impacted by incremental costs, including overtime, contract labour and recruitment costs, totaling $0.6 million, incurred as a result of the current labour market, which has resulted in a higher than average number of open pharmacy staff positions. These incremental costs are expected to persist for the remainder of 2022.
- **Net loss increased by 196% to $25.1 million from $8.5 million**
  - Net loss is primarily a result of finance costs and transaction and restructuring costs incurred, in addition to a number of non-cash items including impairment losses and share-based compensation expense;
  - Increase in net loss was driven primarily by non-cash adjustments including impairment losses related to goodwill and intangible assets totaling $24.3 million, an increase in share-based compensation and adjustments related to the change in fair value of contingent consideration liability and the change in fair value of investment;
  - The goodwill impairment loss recorded during the second quarter of 2022 was primarily attributable to the loss of a large customer contract and increases in the input costs of the business, in addition to the impact of rising interest rates on the discount rates used to determine the recoverable amount of the Company's cash generating units and the intangible assets impairment loss related to the loss of the customer contract; and
  - These adjustments were partially offset by the contribution of the Rexall LTC Pharmacy Business and the MPGL LTC Pharmacy Business, the non-cash adjustments related to the change in fair value of derivative financial instruments and a decrease in transaction and restructuring costs.
- **Completed the acquisition of the Long-Term Care Pharmacy Business of Hogan Pharmacy Partners Ltd. ("Hogan" and together, the "Hogan LTC Pharmacy Business")**
  - On May 30, 2022, completed the acquisition of the Hogan LTC Pharmacy Business, a long-term care pharmacy serving approximately 800 residents in long-term care and retirement homes in Ontario, for a purchase price comprised of: (i) $2.2 million payable in common shares of the Company at closing of the Hogan LTC Pharmacy Business acquisition (the "Closing"), subject to further adjustment based on the Company's common share price on a future date and (ii) a $2.2 million vendor take-back note payable over the four years following the Closing;
  - Expected to contribute run-rate annualized revenue and Adjusted EBITDA[1] of approximately $4.0 million and $0.6 million, respectively, prior to any benefits from the integration of the operations of the two businesses[2];
  - In connection with the Closing, the Company signed a new seven-year contract with Hogan's largest customer, a regional seniors living operator, representing approximately 85% of the beds serviced by Hogan. Hogan's customers are expected to increase their beds serviced by over 1,200 beds by the fourth anniversary of Closing based on new license allocations and other anticipated growth plans, which is expected to increase the total beds serviced to approximately 2,000; and
  - To date, the revenue and Adjusted EBITDA contribution of the Hogan LTC Pharmacy Business is in line with expectations.

[1] *Adjusted EBITDA is a non-IFRS measure that is defined and calculated in "Reconciliation of Non-IFRS Measures"*

[2] *See "Risks and Uncertainties - Acquisitions and Integration"*

- **Commenced operations at new high-volume fulfillment centre**
  - In April 2022, commenced operations at the new innovative high-volume fulfillment centre in Oakville, Ontario;
  - New site to be the first pharmacy in Canada to use BD Rowa™ Dose medication packaging system from Becton, Dickinson and Company;
  - BD Rowa™ Dose to optimize the high-volume dispensing of medications at speeds that exceed conventional packaging solutions currently utilized in Canada;
  - New fulfillment centre and centrepiece BD Rowa™ Dose technology expected to allow for enhanced operating margins through higher prescription volumes without additional labour costs, while improving safety and reducing medication packaging errors and waste; and
  - BD Rowa™ Dose technology is expected to be deployed during the fourth quarter of 2022.
- **Further pricing adjustments under the agreement between the pan-Canadian Pharmaceutical Alliance (the "pCPA") and the Canadian Generic Pharmaceutical Association (the "CGPA")**
  - Pricing for certain select generic molecules were reduced effective April 29, 2022 from approximately 18% to 15% of their relevant brand reference prices;
  - Pricing changes will be effective until 2023, when the existing 5-year agreement expires; and
  - The gross impact of the announced pricing changes is expected to be a reduction to net income before taxes and Adjusted EBITDA[1] of approximately $0.5 million[3] for 2022.
- **Appointed Maria Perrella as an independent member of the Company's Board of Directors and Audit Committee Chair**
  - On April 1, 2022, Maria Perrella joined the Company's Board of Directors as an independent director. Ms. Perrella is an accomplished business leader with more than 30 years of experience in finance, accounting and business strategy with both private and publicly traded companies. Ms. Perrella also assumed the role of Audit Committee Chair.

[1] *Adjusted EBITDA is a non-IFRS measure that is defined and calculated in "Reconciliation of Non-IFRS Measures"*
[3] *See "Risks and Uncertainties - Government Regulation and Funding"*

Highlights for the First Six Months of 2022

(All comparative figures are for the first six months of 2021)

- **Revenue increased by 101% to $190.1 million from $94.5 million**
  - Growth was driven by the contribution of the 2021 Acquisitions, the partial contribution of the Hogan LTC Pharmacy Business that was acquired on May 30, 2022 and organic growth from new contracts onboarded during the last 12 months.
- **Adjusted EBITDA[1] increased by 107% to $17.4 million from $8.4 million**
  - Growth was driven primarily by the contributions from the SmartMeds and MPGL LTC Pharmacy Business acquisitions, and from new contracts that were onboarded during the last 12 months; and
  - Adjusted EBITDA was partially impacted by incremental costs, including overtime, contract labour and recruitment costs, primarily incurred in the second quarter, totaling $0.6 million, as a result of the current labour market, which has resulted in a higher than average number of open pharmacy staff positions. These incremental costs are expected to persist for the remainder of 2022.
- **Net loss increased by 94% to $27.9 million from $14.4 million**
  - Net loss is primarily a result of finance costs and transaction and restructuring costs incurred, in addition to a number of non-cash items including impairment losses and share-based compensation expense;
  - Increase in net loss was driven primarily by non-cash adjustments related to impairment losses related to goodwill and intangible assets totaling $24.3 million, increases in share-based compensation, the change in fair value of contingent consideration liability and the change in fair value of investment in addition to an increase in transaction and restructuring costs; and
  - These adjustments were partially offset by the contribution of the SmartMeds Pharmacy Inc. acquisition ("SmartMeds"), the Rexall LTC Pharmacy Business and the MPGL LTC Pharmacy Business (collectively, the "2021 Acquisitions") and the non-cash adjustments related to the change in fair value of derivative financial instruments.
- **Continued integration of MPGL LTC Pharmacy Business as planned**
  - As of the end of the second quarter of 2022, with the exception of one additional site consolidation, representing $0.2 million of expected cost savings synergies in 2022, or $0.5 million annualized, all other planned site consolidations were completed;
  - The one remaining site consolidation, which was previously planned for the third quarter of 2022 has been deferred until the first half of 2023;
  - Total annualized run-rate cost savings synergies realized by the second quarter of 2022 were approximately $2.8 million, with total annual cost savings synergies of approximately $5.0 million[2] expected to be realized upon the completion of the integration; and
  - The remaining integration projects are expected to be completed by the end of 2022.
- **Customer contract renewals**
  - Secured long-term extensions with three of the Company's four largest customers, including its two largest customers, representing approximately 18,000 total beds serviced that will be under contract for an average of 5.5 years from the end of 2021;
  - As previously disclosed, offboarding approximately 5,800 beds throughout the second half of 2022 as a result of a large customer awarding a request for proposal ("RFP") to another pharmacy services provider;
  - Expected impact of the loss of this customer to Adjusted EBITDA is expected to be up to $0.5 million and $1.5 million for the third and fourth quarters of 2022, respectively, and in the range of $6.0 to $6.5 million[4] on an annualized basis, following the completion of the offboarding; and
  - Expected impact of the loss of this customer to net income before taxes is expected to be up to $0.5 million and $1.4 million for the third and fourth quarters of 2022, respectively, and in the range of $5.8 to $6.3 million[4] on an annualized basis, following the completion of the offboarding.
- **Pause in previously scheduled fee changes in Ontario**
  - In February 2022, the Ontario Ministry of Health announced that it postponed the previously scheduled changes to long-term care pharmacy funding for a further year;

[1] *Adjusted EBITDA is a non-IFRS measure that is defined and calculated in "Reconciliation of Non-IFRS Measures"*

[2] *See "Risks and Uncertainties - Acquisitions and Integration"*
[4] *See "Risks and Uncertainties - Reliance on Contracts with Key Care Operators"*

- These changes, which were originally scheduled to go into effect on April 1, 2022 after previously being postponed from April 1, 2021, would have reduced the fixed professional fee under the fee-per-bed capitation model from an annual amount of $1,500 dollars per bed to $1,400 dollars per bed on April 1, 2022, further declining annually by $100 dollars per bed until it reached $1,200 dollars per bed by the fourth year of implementation; and
- Absent any further postponements, the annual reductions in the per bed fee are now expected to commence on April 1, 2023.

• **Expansion of scope of medical supplies business under new brand, Revicare™**

- New brand to offer significantly expanded assortment of medical supplies, including incontinence products, nutritional supplements, wound care products and other medical supplies; and
- Replaces existing business operating under the ClassMed brand that predominantly supplied incontinence products to residents living in select seniors living communities.

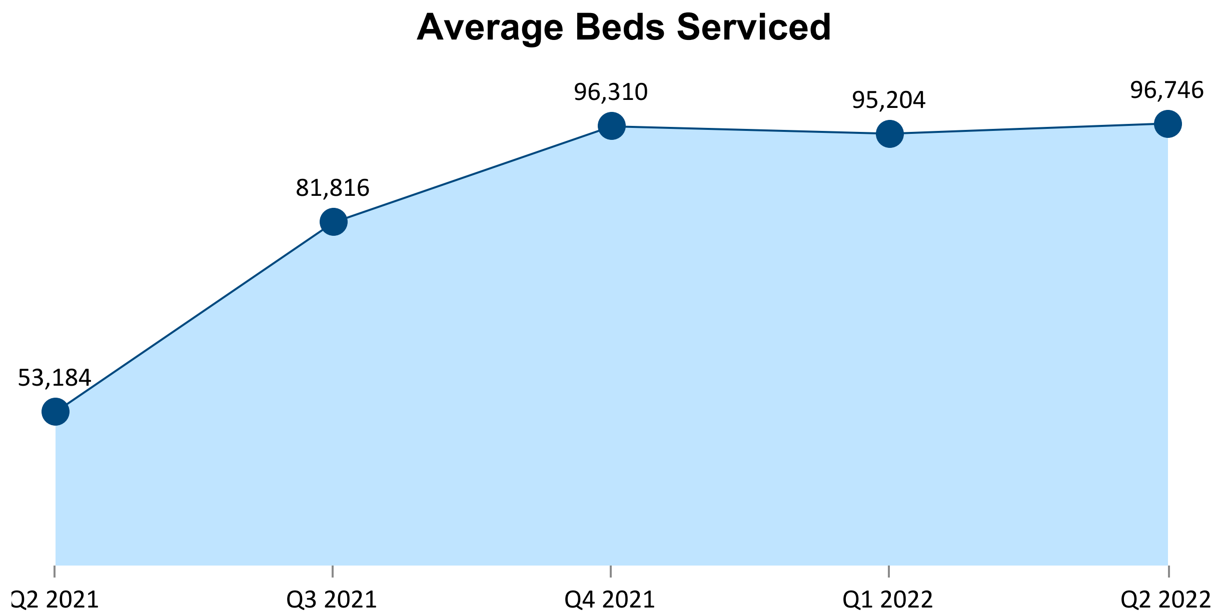
• **Appointed Adrianne Sullivan-Campeau as Chief People and Culture Officer**

- On January 17, 2022, Adrianne Sullivan-Campeau joined the Company as Chief People and Culture Officer after previously serving as Vice President, People, Culture and Communications at Allstate Insurance Company of Canada.

• **Continued response to COVID-19 pandemic**

- Continued to successfully minimize the overall impact of the COVID-19 pandemic;
- COVID-19-related outbreaks and the impact on occupancy levels in homes serviced reached their peak throughout December 2020 and into January 2021 and gradually improved throughout 2021;
- In January 2022, the Omicron variant and associated outbreaks again impacted occupancy levels in homes serviced, before having substantially returned to pre-Omicron levels by he end of the second quarter of 2022;
- The Company had previously developed protocols and procedures to address any potential epidemics and pandemics, and has put these protocols and procedures in place to address the current COVID-19 pandemic;
- The Company continues to monitor the COVID-19 situation and is taking proactive measures to manage any risks that arise that may impact the business; and
- The Company continues to work closely with its long-term care and retirement home partners to support their staff and residents in their homes.

Key Performance Indicators - Second Quarter of 2022



Average beds serviced is a key performance indicator that the Company uses to monitor performance. The Company uses this key performance indicator to assess the performance of the Company’s operations and to assess overall financial performance. Average beds serviced is calculated as the simple average of the number of residents serviced by the Company at the end of each month in the period.

Strategic Priorities

1. **Grow organically**
   - Leverage the Company's value proposition with care operators to win new contracts
   - Expand scope of services to cross sell to existing customer base and attract new customers
   - Maximize scale and efficiencies at existing facilities
2. **Make strategic acquisitions**
   - Pursue opportunities that will strengthen value proposition and expand national platform, achieving operational efficiencies through increased scale and consolidation of acquisitions
   - Apply strict criteria to ensure alignment, accretion and return on invested capital
3. **Continuously enhance business operations**
   - Optimize labour models and rely on innovative technology and economies of scale to drive efficiencies
   - Maintain and enhance standards of exceptional care
   - Manage costs at corporate office to ensure a lean shared service model and maximize overall profitability
   - Enhance quality reporting metrics that demonstrate value to customers with emphasis on best healthcare outcomes
4. **Reduce debt and strengthen balance sheet**
   - Reduce total debt to Adjusted EBITDA over the medium term
   - Utilize effective working capital management to improve cash flows

Business Strategy and Outlook

CareRx's growth strategy is focused on capitalizing on the favourable demographic trends that exist in the rapidly expanding seniors market through a multi-pronged organic growth and acquisition strategy. The Company believes that it is well positioned to continue to increase revenue and expand Adjusted EBITDA Margins in the medium-to-long term by increasing the number of beds under care by winning significant new contracts and making accretive acquisitions, as well as through the diversification of its offerings, leveraging its best-in-class platform to offer the highest levels of service to more Canadians, with a focus on the following areas:

- Maximize utilization of its existing infrastructure through new RFP wins with local, regional and care operators;
- Execute on strategic acquisition opportunities to expand its network and geographic coverage and benefit from economies of scale;
- Expand clinical capabilities to strengthen its value proposition to its customers and drive new, higher margin revenue streams;
- Increase product and service offerings to customers; and
- Reduce cost structure and benefit from economies of scale.

In the short-term, it is expected that the Company's Adjusted EBITDA Margins may be negatively impacted by investments related to the above initiatives, the impact of the offboarding of a large customer contract and increased labour costs related to staffing shortages, in addition to the factors set out under the heading "*Risks and Uncertainties*".

The Company operates in a highly fragmented market and believes there are numerous opportunities to make accretive acquisitions that will enable it to leverage its national footprint and continue to increase its scale and benefit from additional operational synergies. The Company believes this strategy will create significant value for our stakeholders while giving us the ability to offer a compelling, best-in-class service offering to our customers.

Reconciliation of Non-IFRS Measures

This MD&A includes certain measures which have not been prepared in accordance with IFRS such as "EBITDA", "Adjusted EBITDA", "Adjusted EBITDA Margin" and "Adjusted EBITDA per share". These non-IFRS measures are not recognized under IFRS and, accordingly, users are cautioned that these measures should not be construed as alternatives to net income determined in accordance with IFRS. The non-IFRS measures presented are unlikely to be comparable to similar measures presented by other issuers.

EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted EBITDA Per Share

The Company defines "EBITDA" as earnings before depreciation and amortization, finance costs (income), net, and income tax (recovery) expense. "Adjusted EBITDA" is defined as EBITDA before transaction and restructuring costs, change in fair value of contingent consideration liability, impairments, change in fair value of derivative financial instruments, change in fair value of investment, gain on disposal of property and equipment and stock based compensation expense. "Adjusted EBITDA Margin" is defined as Adjusted EBITDA divided by revenue. "Adjusted EBITDA per share" is defined as Adjusted EBITDA divided by the weighted average outstanding shares. The Company believes that Adjusted EBITDA is a meaningful financial metric as it measures cash generated from operations which the Company can use to fund working capital requirements, service interest and principal debt repayments and fund future growth initiatives. The Company's agreements with its lenders are also structured with certain financial performance covenants which includes Adjusted EBITDA as a key component of the covenant calculations. "EBITDA" and "Adjusted EBITDA" are not recognized measures under IFRS.

	For the three month periods ended June 30,		**For the six month periods ended June 30,**	
	2022	2021	**2022**	2021
(thousands of Canadian Dollars)	**$**	$	**$**	$
Net loss	**(25,129)**	(8,489)	**(27,891)**	(14,355)
Depreciation and amortization	**5,127**	3,234	**9,826**	6,326
Finance costs, net	**3,575**	4,548	**7,249**	7,969
Income tax recovery	**(1,441)**	(284)	**(1,531)**	(1,032)
EBITDA	**(17,868)**	(991)	**(12,347)**	(1,092)
Transaction and restructuring costs	**1,033**	1,822	**3,721**	2,589
Change in fair value of contingent consideration liability	**658**	82	**754**	251
Goodwill and intangible assets impairment	**24,330**	—	**24,330**	—
Share-based compensation expense	**823**	739	**2,153**	1,492
Change in fair value of derivative financial instruments	**(2,980)**	2,235	**(4,106)**	4,840
Change in fair value of investment	**2,713**	—	**2,713**	—
Loss on disposal of assets	**88**	451	**195**	344
Adjusted EBITDA	**8,797**	4,338	**17,413**	8,424
Weighted average number of shares - basic and diluted (in thousands)	**47,076**	30,366	**46,792**	29,214
Adjusted EBITDA per share - basic	**$0.19**	$0.14	**$0.37**	$0.29

Selected Financial Information

The following selected financial information as at and for the three and six month periods ended June 30, 2022, 2021, and 2020, have been derived from the consolidated financial statements and should be read in conjunction with those financial statements and related notes. The results of acquisitions are added from their respective dates of completion. Non-IFRS measures are defined and reconciled in the Reconciliation of Non-IFRS Measures section.

	For the three month periods ended June 30,			For the six month periods ended June 30,		
	2022	2021	2020	**2022**	2021	2020
(thousands of Canadian Dollars)	**$**	$	$	**$**	$	$
Revenue	**96,879**	49,656	39,749	**190,055**	94,513	70,175
EBITDA[5]	**(17,868)**	(991)	(7,241)	**(12,347)**	(1,092)	(7,502)
Adjusted EBITDA[5]	**8,797**	4,338	2,825	**17,413**	8,424	4,870
Per share - Basic	**$0.19**	$0.14	$0.15	**$0.37**	$0.29	$0.29
Adjusted EBITDA Margin[5]	**9.1%**	8.7%	7.1%	**9.2%**	8.9%	6.9%
Net loss	**(25,129)**	(8,489)	(14,148)	**(27,891)**	(14,355)	(8,834)
Per share - Basic and Diluted	**($0.53)**	($0.28)	($0.74)	**($0.60)**	($0.49)	($0.53)
Cash used in operations	**(3,979)**	(5,721)	(2,665)	**(5,155)**	(7,426)	(4,115)
Total assets	**258,433**	165,222	151,759	**258,433**	165,222	151,759
Total liabilities	**198,606**	144,655	153,356	**198,606**	144,655	153,356
Weighted average number of shares - basic and diluted (in thousands)	**47,076**	30,366	18,766	**46,792**	29,214	16,609

[5] *Defined in Reconciliation of Non-IFRS Measures.*

Results of Operations for the Three and Six Month Periods Ended June 30, 2022 and 2021

Operating and Other Expenses as a Percentage of Revenue

	For the three month periods ended June 30,				For the six month periods ended June 30,			
	2022		2021		**2022**		2021	
$ millions	**$**	**%**	$	%	**$**	**%**	$	%
Revenue	**96.9**	**100 %**	49.7	100 %	**190.1**	**100 %**	94.5	100 %
Operating expenses:								
Pharmacy services and supplies	**68.3**	**70.5 %**	35.0	70.4 %	**133.5**	**70.2 %**	66.5	70.4 %
Employee costs	**7.6**	**7.8 %**	4.7	9.5 %	**15.1**	**7.9 %**	9.1	9.6 %
Other operating expenses	**12.2**	**12.6 %**	5.7	11.5 %	**24.0**	**12.6 %**	10.5	11.1 %
Total operating expenses	**88.1**	**90.9 %**	45.4	91.3 %	**172.6**	**90.8 %**	86.1	91.1 %
Other expenses:								
Depreciation and amortization	**5.1**	**5.3 %**	3.2	6.4 %	**9.8**	**5.2 %**	6.3	6.7 %
Share-based compensation expense	**0.8**	**0.8 %**	0.7	1.4 %	**2.2**	**1.2 %**	1.5	1.6 %
Loss on disposal of assets	**0.1**	**0.1 %**	0.5	1.0 %	**0.2**	**0.1 %**	0.3	0.3 %
Transaction, restructuring and other costs	**1.0**	**1.0 %**	1.8	3.6 %	**3.7**	**1.9 %**	2.6	2.8 %
Goodwill and intangible assets impairment	**24.3**	**25.1 %**	—	— %	**24.3**	**12.8 %**	—	— %
Finance costs, net	**3.6**	**3.7 %**	4.5	9.1 %	**7.2**	**3.8 %**	8.0	8.5 %
Income tax recovery	**(1.4)**	**(1.4) %**	(0.3)	(0.6) %	**(1.5)**	**(0.8) %**	(1.0)	(1.1) %
Total other expenses	**33.5**	**34.6 %**	10.4	20.9 %	**45.9**	**24.1 %**	17.7	18.7 %

- Revenue for the three and six month periods ended June 30, 2022 increased by 95% to $96.9 million as compared to $49.7 million and by 101% to $190.1 million as compared to $94.5 million, respectively, for the same periods in the prior year.
- Revenue increased primarily as a result of the impact of the 2021 Acquisitions, the partial contribution of the Hogan LTC Pharmacy Business that was acquired on May 30, 2022 and organic growth from new contracts onboarded during the last 12 months.
- Going forward, following the offboarding of a large customer contract throughout the remainder of 2022, the Company expects continued organic growth in revenue; however, the timing and cycles of the contract procurement process (and time required to realize revenue from formal procurement RFP processes), and the impact of the COVID-19 pandemic could result in some fluctuation of organic growth rates in the near term.

Operating expenses consist of three major components:

- pharmacy services and supplies, which includes the salaries and benefits of employees directly involved in the provision of services, pharmacist consultant fees, the cost of medical supplies and the cost of pharmaceuticals sold;
- employee costs, which relate to salaries and benefits of employees that are not directly involved in the provision of services; and
- other operating expenses, which includes occupancy costs, communication, insurance, advertising and promotion, public company costs, Board and sub-committee fees and other costs of the corporate office and administrative expenses incurred at the operational level.

- Overall operating expenses for the three and six month periods ended June 30, 2022 increased by 94% to $88.1 million as compared to $45.4 million and by 101% to $172.6 million as compared to $86.1 million, respectively, for the same periods in the prior year, primarily as a result of the impact of the 2021 Acquisitions,the partial contribution of the Hogan LTC Pharmacy Business and increases to the input costs of the business.

- Cost of pharmacy services and supplies for the three and six month periods ended June 30, 2022 increased by 95% to $68.3 million as compared to $35.0 million and by 101% to $133.5 million as compared to $66.5 million, respectively, for the same periods in the prior year, primarily due to the impact of the 2021 Acquisitions, the partial contribution of the Hogan LTC Pharmacy Business and increases to the input costs of the business.
- Employee expenses for the three and six month periods ended June 30, 2022 increased by 64% to $7.6 million as compared to $4.7 million and by 66% to $15.1 million as compared to $9.1 million, respectively, for the same periods in the prior year, primarily due to the impact of the 2021 Acquisitions.
- Other operating expenses for the three and six month periods ended June 30, 2022 increased by 115% to $12.2 million as compared to $5.7 million and by 129% to $24.0 million as compared to $10.5 million, respectively, for the same periods in the prior year, primarily due to the impact of the 2021 Acquisitions and increases to the input costs of the business.

The gain/loss on disposal of assets for the three and six month periods ended June 30, 2022 and for the same periods in the prior year related to the sale or disposal of assets no longer in use.

Transaction, restructuring and other costs are comprised primarily of legal, consulting, due diligence and other professional fees directly related to business combinations, divestitures or business restructuring; costs associated with new contract implementation and new acquisition integration; severance costs; start-up costs for new initiatives; and other costs associated with corporate reorganization and restructuring.

- Transaction, restructuring and other costs for the three month period ended June 30, 2022 decreased by 43% to $1.0 million as compared to $1.8 million for the same period in the prior year and for the six month period ended June 30, 2022 increased by 43.7% to $3.7 million as compared to $2.6 million for the same period in the prior year.

  Transaction, restructuring and other costs incurred during the three and six month periods ended June 30, 2022 primarily related to (i) transition and integration costs related to the MPGL LTC Pharmacy Business; (ii) acquisition costs related to the Hogan LTC Pharmacy Business, and (iii) restructuring costs from labour savings and other initiatives.

  Comparatively, costs incurred during the same periods in the prior year related to: (i) the 2021 Acquisitions; (ii) Remedy's related acquisition and integration costs.

Goodwill and intangible assets impairment for the three and six month periods ended June 30, 2022 was $24.3 million as compared to nil for the same periods in the prior year. The goodwill impairment loss recorded during the second quarter of 2022 was primarily attributable to the loss of a large customer contract and increases in the input costs of the business, in addition to the impact of rising interest rates on the discount rates used to determine the recoverable amount of the Company's cash generating units and the intangible assets impairment loss related to the loss of the customer contract.

Finance costs, net includes interest expense and accretion expense relating to the Company's borrowings and interest expense relating to the Company's finance leases.

Finance costs, net for the three and six month periods ended June 30, 2022 decreased by 21% to $3.6 million as compared to $4.5 million and by 9% to $7.2 million as compared to $8.0 million, respectively, for the same periods in the prior year.

Finance costs, net excluding accretion for the three and six month periods ended June 30, 2022 increased by 34% to $2.9 million as compared to $2.1 million and by 39% to $5.9 million as compared to $4.3 million, respectively, for the same periods in the prior year, largely due to an increase in outstanding indebtedness which resulted in higher interest paid on the Company's borrowings.

Accretion expense for the three and six month periods ended June 30, 2022 decreased by 58% to $0.7 million as compared to $1.6 million and by 54% to $1.3 million as compared to $3.0 million, respectively, for the same periods in the prior year, largely due to the completed refinancing transactions in the second and third quarters of 2021, which resulted in changes to the carrying values of indebtedness.

Income tax recovery for the three and six month periods ended June 30, 2022 was $1.4 million and $1.5 million as compared to $0.3 million and $1.0 million, respectively, for the same periods in the prior year. Income tax recovery for the three and six month periods ended June 30, 2022 related to the recognition of deferred tax assets as a result of the impairment of goodwill and intangible assets and the recognition of deferred tax assets on tax losses incurred during the first half of 2022. Income tax recovery for the same periods in the prior year related to previously unrecognized deferred tax assets that were recognized during the first half of 2021.

Liquidity and Capital Resources

The Company manages its capital structure based on the funds available to the Company in order to support the continuation and expansion of its operations, which primarily operates in an environment in which government regulations and funding play a key role. The Company defines capital to include share capital, warrants and the stock option component of its shareholders' equity as well as its borrowings and contingent consideration. In addition to the cash flows generated by operations, the Company relies on debt and equity financing from both arm's length and related parties to execute on its stated business strategy and continue its operations as a going concern. In order to maintain or adjust its capital structure, the Company may seek financing through the issuance of securities such as equity, convertible debentures or subordinated debt, or by replacing existing debt with debt on terms more consistent with the Company's needs.

As at June 30, 2022, the Company had $112.8 million of borrowings outstanding.

The Company is committed to executing on its operating plans and to further reduce its leverage and, as such, the Company has pursued a multi-pronged strategy, including the recapitalization of the balance sheet through the issuance of additional equity, convertible debentures and subordinated debt, and strategic acquisitions within its core business. All strategic alternatives being considered by the Company were and continue to be focused on further deleveraging the balance sheet and maximizing shareholder value.

Senior Facility

On August 23, 2021, concurrent with the closing of the MPGL LTC Pharmacy Business acquisition, the Company entered into an amended and restated credit agreement with Crown Private Credit Partners Inc. ("CPCP") under which new senior credit facilities of $60.0 million (the "Senior Facility") was advanced to the Company. The Senior Facility proceeds were used to repay the existing credit facility with Crown Capital and associated financing fees.

Interest on the Senior Facility accrues at an annual rate of between 7.5% and 9% based on the Company's performance against applicable financial covenants. The Senior Facility is repayable five years from closing, subject to certain prepayment rights. The Senior Facility contains a number of customary positive and negative covenants, including a requirement to comply with certain financial covenants. These also include restrictions on incurring additional indebtedness, making certain investments or acquisitions and selling assets of the Company.

Yorkville Facility

On March 31, 2020, the Company entered into a credit agreement with Yorkville Asset Management Inc. (for and on behalf of certain managed funds, "Yorkville") under which Yorkville agreed to advance a subordinated facility to the Company of up to $12.7 million (the "Yorkville Facility") in two tranches: (i) an initial tranche of $6.3 million, which was advanced on March 31, 2020, and (ii) a second tranche of $6.4 million, which was advanced on May 7, 2020 contemporaneously with the closing of the Remedy's acquisition. The Yorkville Facility ranks in priority to the Company's existing 8.25% unsecured convertible debentures ("Convertible Debentures") and 8% unsecured convertible debentures ("Ewing Convertible Debentures"), but subordinate to the Senior Facility.

On May 19, 2021, the Company amended the Yorkville Facility credit agreement pursuant to which Yorkville (i) increased the principal amount outstanding under the existing Yorkville Facility by $6.0 million, (ii) extended the maturity date to August 23, 2026, (iii) reduced the interest rate from 12% to 10.5% per annum, and (iv) eliminated certain financial covenants.

Cash Flow

Cash flow activities for the six month period ended June 30, 2022 were as follows:

Cash used in operating activities

Cash used in operating activities was $5.2 million compared to $7.4 million for the same period in the prior year:

- Cash used in operating activities in the current year was impacted by the timing of certain working capital payments that occurred in the current period and transactions and restructuring related expenditures, which offset incremental cash flows from operations generated by the 2021 Acquisitions.

- Cash used in operating activities in the same period in the prior year was higher primarily due to the prepayment of a portion of the commitment fee for the Senior Facility, transaction related expenditures and the payment of $4.2 million to settle a previously disclosed arbitration award related to one of the Company's historical acquisitions.

Cash used in investing activities

Cash used in investing activities was $10.3 million compared to $16.0 million for the same period in the prior year:

- Cash used in investing activities in the current year related to the purchases of property and equipment and intangible assets, and the payment of a contingent consideration liability related to a historical acquisition.

- Cash used in investing activities in the same period in the prior year related to the closing consideration paid for the SmartMeds acquisition and a portion of the Rexall LTC Business acquisition; purchases of property and equipment and intangible assets and the payment of earn-outs and deferred consideration related to historical acquisitions.

Cash (used in) provided by financing activities

Cash used in financing activities was $4.9 million compared to cash provided by financing activities of $15.2 million for the same period in the prior year:

- Cash used in financing activities in the current year related to the payments of interest and finance leases partially offset by the net proceeds from warrants exercised.

- Cash provided by financing activities in the same period in the prior year primarily related to the net proceeds from equity financings partially offset by payments of interest and finance leases.

Contractual Commitments

The Company's contractual commitments at June 30, 2022, are as follows:

	Total	2022	2023-2024	2025-2026	Thereafter
	$	$	$	$	$
Trade payables and other liabilities	**38.6**	35.1	1.4	1.4	0.7
Convertible Debentures	**18.8**	6.3	12.5	—	—
Senior Facility	**60.1**	—	12.2	47.9	—
Ewing Convertible Debentures	**13.2**	—	13.2	—	—
Yorkville Facility	**20.0**	—	—	20.0	
Hogan Vendor Take-Back Note	**1.4**	—	1.0	0.4	—
Interest payments on borrowings	**33.1**	6.7	17.1	9.3	—
Leases	**55.7**	1.9	9.9	7.9	36.0
Contingent consideration	**9.4**	5.9	2.7	0.8	—
Total	**250.3**	**55.9**	**70.0**	**87.7**	**36.7**

In the normal course of business, the Company enters into significant commitments for the purchase of goods and services, such as the purchase of inventory, most of which are short-term in nature and are settled under normal trade terms. As at June 30, 2022, the Company had committed expenditures in relation to certain leasehold improvement projects of approximately $2.0 million.

Equity

As at June 30, 2022, the Company had total shares outstanding of 47,467,066. The outstanding shares included 18,880 (December 31, 2021 - 27,712) shares which were restricted and held in escrow and will only be released to certain vendors of acquired businesses based on the achievement of certain performance targets. These escrowed and restricted shares are not reflected in the shares reported on the Company's financial statements. Accordingly, for financial reporting purposes, the Company reported 47,448,186 common shares outstanding as at June 30, 2022 and 46,289,983 shares outstanding at December 31, 2021.

For the period ended	**June 30, 2022**	December 31, 2021
Common shares		
Balance, beginning of period	**46,289,983**	24,791,984
Issuance of shares	**130,143**	17,512,141
Shares released from escrow or issued from treasury for contingent consideration	**—**	196,200
RSUs, DSUs and warrants exercised	**537,660**	969,956
Shares issued for acquisitions	**481,400**	637,037
Conversion of Convertible Debentures	**9,000**	2,182,665
Balance, end of period	**47,448,186**	46,289,983

Issuance of Deferred Share Units ("DSUs") and Restricted Stock Units ("RSUs")

As at June 30, 2022, there were a total of 1,330,473 RSUs and DSUs outstanding to grant an equivalent number of common shares.

For the period ended	**June 30, 2022**	December 31, 2021
RSUs and DSUs		
Balance, beginning of period	**1,010,248**	771,385
RSUs and DSUs granted	**647,419**	625,148
RSUs and DSUs released	**(309,413)**	(383,340)
RSUs and DSUs forfeited	**(17,781)**	(2,945)
Balance, end of period	**1,330,473**	1,010,248

Issuance of Warrants

As at June 30, 2022, there were 12,522,000 warrants outstanding (each warrant entitles the holder to acquire 0.05 common shares in the capital of the Company) at a weighted average exercise price of $5.02 per common share.

For the period ended	**June 30, 2022**	December 31, 2021
Share purchase warrants		
Balance, beginning of period	**13,304,253**	23,202,833
Warrants granted	**—**	723,453
Warrants exercised	**(228,247)**	(9,572,033)
Warrants expired	**(554,006)**	(1,050,000)
Balance, end of period	**12,522,000**	13,304,253
Exercisable, end of period	**12,450,000**	13,232,253

Should all outstanding warrants that were exercisable at June 30, 2022 be exercised, the Company would receive proceeds of $3.1 million.

Issuance of Stock Options

As at June 30, 2022, there were no options outstanding nor exercisable to purchase an equivalent number of common shares.

For the period ended	**June 30, 2022**	December 31, 2021
Common share options		
Balance, beginning of period	**—**	45,850
Options granted	**280,000**	—
Options expired	**—**	(45,850)
Balance, end of period	**280,000**	—
Exercisable, end of period	**—**	—

As at the date of this report, August 15, 2022, the number of shares outstanding, including escrowed shares, is 47,477,186; the number of RSUs and DSUs outstanding is 1,320,353; the number of stock options outstanding is 280,000; and the number of warrants outstanding is 12,522,000 (each warrant entitles the holder to acquire 0.05 common shares in the capital of the Company). Included in the shares outstanding are 18,880 restricted shares, shares held in escrow, or in trust, that are not freely tradeable.

Transactions with Related Parties

In the normal course of operations, the Company may enter into certain related party transactions, which may include transactions entered into with the Company's directors and management. All related party transactions would be for consideration established with the related parties, generally on market terms, and approved by the independent non-executive directors of the Company, including the transactions described below.

Certain directors help manage funds that own the Convertible Debentures and common shares of the Company, and that provided the Yorkville Facility[6].

[6] *See Liquidity and Capital Resources - Yorkville Facility*

Summary of Quarterly Results

(thousands of Canadian Dollars)	Q2 2022 $	Q1 2022 $	Q4 2021 $	Q3 2021 $
Revenue	96,879	93,176	96,850	71,267
Adjusted EBITDA	8,797	8,616	7,583	6,862
Adjusted EBITDA per share:				
Basic	$0.19	$0.19	$0.17	$0.19
Net loss	(25,129)	(2,762)	(4,447)	(3,928)
Loss per share:				
Basic and diluted	($0.53)	($0.06)	($0.10)	($0.11)
	Q2 2021 $	**Q1 2021 $**	**Q4 2020 $**	**Q3 2020 $**
Revenue	49,656	44,857	46,388	45,633
Adjusted EBITDA	4,338	4,086	4,066	3,840
Adjusted EBITDA per share:				
Basic	$0.14	$0.15	$0.17	$0.17
Net loss	(8,489)	(5,866)	(3,021)	(6,407)
Loss per share:				
Basic and diluted	($0.28)	($0.21)	($0.12)	($0.28)

In the third and fourth quarters of 2020, the Company's revenue and Adjusted EBITDA increased as a result of a full quarter's impact of the Remedy's acquisition and associated cost saving synergies. The revenue growth in the third and fourth quarters was partially offset by a reduction in the average number of beds serviced as a result of COVID-19. The contribution of the Remedy's acquisition and reductions in transaction and restructuring costs also resulted in a continued decrease in net loss during these periods. In the third quarter of 2020, these reductions in net loss were partially offset by the impact of a loss on the change in the fair value of derivative financial instruments. In the fourth quarter of 2020, net loss was reduced further as a result of a gain on the change in the fair value of investment and an income tax recovery recorded in the period.

In the first quarter of 2021, the Company's revenue decreased compared to the previous quarter as there were two less weekdays to generate revenue. In addition, there was a continued temporary decline in beds serviced due to COVID-19, with January 2021 having reached the peak of COVID-19-related occupancy reductions in homes serviced. Despite these impacts on revenue, Adjusted EBITDA increased compared to the previous quarter as a result of the full quarter's impact of the Remedy's integration and associated cost saving synergies achieved, claims made under the Canada Emergency Wage Subsidy and Canada Emergency Rent Subsidy programs and other cost savings initiatives undertaken in the quarter. Net loss increased primarily as a result of a loss on the change in the fair value of derivative financial instruments.

In the second quarter of 2021, the Company's revenue and Adjusted EBITDA increased further compared to the previous quarter as a result of the SmartMeds acquisition that was completed at the beginning of the second quarter of 2021. The acquisition of the Rexall LTC Pharmacy Business contributed nominal revenue and Adjusted EBITDA during the second quarter of 2021 as the acquisition closed on June 21, 2021. Net loss increased primarily as a result of the increase in transaction costs incurred related to the acquisitions completed during the quarter, increased finance costs due to an increase in outstanding indebtedness and a loss on the disposal of assets no longer in use.

In the third quarter of 2021, in addition to the additional weekday to generate revenue compared to the previous quarter, the Company's revenue and Adjusted EBITDA increased further as a result of the MPGL Acquisition that closed on August 23, 2021 and a full quarter contribution from the Rexall LTC Pharmacy Business acquisition. Revenue also increased as a result of organic growth, including over 2,200 beds that were onboarded during the quarter. The contribution of the Acquired Businesses and organic growth, as well as a gain on the change in the fair value of derivative investments, were partially offset by increases to transaction costs related to the MPGL Acquisition and finance costs related to an increase in outstanding indebtedness and loss on financial liability extinguishment, resulting in a reduction in net loss for the quarter.

In the fourth quarter of 2021, the Company's revenue and Adjusted EBITDA increased further primarily as a result of the full quarter's contribution of the MPGL Acquisition that closed on August 23, 2021. Net loss increased in the quarter as the full quarter contribution from the MPGL LTC Pharmacy Business and reduction to transaction costs was offset by a loss on the change in the fair value of derivative financial instruments.

In the first quarter of 2022, the Company's revenue decreased as compared to the fourth quarter of 2021 as a result of the COVID-19 Omicron variant and associated outbreaks impacting occupancy levels in homes serviced as well as the first quarter having two less weekdays compared to the previous quarter. Despite the decline in revenue, Adjusted EBITDA increased compared to the fourth quarter of 2021 primarily due to certain non-recurring costs that were incurred in the previous quarter. Net loss decreased in the quarter due to the non-recurring costs incurred in the previous quarter, a gain on the change in the fair value of derivative financial instruments and a reduction in depreciation and amortization in the first quarter of 2022.

In the second quarter of 2022, the Company's revenue increased as compared to the first quarter of 2022 as a result of the increase in beds serviced driven by organic growth and a recovery of the Omicron variant's impact on occupancy levels, as well as the second quarter having one more weekday to generate revenue compared to the first quarter. Adjusted EBITDA increased compared to the first quarter of 2022 primarily due to the growth in revenue, as well as cost savings synergies achieved related to the MPGL Acquisition, which were partially offset by increased labour costs resulting from open pharmacy staff positions. Net loss increased due to non-cash adjustments related to impairment losses recorded during the quarter related to goodwill and intangible assets and changes in the fair value of investment and contingent consideration liability, which were partially offset by a gain on the change in the fair value of derivative financial instruments and the reduction of transaction and restructuring costs.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer (collectively the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuer's Annual and Interim Filings* ("NI 52-109")*,* for the Company.

DC&P have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure.

It should be noted that while the Company's Certifying Officers believe that the Company's DC&P provides a reasonable level of assurance that they are effective, they do not expect that the disclosure controls will prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

The Company used the COSO 2013 control framework to design their ICFR.

ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external reporting purposes in line with IFRS. Management is responsible for establishing and maintaining adequate ICFR appropriate to the nature and size of the Company. However, any system of ICFR has inherent limitations and can only provide reasonable assurance with respect to financial statement preparation and presentation.

There have been no significant changes to the Company's ICFR for the three and six month periods ended June 30, 2022, which has materially affected, or is reasonably likely to materially affect the Company's ICFR.

Critical Accounting Policies and Estimates

Critical Accounting Policies

The unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS and its interpretations as issued by the IASB that are effective for the year ended December 31, 2022.

The Company's significant accounting policies are summarized in detail in note 2 of the unaudited condensed interim consolidated financial statements for the three and six month periods ended June 30, 2022 and 2021. No significant changes in accounting policies have occurred.

Critical Accounting Estimates and Judgments

The Company describes its critical accounting estimates and judgments as well as any changes in accounting estimates and judgments in note 2 of the unaudited condensed interim consolidated financial statements for the three and six month periods ended June 30, 2022 and 2021.

Risks and Uncertainties

The business of the Company is subject to a number of risks and uncertainties. Prior to making any investment decision regarding the Company, investors should carefully consider, among other things the risks described herein (including the section on caution regarding forward-looking statements).

General Business Risks

The Company is subject to general business risks and to risks inherent in the pharmacy industry. These risks include general economic conditions, changes in regulations and laws, changes in government funding levels, natural disasters, health-related risks, including disease outbreaks (for example, COVID-19), increases in operating costs, labour markets, employee costs and pay equity, reduction in availability of personnel below acceptable levels (for example, due to events such as a pandemic or disease outbreak), changes in accounting principles or policies, the imposition of increased taxes or new taxes, competition, capital expenditure requirements, changes in interest rates, and changes in the availability and cost of money for long-term financing. In particular, general inflationary pressures (including wage inflation) may result in higher operating costs for the Company. Continued inflationary pressures, as well as any one of, or a combination of, these other factors may adversely affect the business, results of operations and financial condition of the Company.

Government Regulation and Funding

The Company's core business is focused on the provision of pharmacy services to Canadian seniors and other individuals in congregate care settings with medication management needs. The Company is reliant on prescription drug sales for a significant portion of its sales and profits. Prescription drugs and their sales are subject to numerous federal, provincial, territorial and local laws and regulations. Changes to these laws and regulations, or non-compliance with these laws and regulations, could adversely affect the reputation, operations or financial performance of the Company.

Federal and provincial laws and regulations that establish public drug plans typically regulate prescription drug coverage, patient eligibility, pharmacy reimbursement, drug product eligibility and drug pricing and may also regulate manufacturer allowance funding that is provided to or received by pharmacy or pharmacy suppliers. With respect to pharmacy reimbursement, such laws and regulations typically regulate the allowable drug cost of a prescription drug product, the permitted mark-up on a prescription drug product, the professional or dispensing fees that may be charged on prescription drug sales to patients eligible under the public drug plan, the frequency in which such professional or dispensing fees may be charged, the co-payments that may be charged to a patient, and other clinical billings that pharmacists may be entitled to charge. With respect to drug product eligibility, such laws and regulations typically regulate the requirements for listing the manufacturer’s products as a benefit or partial benefit under the applicable governmental drug plan, drug pricing and, in the case of generic prescription drug products, the requirements for designating the product as interchangeable with a branded prescription drug product. In addition, other federal, provincial, territorial and local laws and regulations govern the approval, packaging, labeling, sale, marketing, advertising, handling, storage, distribution, dispensing and disposal of prescription drugs.

Sales of prescription drugs, pharmacy reimbursement and drug prices may be affected by changes to the health care industry, including legislative or other changes that impact patient eligibility, drug product eligibility, dispensing and other fees, the imposition of capitated funding models, the allowable cost of a prescription drug product, the mark-up permitted on a prescription drug product, the amount of professional or dispensing fees paid by third-party payers or the provision or receipt of manufacturer allowances by pharmacy and pharmacy suppliers.

The majority of prescription drug sales are reimbursed or paid by third-party payers, such as governments, insurers or employers. These third-party payers have pursued and continue to pursue measures to manage the costs of their drug plans. Each provincial jurisdiction has implemented legislative and/or other measures directed towards managing pharmacy service costs and controlling increasing drug costs incurred by public drug plans and private payers which impact pharmacy reimbursement levels and the availability of manufacturer allowances. Legislative measures to control drug costs include lowering of generic drug pricing, restricting or prohibiting the provision of manufacturer allowances and placing limitations on private label prescription drug products.

On January 29, 2018, the pCPA, which represents participating federal, provincial, and territorial public drug plans, reached a new 5-year agreement with the CGPA with respect to the pricing of generic drugs in Canada. As of April 1, 2018, the prices of nearly 70 of the most commonly prescribed drugs in Canada were reduced by 25% - 40%, resulting in overall discounts of up to 90% off the price of their brand-name equivalents.

These drugs include those used to treat high blood pressure, high cholesterol and depression, and are collectively used by millions of Canadians. As a result of the existing agreement with the CGPA, pricing for certain select generic molecules were reduced on April 29, 2022 from approximately 18% to 15% of their relevant brand reference prices. While the Company expects that the gross impact of the announced pricing changes is expected to be a reduction to net income before taxes and Adjusted EBITDA of approximately $0.5 million for 2022, there can be no assurance that the actual impact will be consistent with management's estimates. The estimate is based on the expected net impact to gross profit from the pricing reductions on the Company's revenue and cost of sales, based on the historical dispensing volumes of the affected molecules. The pCPA has formally entered into negotiations with the CGPA to renew discussions on generic drug pricing given the expiry of the existing 5-year agreement in 2023. Any further reductions in the price of generic molecules compared to their brand equivalent is expected to have a negative impact on the Company's revenues and gross profit.

On January 1, 2020, certain amendments to O. Reg. 201/96 under the *Ontario Drug Benefit Act* ("ODBA" and the "ODBA Amendments") came into effect. Notably, the ODBA Amendments removed the payment of a dispensing fee for drug products supplied for a long-term care home resident in Ontario by a pharmacy service provider and instead imposed a capitation model where pharmacy service providers now receive a professional fee for all pharmacy services provided to the long-term care home that is based on the number of beds in the home. The original fee was set at $1,500 per bed per year for 2019-2020 and 2020-2021, and was supposed to decrease to $1,400 per bed per year in 2021-2022 (with all years above referring to the Government's fiscal year from April 1 to March 31). Following two one-year pauses that were announced in January 2021 and February 2022, respectively, the capitation rate of $1,500 per bed per year was maintained for 2021-2022 and 2022-2023, and is now expected to decrease to $1,400 in 2023-2024, $1,300 in 2024-2025 and $1,200 in 2025-2026 absent any further changes.

In addition, as part of the ODBA Amendments, the $2 dollar per prescription co-payments for residents of long-term care homes was removed and long-term care pharmacies are now precluded from billing other forms of clinical billings, such as MedsChecks. The ODBA Amendments also had an effect on the Company's non-long-term care operations in Ontario as the ODBA Amendments included a percentage deduction from the sum of the dispensing fee and mark-up for all drug claims depending on the price of the drug, with a reconciliation adjustment in the event that the Ontario Ministry of Health achieves certain desired savings. The Company has taken, and continues to take a number of actions to offset the impact of the ODBA Amendments.

These changes, as well as other ongoing changes impacting pharmacy reimbursement programs, prescription drug pricing and manufacturer allowance funding, legislative or otherwise, are expected to continue to put downward pressure on prescription drug sales and payments relating thereto. These changes may have a material adverse impact on the Company's business, sales and profitability.

Liquidity and Capital Requirements

Given the Company's cash balance, together with its potential sources of funding and working capital needs the Company believes it has sufficient cash to fund its operations and contractual payment obligations for the foreseeable future.

The future capital requirements of the Company will depend on many factors, including the number and size of acquisitions consummated, the integration of any such acquisitions, the rate of growth of its client base, capital expenditure requirements, the costs of expanding into new markets, the growth of the market for pharmacy services, the costs of administration and its debt servicing obligations. In order to meet such capital requirements, the Company may consider additional public or private financing (including the incurrence of debt and the issuance of additional common or preferred shares or other securities exchangeable for or convertible into common shares) to fund its working capital needs or all or a part of a particular venture or in connection with acquisitions, which could entail dilution of current investors' interest in the Company. There can be no assurance that additional funding will be available or, if available, that it will be available on acceptable terms. There can be no assurance that the Company will be able to raise additional capital if its capital resources are depleted or exhausted.

Further, due to regulatory impediments, a lack of investor demand or market conditions beyond its control, the ability of the Company to issue additional common shares or other securities exchangeable for or convertible into common shares may be restricted.

The Company currently has the Senior Facility and the Yorkville Facility, as well as the Convertible Debentures and Ewing Convertible Debentures, pursuant to which it is subject to a number of customary affirmative and negative financial covenants. These include, but are not limited to, requirements to comply with certain financial covenants, restrictions on incurring additional indebtedness, paying dividends or other distributions, making certain investments/acquisitions, selling assets of the Company, and making regularly scheduled interest payments on the Company's subordinated indebtedness unless the Company has sufficient liquidity to do so.

In addition, the Company's borrowings under the Senior Facility and the Yorkville Facility are collateralized by substantially all of the Company's assets. In the event of a default, including, among other things, a failure to make any payment when due or non-observance of any term of the agreements, all of the Company's obligations may immediately become due and payable, and the lenders would also be entitled to realize on their security and liquidate the assets of the Company. If the Company's lenders accelerate the repayment of borrowings, the Company cannot ensure that it will have sufficient assets to repay the amounts outstanding, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Management has offset the impact of previous regulatory changes through a focus on re-engineering the business to achieve operational efficiencies through workflow improvements, enhanced labour models, expanding service and product offerings, identifying other revenue generating opportunities and utilization of technology for automating processes. In addition, to date, the Company has offset substantially all of the impact of the COVID-19 pandemic through cost savings and revenue growth. In the event these initiatives, combined with continued organic and acquisition-related growth and management of working capital, do not generate sufficient cash flow from operations to meet its obligations as they come due, the Company may need to generate funds from other sources of financing or other strategic alternatives.

Exposure to Epidemic or Pandemic Outbreak

As CareRx's businesses are focused on healthcare, its employees and/or facilities could be affected by an epidemic or pandemic outbreak (including COVID-19), either within a facility or within the communities in which the Company operates.

During the year ended December 31, 2020, the COVID-19 pandemic began, causing significant financial market disruption and social dislocation. To date, there have been minimal disruptions in supply chains and the Company has been able to procure medications and personal protective equipment in a timely manner. As well, while there have been instances of positive cases within the Company's pharmacy fulfillment centres, the Company's ability to deliver its pharmacy services has not been materially impacted as a result of staff shortages or infected staff. However, if the COVID-19 pandemic worsens, it is possible that medication supply could become disrupted or that pharmacies could be required to close if staff members become ill or there are otherwise staffing shortages.

Some of the Company's clinical services billings may be reduced as a result of limitations to its clinical pharmacists being able to visit residents in seniors homes. In addition, COVID-19 outbreaks have been prevalent in seniors homes across Canada, and in long-term care homes in particular. To the extent that residents that are being served by the Company in seniors homes become ill and are removed from the homes, or that occupancy at seniors homes is reduced due to concerns over COVID-19, revenue and the number of beds serviced may be impacted. The Company may realize temporary declines in residents serviced as a result of COVID-19. To date, substantially all of the loss of revenue and gross profit from the reduction of residents serviced has been offset from organic growth through new customer contracts and cost savings from labour and other COVID-19 related savings, including travel and entertainment, office costs, marketing and promotion and other similar items. While the Company aims to continue to offset any COVID-19 related revenue declines, to the extent that it cannot offset these declines, its financial position could be adversely affected.

The COVID-19 pandemic has also caused certain care operators to delay Requests for Proposals for bidding on new contracts from time to time, given concerns about switching pharmacy providers during a pandemic, which may affect the Company's future growth opportunities. Additionally, the onboarding of certain homes under newly awarded contracts has, from time to time, also been delayed due to COVID-19 outbreaks within the homes.

The Company has developed protocols and procedures should they be required to deal with any potential epidemics and pandemics, and has put these protocols and procedures in place to address the current COVID-19 pandemic. Despite appropriate steps being taken to mitigate such risks, and the fact that the Company's business is an essential service and its largest payers are the provincial governments, the duration and the extent of the effect of the COVID-19 pandemic on the Company's activities is uncertain. There can be no assurance that these policies and procedures and the nature of the Company's business will ensure that the Company will not be adversely affected.

There may be uncertainty about judgments, estimates and assumptions made by management during the preparation of the Company's consolidated financial statements related to potential impacts of the COVID-19 outbreak on revenue, expenses, assets, liabilities, and note disclosures and any changes to these judgments, estimates and assumptions could result in a material adjustment to the carrying value of the asset or liability affected.

Cash Flow to Service Debt

As at June 30, 2022, the Company had approximately $112.8 million of outstanding indebtedness. The Company currently estimates its debt service for the next 12 months under the Senior Facility, Yorkville Facility, Convertible Debentures and Ewing Convertible Debentures will be approximately $9.3 million, including required principal and interest payments. The Company's substantial debt servicing costs could have significant adverse consequences on the Company and its business, including: requiring a substantial portion of its cash flows to be dedicated to the payment of principal and interest on its indebtedness, therefore reducing its ability to use cash flows to fund its operations, capital expenditures and potential future business opportunities; making it more difficult for the Company to make payments on its indebtedness, which could result in an event of default under the Senior Facility, Yorkville Facility, Convertible Debentures or Ewing Convertible Debentures; limiting its ability to obtain additional financing; reducing the Company's flexibility in planning for, or reacting to, changes in its operations or business; prohibiting the Company from making strategic acquisitions, introducing new technologies or exploiting business opportunities; placing the Company at a competitive disadvantage as compared to its less-highly-leveraged competitors; and negatively affecting the Company's ability to renew key care operator contracts. For additional information on the Company's outstanding long-term debt, see "Liquidity and Capital Resources".

Reliance on Contracts with Key Care Operators

Revenues attributable to the Company's businesses are dependent upon certain significant contracts care operators. There can be no assurance that the Company's contracts with its key care operators will be renewed or that the Company's services will continue to be utilized by those key care operators. There could be material adverse effects on the businesses of the Company if a key care operator does not renew its contracts with the Company, elects to terminate its contracts with the Company in favour of another service provider, or divests care homes to another care operator. Further, there is no assurance that any new agreement or renewal entered into by the Company with its care operators will have terms similar to those contained in current arrangements, and the failure to obtain similar terms could have an adverse effect on the Company's businesses.

In addition, the Company's revenues are highly dependent on occupancy levels at care homes. To the extent that occupancy levels at homes operated by care operators with whom the Company has significant contracts declines due to general economic conditions or the materialization of risks specific to care operators, the Company's financial condition and results of operations could be materially affected.

The Company expects that the loss of a large customer contract to net income before taxes and Adjusted EBITDA will be up to $0.5 million and $0.5 million, respectively for the third quarter of 2022 and up to $1.4 million and $1.5 million for the fourth quarter of 2022, respectively, and in the range of $5.8 million to $6.3 million and $6.0 to $6.5 million, respectively, on an annualized basis, following the completion of the offboarding. The estimate is based on a number of assumptions, including the proposed offboarding schedule, and was determined based on the incremental gross profit associated with the beds serviced under the contract, net of expected cost savings to be realized as the beds are offboarded. The impact to net income before taxes also considered the impairment losses recognized on finite-lived intangible assets and the associated reduction in amortization charges. There can be no assurance that the actual impact of this customer loss on net income before taxes and Adjusted EBITDA will be consistent with management's expectations.

Acquisitions and Integration

The Company has and continues to expect to make acquisitions of various sizes as part of its stated growth strategy, and continues to integrate the previously acquired MPGL LTC Pharmacy Business and Hogan LTC Pharmacy Business.

There is no assurance that the Company will be able to continue to acquire businesses on satisfactory terms or at all, which could impact the stated growth strategy of the Company. Acquisitions involve the commitment of capital, management time and other resources, and such acquisitions could have a major financial impact in the year of acquisition and beyond. The speed and effectiveness with which CareRx integrates acquired companies, including the MPGL LTC Pharmacy Business into its existing businesses and the upfront capital that may be required to realize any synergies may have a significant short-term impact on CareRx's ability to achieve its growth and profitability targets. In addition, CareRx may devote significant time and resources towards evaluating business acquisition opportunities, and ultimately elect not to proceed with such acquisitions. CareRx may also elect to pursue acquisition opportunities that are outside of its current core business of providing pharmacy services to seniors homes and other congregate care settings.

The Company has provided estimates of the expected annualized run-rate revenue and Adjusted EBITDA contribution of Hogan LTC Pharmacy Business. The expected annualized run-rate revenue contribution has been estimated by the Company by taking historical revenues of Hogan LTC Pharmacy Business, and making adjustments thereto based on the due diligence of the Company to factor in certain assumptions, including changes in beds serviced due to customer churn as well as regulatory funding changes. The expected Adjusted EBITDA contribution has been estimated by the Company by taking the historical Adjusted EBITDA of the businesses and making adjustments thereto based on the due diligence of the Company to factor in certain assumptions, including changes in beds serviced due to customer churn, regulatory funding changes, allocations of corporate overhead costs, adjustments related to costs incurred or savings achieved due to COVID-19 and other out-of-period or non-recurring costs.

The expected synergies that the Company expects to derive from the MPGL LTC Pharmacy Business has been estimated by the Company based on its experience successfully integrating previously acquired businesses, and includes estimated benefits that the Company expects to derive, such as site consolidations, operational improvements and eliminating redundant positions.

The expected annualized run-rate revenue and Adjusted EBITDA from Hogan LTC Pharmacy Business have not been prepared in accordance with IFRS, nor has a reconciliation to IFRS been provided. The Company and its stakeholders evaluates the Company’s financial performance on the basis of these non-IFRS measures and therefore the Company does not consider their most comparable IFRS measures when evaluating prospective acquisitions.

The successful integration and management of acquired businesses, and the Company’s ability to realize the expected run-rate revenue and Adjusted EBITDA contribution and synergies, are subject to numerous risks and uncertainties that could adversely affect CareRx's growth and profitability, including that:

i Management may not be able to manage acquired businesses successfully and the integration may place significant demands on management, thereby diverting its attention from existing operations;

ii Operational, financial and management systems may be incompatible with or inadequate to integrate into CareRx's systems and management may not be able to utilize acquired systems effectively;

iii Acquired businesses may require substantial financial resources that could otherwise be used in the development of other aspects of the Company's existing business;

iv Expected synergies in support of the acquisition model may not be fully realized as anticipated or could take longer to realize than expected, which could affect the Company's compliance with its covenants in the credit agreement with CPCP;

v Despite the Company undertaking comprehensive due diligence of acquired businesses, such due diligence may not uncover all liabilities of acquired businesses, and the scope of any indemnification obligations of the vendors may not be sufficient to cover any such liabilities;

vi Historical financial information for certain acquired businesses may be based on carve-out financial information given acquired businesses may have been consolidated into the larger operations of the applicable vendors;

vii The customer contracts underlying acquired businesses may not be retained or renewed on similar terms;

viii Acquired businesses may result in liabilities and contingencies which could be significant to the Company's operations;

ix Integration activities may distract management and other employees from running the day-to-day business and result in unintended declines in service to existing customers; and

x Personnel from acquired businesses and its existing businesses may not be integrated as efficiently or at the rate foreseen.

Supply Chain

The Company sources the majority of its pharmaceutical products from a single drug supplier. Under the terms of the supply agreement, the Company is required to purchase a minimum of 95% of its pharmaceutical products from its principal drug supplier, subject to certain exceptions. As such, the Company is highly dependent on its principal drug supplier for timely supply of pharmaceutical products.

From time to time during periods of intense demand or supply chain disruptions (for example, during epidemics or pandemics such as COVID-19), the Company’s principal drug supplier may not be able to allocate its supply of particular pharmaceutical products equally among its customers. While such allocations have not historically caused any significant disruptions in the supply of pharmaceutical products to the Company, there is no assurance that the Company’s principal drug supplier will continue to supply pharmaceutical products in the quantities and timeframes required by the Company. While the Company has made provision for any disruption of service, any disruption, even if temporary, could negatively affect the Company's sales and financial performance. In addition, the Company has established certain credit terms and limits with its major suppliers. Any unforeseen change in the nature of these credit terms could have a negative impact on the Company's operations.

Utilization of Prescription Drugs

The profitability the Company's business is dependent, in part, upon the utilization of prescription drugs. Utilization trends are affected by, among other factors, the introduction of new and successful prescription drugs as well as lower-priced generic alternatives to existing brand name drugs generally due to higher gross margins on the sale of generic alternatives. Inflation in the price of drugs may also adversely affect utilization. New brand name drugs can result in increased drug utilization and associated sales, while the introduction of lower priced generic alternatives typically results in relatively lower sales, but relatively higher gross profit margins. Accordingly, a decrease in the number or magnitude of significant new brand name drugs or generic drugs successfully introduced, delays in their introduction, or a decrease in the utilization of previously introduced prescription drugs, could have an impact on results of operations. In addition, gross profit margins could be adversely affected if there is an increase in the amounts the Company pays to procure pharmaceutical drugs, including generic drugs, or if new generic drugs replace existing brand name drugs, or if new brand name drugs replace existing generic drugs.

Litigation

From time to time the Company is involved in and potentially subject to litigation, investigations, disputes, proceedings or other similar matters related to claims arising out of its operations in the ordinary course of business, performance under its contracts, and the completion of acquisitions or divestitures.

The Company makes acquisitions of various sizes that may involve consideration to vendors in the form of cash and securities of the Company, as well as adjustment for contingent consideration that may take the form of price protection, earn-outs or performance rewards over a period of time. Contestation through litigation by vendors at a future date of actual, or applicable, entitlements under the negotiated agreements can happen, and may result in liabilities and contingencies to the Company or strained working relationships with vendors turned key employees in connection with the acquisition. The Company also completes divestitures of various sizes and the Company may from time-to-time be a party to a dispute relating to the transaction, which could result in liabilities and/or contingencies to the Company.

In September 2018, the Company entered into multi-year supply and service agreements and a business development agreement (the "Supply Agreements") with Canopy under which Canopy was appointed as the preferred supplier of medical cannabis to the Company and residents that it serves. As part of the Supply Agreements, Canopy advanced $7.0 million of upfront funds to the Company as part of the prepayment of a portion of its expected margin over the life of the contract to help the Company grow its pharmacy business and to be utilized towards cannabis education initiatives. At the time of entering into the Supply Agreements, the parties jointly developed non-binding projected sales targets based on agreed-upon assumptions about the expected market for medical cannabis. To date, sales under the Supply Agreements have not achieved these non-binding targets.

While the Company believes it has complied with its obligations under the Supply Agreements and that lower than expected sales levels are a result of market factors, Canopy has notified the Company that it has taken the view that the Company is in breach of its obligations under the Supply Agreements. The Company has notified Canopy that it categorically rejects Canopy's claims, and the parties are attempting to resolve the dispute.

The Supply Agreements provide that a dispute between the parties may be submitted to binding arbitration. In the event that the dispute is submitted to arbitration and the Company is found to be in material breach of its obligations of the Supply Agreements, Canopy would be entitled to terminate the Supply Agreements and seek repayment of the upfront funds, which funds would be repayable in cash or, in certain circumstances, common shares of the Company. At the present time, the Supply Agreements remain in full force and effect, and the parties continue to engage in discussions in an attempt to resolve their dispute. No assurances can be provided as to whether the dispute will be resolved or settled on terms favorable to CareRx including under any arbitration.

In the opinion of the Company, these claims and lawsuits in the aggregate, when settled, are not expected to have a material impact on the Company's financial position or result in significant dilution to shareholders. However, to the extent that management's assessment of the Company's exposure in respect of such matters is either incorrect or changes as a result of any determinations made by judges or other finders of fact, or requires any significant one-time payments of cash or the issuance of a significant number of shares, the Company's exposure could exceed current expectations, which could have a material adverse effect on the Company's reputation, operations, dilution to shareholders or its financial position and performance in future periods.

Insurance Cover

In recent years, liability insurance coverage has become considerably more expensive and the availability of coverage has been reduced in certain cases. There is no assurance that the existing coverage will continue to be sufficient or that, in the future, policies will be available at adequate levels of insurance or at acceptable costs. The Company maintains professional malpractice liability insurance, directors' and officers' and general liability insurance in amounts it believes are sufficient to cover potential claims arising out of its operations. Some claims, however, could exceed the scope of its coverage or the coverage of particular claims could be denied.

Due to the nature of the pharmacy services provided by the Company, general liability, error and omissions claims and malpractice claims, amongst other types of claims, may be commenced against the Company. Although the Company carries insurance in amounts that management believes to be customary, there can be no assurance that the Company will have coverage of sufficient scope to satisfy any particular liability claim. The Company believes that it will be able to obtain adequate insurance coverage in the future at acceptable costs, but there can be no assurance that it will be able to do so or that it will not incur significant liabilities in excess of policy limits. Any such claims that exceed the scope of coverage or applicable policy limits, or an inability to obtain adequate coverage, could have a material adverse effect on the Company's business, financial condition and results of operations.

Dilution

The Company's by-laws authorize the Company, in certain circumstances, to issue an unlimited number of shares for the consideration and on those terms and conditions as are established by the Board without the approval of the shareholders, who have no pre-emptive rights in connection with such issuances. In addition, the Company has, and may continue in the future, to issue common shares or warrants in connection with acquisitions and care operator or supplier arrangements to better align the interests of certain stakeholders with that of the Company. In the event that the Company proposes to issue additional common shares or securities convertible into common shares, certain significant shareholders of the Company have pre-emptive rights that enable them to subscribe for securities of the Company in order to maintain their pro rata ownership, which could further increase dilution. Any further issuance of shares may dilute the interests of existing shareholders.

Competition

The markets for CareRx's products and services are intensely competitive, subject to rapid change and significantly affected by market activities of other industry participants. Other than relationships the Company has built up with healthcare providers, seniors and other care operators and residents within these homes, there is little to prevent the entrance of those wishing to provide similar services to those provided by CareRx and its subsidiaries. Competitors with greater financial resources and/or experience may enter the market and outcompete CareRx. There can be no assurance that CareRx will be able to compete effectively for business with existing or new competitors.

Employee Recruitment and Retention

The Company believes that its future success will depend significantly upon its ability to attract, motivate and retain executive management and other employees that are critical in operating the Company's businesses. As with many organizations, the Company has recently experienced higher employee turnover and worker shortages, which has affected the Company's ability to operate its business in the normal course at certain of its pharmacies. If prolonged, these challenges, in addition to wage inflation, may result in higher costs as the Company competes with other organizations to attract and retain employees at competitive salaries. The loss of employees, the inability to recruit these individuals and continued wage inflation could adversely affect the Company's ability to operate its business efficiently and profitably.

Information Technology Systems

CareRx's business depends on the continued and uninterrupted performance of its information technology systems. Sustained system failures or interruptions could disrupt the Company's ability to operate effectively, which in turn could adversely affect its business, results of operations and financial condition.

The Company's computer systems may be vulnerable to damage from a variety of sources, including physical or electronic break-ins, computer viruses and similar disruptive problems. Like other companies, the Company is subject to phishing, spear-phishing and other IT threats to circumvent the Company's firewalls from time-to-time. The objective of these campaigns is often to gain unauthorized access to confidential information, infect host computers with malware or ransomware where the hacker attempts to extort a payment from targets, or attempt to solicit unauthorized payments by pretending to be individuals with a high level of authority within the Company. Despite precautions taken, unanticipated problems affecting the information technology systems could cause interruptions for which CareRx's insurance policies may not provide adequate compensation.

Increased Costs of a Change of Control

Certain provisions of the Ewing Convertible Debentures issued to Ewing Morris could make it more difficult or more expensive for a third party to acquire the Company. For example, if a change of control were to occur or the Company were to sell all or substantially all of its assets, holders of the Ewing Convertible Debentures have the right to redeem their Ewing Convertible Debentures at certain premiums to their liquidation preference. In addition, the holder of the Ewing Convertible Debentures has the right to force an acquirer of the Company to maintain the Ewing Convertible Debentures in the capital structure of the resulting entity in certain circumstances. These features of the Ewing Convertible Debentures could increase the cost of acquiring the Company or otherwise discourage a third party from acquiring it.

Collections Risk

While the Company derives most of its revenues from provincial drug plans and other third party insurers that are relatively secure, a portion of its revenues are derived from its patients in the form of co-payments and the provision of non-insured medications and products. To the extent that the Company is unable to collect payments from its customers on a large scale, the Company is required to waive or reduce co-payments, or co-payments are eliminated through regulatory changes, the Company's financial condition could be affected.

Confidentiality of Personal and Health Information

CareRx and its subsidiaries' employees have access, in the course of their duties, to personal information of residents serviced by the Company, and specifically personal health information, including medical histories. The collection, use and disclosure of personal information and personal health information are subject to strict regulatory requirements, including the *Personal Information Protection and Electronic Documents Act* (Canada), the *Personal Health Information Protection Act* (Ontario), and other similar federal and provincial regulations. There can be no assurance that the Company's existing policies, procedures and systems will be sufficient to protect the personal information of existing and future residents. In addition, data breaches through unauthorized access or inadvertent disclosure could result in the unintended publication or release of personal information. If a resident's privacy is violated, or if CareRx is found to have violated any applicable privacy law or regulation, it could be liable for damages or for criminal fines or penalties, as well as significant reputational damage.

Medication Errors

The Company dispenses approximately 3.3 million prescriptions per month, and as with any pharmacy, medication errors are an inevitability. Medication errors can arise from human error from the prescribing physician or nurse practitioner, from a pharmacist or pharmacy assistant in processing and dispensing a prescription, or from a failure in technology that the Company relies upon to package medication. Medication errors can lead to adverse health outcomes of residents. In addition, pharmacists may offer counseling to customers about medication, dosage, delivery systems, common side effects and other information, which may be incorrect. While the Company has robust policies and procedures in place to minimize the occurrence of medication errors and maintains professional liability and other insurance in amounts it deems to be sufficient, a high rate of errors or errors that cause significant resident harm could expose the Company to significant reputational damage, a loss of customers, litigation or increased insurance premiums.

Labour Relations

The Company currently operates one pharmacy location that is unionized, with labour relations at this site governed by a collective bargaining agreement. In the future, it is possible that other locations operated by the Company could unionize. While the relationship with the existing union is positive, there can be no assurance that the Company will not at any time, whether in connection with the renegotiation of the collective agreement, future collective agreements, or otherwise, experience strikes, labour stoppages or any other type of conflict with unionized employees, or that negotiations with any current or future union could result in higher labour costs to the Company, each of which could have a material adverse effect on the business, operating results and financial condition of the Company.

Failure of Business Continuity Plans

The Company maintains a Disaster Recovery Plan to guard against unintended failures of the Company's IT systems, closures of the Company's pharmacy sites and other unforeseen changes in the Company's operations. While these plans are designed to mitigate against certain foreseeable risks, it is impossible to guard against every risk at every location. To the extent that an unforeseen risk materializes and disrupts the Company's operations, or the Company's Disaster Recovery Plan has any failures in its design, the Company's operations could be materially disrupted.

Accounting, Tax and Legal Rules and Laws

Any changes to accounting, legal and/or tax standards and pronouncements introduced by authorized bodies may impact on the Company's financial performance. Additionally, changes to any of the federal and provincial laws, regulations or policies in jurisdictions where the Company operates could materially affect the Company's operations and its financial performance. The Company may also incur significant costs in order to comply with any proposed changes. Further, the Company may take positions with respect to the interpretation of accounting, tax and legal rules and laws that may be different than the interpretation taken by applicable regulatory authorities. Although the Company believes that its provision for its legal and tax liabilities is reasonable, determining this provision requires significant judgment and the ultimate outcome may differ from the amounts recorded in its financial statements and may materially affect its financial results in the period or periods for which such determination is made. The Company's failure to comply with laws, regulations or policies may expose the Company to legal or regulatory proceedings which could have a material impact on the Company's financial performance.

Third Party Audits

The Company is exposed to routine audits from third parties, including provincial drug plans, colleges of pharmacy, insurance providers, Health Canada and related adjudicators. While the Company believes it is in compliance with applicable requirements, to the extent that the Company’s billing practices fail to comply with the applicable requirements or its records that support billings are not properly maintained, the Company could be exposed to significant clawbacks or financial penalties, limitations on the Company's ability to operate its pharmacies, or a closure of its pharmacies.

Internal Control over Financial Reporting and Disclosure Controls and Procedures

The Company may face risks if there are deficiencies in its internal control over financial reporting and disclosure controls and procedures. Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external reporting purposes. Management is responsible for establishing and maintaining adequate internal controls over financial reporting appropriate to the nature and size of the Company.

The Board, in conjunction with its Audit Committee, is responsible for assessing the progress and sufficiency of internal controls over financial reporting and disclosure controls and procedures and will make adjustments as necessary. However, these initiatives may not be effective at remedying any deficiencies in internal control over financial reporting and disclosure controls and procedures. Any deficiencies, if uncorrected, could result in the Company's financial statements being inaccurate and in future adjustments or restatements of its financial statements, which could adversely affect the price of the shares and CareRx's business, financial condition and results of operations.

Capital Investment

The timing and amount of capital expenditures by the Company will be dependent upon the Company's ability to utilize credit facilities, raise new debt, generate cash from operations, meet working capital requirements and sell additional securities in order to accommodate these items. There can be no assurance that sufficient capital will be available on acceptable terms to the Company for necessary or desirable capital expenditures or that the amount required will be the same as currently estimated. Lack of these funds could limit the future growth of the Company and its subsidiaries and their respective cash flows.

Significant Shareholders

There are significant shareholders of the Company that may be long-term holders of the common shares in the Company. This has the effect of reducing the public float for the common shares, which may, in turn, impact the liquidity for the common shares. In addition, relatively low liquidity may adversely affect the price at which the common shares of the Company trade on the listed market. Significant shareholders may also be able to exercise significant influence over any matter requiring shareholder approval in the future. Certain existing shareholders of the Company also have certain rights that other shareholders do not have, including Board nomination rights, pre-emptive rights and registration rights.

Ethical Business Conduct

The Company has established policies and procedures, including a Code of Business Conduct and Whistle Blower Policy, to support a culture with high ethical standards. However, there is no guarantee that the Company's personnel will adhere to these policies and procedures. A violation of law, the breach of Company policies or unethical behaviour may impact the Company's reputation, which in turn could negatively affect the Company's financial performance.

Volatile Market Price for Securities of the Company

The market price for securities may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including:

i actual or anticipated fluctuations in the Company's quarterly results of operations;

ii changes in estimates of future results of operations by the Company or securities research analysts;

iii changes in the economic performance or market valuations of other companies that investors deem comparable to the Company;

iv addition or departure of the Company's executive officers and other key personnel;

v release or other transfer restrictions on outstanding securities;

vi sales or perceived sales of additional securities;

vii the outcome of ongoing litigation;

viii significant acquisitions, dispositions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; and,

ix news reports relating to trends, concerns or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the securities of the Company may decline even if the operating results, underlying asset values or prospects have not changed.

Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the Company's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Company's securities by those institutions, which could adversely affect the trading price of the Company's securities. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility continue, the Company's operations and the trading price of the Company's securities may be adversely affected.

The Company Needs to Comply with Financial Reporting and Other Requirements as a Public Company

The Company is subject to reporting and other obligations under applicable Canadian securities laws and TSX rules, including National Instrument 52-109. These reporting and other obligations place significant demands on the Company's management, administrative, operational and accounting resources. Moreover, any failure to maintain effective internal controls could cause the Company to fail to meet its reporting obligations or result in material misstatements in its consolidated financial statements. If the Company cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially harmed, which could also cause investors to lose confidence in the Company's reported financial information, which could result in a lower trading price of its securities.

Management does not expect that Company's disclosure controls and procedures and internal controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that its objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within a company are detected. The inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of some persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Future Sales of the Company's Securities by Directors and Executive Officers

Subject to compliance with applicable securities laws, directors and executive officers and their affiliates may sell some or all of their securities in the Company in the future. No prediction can be made as to the effect, if any, such future sales will have on the market price of the Company's securities prevailing from time to time. However, the future sale of a substantial number of securities by the Company's directors and executive officers and their controlled entities, or the perception that such sales could occur, could adversely affect prevailing market prices for the Company's securities.

Directors and Officers May Have Conflicts of Interest

Certain of the directors and officers of the Company may also serve as directors and/or officers of other companies, while other directors serve as nominees of certain significant shareholders of the Company, including those who hold subordinated indebtedness of the Company and who's interests may not be entirely aligned with those of common shareholders. Consequently, there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers involving the Company are being made in accordance with their fiduciary duties and obligations to deal fairly and in good faith with a view to the best interests of the Company.

Third Party Service Providers

The Company is reliant upon third-party service providers in respect of certain of its operations. It is possible that negative events affecting these third-party service providers, or any negligence or failure to perform the services as contemplated, could, in turn, negatively impact the Company. In order to minimize operating risks, the Company actively monitors and manages its relationships with its third-party service providers.

Proposed Transactions

There are no significant proposed transactions which have not been disclosed.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Unaudited Condensed Interim Consolidated Financial Statements

For the three and six month periods ended June 30, 2022 and 2021

(in thousands of Canadian dollars)

Dated: August 15, 2022

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Notes to the Condensed Interim Consolidated Financial Statements:

Consolidated Statements of Financial Position

(unaudited, in thousands of Canadian dollars)

	June 30, 2022	December 31, 2021
	$	$
Assets		
Current assets		
Cash and cash equivalents	**15,200**	35,625
Restricted cash	**680**	680
Trade and other receivables	**43,175**	37,646
Income taxes receivable	**409**	463
Inventories	**20,653**	17,992
Prepaid expenses and other current assets	**2,769**	2,839
	82,886	95,245
Non-current assets		
Property and equipment (note 5)	**51,021**	38,171
Investment (note 11)	**—**	2,713
Goodwill and intangible assets (note 5)	**124,526**	146,687
Total assets	**258,433**	282,816
Liabilities		
Current liabilities		
Trade payables and other liabilities (note 7)	**35,602**	46,313
Current portion of borrowings (note 8)	**2,422**	733
Current portion of contingent consideration (note 4)	**8,715**	5,394
Current portion of lease liabilities (note 11)	**2,215**	533
	48,954	52,973
Non-current liabilities		
Borrowings (note 8)	**110,406**	111,966
Other deferred amounts (note 9)	**6,446**	9,302
Contingent consideration (note 4)	**685**	2,626
Other liabilities (note 7)	**2,661**	—
Deferred income tax liabilities	**3,877**	5,463
Lease liabilities (note 11)	**25,577**	18,199
Total liabilities	**198,606**	200,529
Equity		
Share capital (note 10)	**289,254**	283,458
Warrants (note 10)	**996**	2,301
Contributed surplus	**33,273**	32,333
Equity component of Convertible Debentures	**7,125**	7,125
Deficit	**(270,821)**	(242,930)
Total equity	**59,827**	82,287
Total liabilities and equity	**258,433**	282,816

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements

Approved by the Board

"Kevin Dalton"
Kevin Dalton, Director

"Maria Perrella"
Maria Perrella, Director

Consolidated Statements of Income and Comprehensive Income

(unaudited, in thousands of Canadian dollars, except per share amounts)

	For the three month periods ended June 30,		For the six month periods ended June 30,	
	2022	2021	**2022**	2021
	$	$	**$**	$
Revenue (note 2)	**96,879**	49,656	**190,055**	94,513
Cost of pharmacy services and supplies	**68,256**	34,985	**133,520**	66,500
General and administrative expenses (note 13)	**25,864**	14,757	**51,296**	27,751
Transaction, restructuring and other costs (note 14)	**1,033**	1,822	**3,721**	2,589
Goodwill and intangible assets impairment (note 5)	**24,330**	—	**24,330**	—
Loss from operations	**(22,604)**	(1,908)	**(22,812)**	(2,327)
Finance costs, net (note 15)	**3,575**	4,548	**7,249**	7,969
Change in fair value of derivative financial instruments (note 11)	**(2,980)**	2,235	**(4,106)**	4,840
Change in fair value of contingent consideration liability (note 4)	**658**	82	**754**	251
Change in fair value of investment (note 11)	**2,713**	—	**2,713**	—
Loss before income taxes	**(26,570)**	(8,773)	**(29,422)**	(15,387)
Income tax recovery (note 6)	**(1,441)**	(284)	**(1,531)**	(1,032)
Net loss and total comprehensive loss for the period	**(25,129)**	(8,489)	**(27,891)**	(14,355)
Basic and diluted loss per common share:	**($0.53)**	($0.28)	**($0.60)**	($0.49)
Weighted average number of common shares outstanding (in thousands) (note 10):				
Basic and diluted	**47,076**	30,366	**46,792**	29,214

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements

Consolidated Statements of Changes in Equity (Deficit)

(unaudited, in thousands of Canadian dollars, except number of common shares)

	Number of common shares[1]	Share capital $	Warrants $	Contributed surplus $	Equity component of Convertible Debentures $	Deficit $	Total $
Balance at December 31, 2020	**24,791,984**	**189,776**	**1,999**	**31,413**	**8,315**	**(220,200)**	**11,303**
Issuance of shares, net of share issuance costs (note 10)	4,987,261	19,321	—	—	—	—	19,321
RSUs, DSUs and warrants exercised (note 10)	386,689	2,043	(202)	(1,363)	—	—	478
Shares released from escrow or issued from treasury related to contingent consideration (note 4, 10)	86,445	435	—	—	—	—	435
Shares issued for acquisition, net of share issuance costs (note 10)	86,678	452	—	—	—	—	452
Shares issued on conversion of Convertible Debentures, net of share issuance costs (note 10)	108,333	325	—	—	(80)	—	245
Issuance of warrants (note 10)	—	—	1,196	—	—	—	1,196
Warrants expired (note 10)	—	—	(89)	89	—	—	—
Share based compensation expense	—	—	—	1,492	—	—	1,492
Net loss for the period	—	—	—	—	—	(14,355)	(14,355)
Balance at June 30, 2021	**30,447,390**	**212,352**	**2,904**	**31,631**	**8,235**	**(234,555)**	**20,567**
Balance at December 31, 2021	**46,289,983**	**283,458**	**2,301**	**32,333**	**7,125**	**(242,930)**	**82,287**
Issuance of shares, net of share issuance costs (note 10)	130,143	677	—	—	—	—	677
RSUs, DSUs and warrants exercised (note 10)	537,660	2,883	(298)	(1,543)	—	—	1,042
Shares issued for acquisition, net of share issuance costs (note 3, 10)	481,400	2,209	—	—	—	—	2,209
Shares issued on conversion of Convertible Debentures	9,000	27	—	—	—	—	27
Warrants expired (note 10)	—	—	(1,007)	1,007	—	—	—
Share based compensation expense	—		—	1,476	—	—	1,476
Net loss for the period	—	—	—	—	—	(27,891)	(27,891)
Balance at June 30, 2022	**47,448,186**	**289,254**	**996**	**33,273**	**7,125**	**(270,821)**	**59,827**

[1] *Excludes 18,880 common shares held in escrow and restricted shares as at June 30, 2022 (December 31, 2021 - 27,712) (note 10).*

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements

Consolidated Statements of Cash Flows

(unaudited, in thousands of Canadian dollars)

	For the six month periods ended June 30,	
	2022	2021
Cash provided by (used in):	**$**	$
Operating activities		
Net loss for the period	**(27,891)**	(14,355)
Adjustments for:		
Finance costs, net (note 15)	**7,249**	7,969
Change in fair value of derivative financial instruments (note 11)	**(4,106)**	4,840
Change in fair value of investment (note 11)	**2,713**	—
Loss on disposal of assets (note 13)	**195**	344
Depreciation of property and equipment (note 5)	**4,484**	2,752
Amortization of finite life intangible assets (note 5)	**5,342**	3,574
Income taxes paid	**(6)**	(79)
Income tax recovery (note 6)	**(1,531)**	(1,032)
Share-based compensation expense (note 13)	**2,153**	1,492
Goodwill and intangible assets impairment (note 5)	**24,330**	—
Change in the fair value of contingent consideration liability (note 4)	**754**	251
Supply agreement arrangements, net of amortization (note 9)	**(2,168)**	(857)
Cannabis agreement, net of amortization (note 9)	**(688)**	(688)
Net change in non-cash working capital items (note 17)	**(15,985)**	(11,637)
Cash used in operating activities	**(5,155)**	(7,426)
Investing activities		
Proceeds on disposal of property, equipment and intangible assets	**12**	79
Acquisition of businesses, net of cash acquired	**—**	(7,460)
Purchase of property and equipment (note 5)	**(8,344)**	(1,681)
Purchase of intangible assets (note 5)	**(1,636)**	(557)
Payment of contingent consideration (note 4)	**(362)**	(2,340)
Payment of deferred consideration	**—**	(4,000)
Cash used in investing activities	**(10,330)**	(15,959)
Financing activities		
Net proceeds from Crown Capital Facility and Yorkville Facility (note 8)	**—**	5,682
Interest paid	**(3,252)**	(3,791)
Repayment of Crown Capital Facility (note 8)	**—**	(5,000)
Repayment of finance loans (note 8)	**(25)**	(36)
Repayment of leases	**(2,695)**	(1,731)
Net proceeds from common shares issued (note 10)	**1,032**	20,049
Cash (used in) provided by financing activities	**(4,940)**	15,173
Decrease in cash and cash equivalents	**(20,425)**	(8,212)
Cash and cash equivalents, beginning of period	**35,625**	19,623
Cash and cash equivalents, end of period	**15,200**	**11,411**

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements

1. Corporate Information

CareRx Corporation, together with its subsidiaries (collectively, "CareRx" or the "Company"), is incorporated under the Canada Business Corporations Act. The Company is listed on the Toronto Stock Exchange and is incorporated and domiciled in Canada. The address of the Company's registered office is 320 Bay Street, Suite 1200, Toronto, Ontario.

The Company's principal business is providing pharmacy services to seniors homes and other congregate care settings in Canada.

COVID-19 pandemic

During the year ended December 31, 2020, the COVID-19 pandemic began, causing significant financial market disruption and social dislocation. The situation is dynamic, with various cities and countries around the world responding in different ways to address the outbreak.

While pharmacies are an essential service and are expected to continue to operate during any epidemic or pandemic, there is the potential that there may be disruptions in supply chains that could threaten the ability of the Company to procure medications and personal protective equipment in a timely manner. There is also the potential that a pandemic such as COVID-19 could force the temporary closure of a pharmacy site to the extent that a staff member becomes ill and the pharmacy is required to be sanitized, cause labour shortages or staffing issues to the extent that employees become ill or are otherwise unable to come to work, and limit the ability of clinical pharmacists to visit residents in seniors homes. Lastly, revenue and the number of beds serviced have been and may continue to be impacted to the extent that residents that are being served by the Company in long-term care and retirement homes become ill and are removed from the homes, occupancy at the homes is reduced due to concerns over COVID-19, onboarding of new customer contracts is delayed or home operators delay Requests for Proposals.

The Company has developed protocols and procedures should they be required to deal with any potential epidemics and pandemics, and has put these protocols and procedures in place to address the current COVID-19 pandemic. Despite appropriate steps being taken to mitigate such risks, and the fact that the Company's business is an essential service and its largest payors are the provincial governments, the duration and the extent of the effect of the COVID-19 pandemic on the Company's activities is uncertain. There can be no assurance that these policies and procedures and the nature of the Company's business will ensure that the Company will not be adversely affected. Therefore, there may be uncertainty about judgments, estimates and assumptions made by management during the preparation of the Company's condensed interim consolidated financial statements related to potential impacts of the COVID-19 outbreak on revenue, expenses, assets, liabilities and note disclosures, and any changes to these judgments, estimates and assumptions could result in a material adjustment to the carrying value of the asset or liability affected.

2. Significant Accounting Policies

Basis of preparation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS, 34 Interim Financial Reporting as outlined by International Financial Reporting Standards ("IFRS") and its interpretations as issued by the International Accounting Standards Board ("IASB"). They do not include all the information required for a complete set of annual financial statements prepared in accordance with IFRS and therefore should be read in conjunction with the Company's audited annual consolidated financial statements and notes thereto for the year ended December 31, 2021. However, selected explanatory notes are included to explain events and transactions that are significant to the understanding of the changes in the Company's financial position and performance since December 31, 2021.

The accounting policies, critical accounting estimates and judgments applied in these unaudited condensed interim consolidated financial statements are consistent with the significant accounting policies, critical accounting estimates and judgments used in the preparation of the annual consolidated financial statements for the year ended December 31, 2021, except for the estimation of income taxes (note 6). The Company has consistently applied the same accounting policies throughout all periods presented as if these policies had always been in effect.

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors (the "Board") on August 15, 2022.

New and amended standards adopted by the Company

A number of amended standards became effective from January 1, 2022. The Company was not required to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

New standards and amendments not yet adopted by the Company

A number of new standards, amendments and annual improvements are not mandatory for reporting periods beginning January 1, 2022 and have not been early adopted by the Company. Those which may be relevant to the Company in future reporting periods and on foreseeable future transactions are set out below:

- Amendments to IAS 1, Presentation of Financial Statements and IAS 12, Income Taxes effective for years beginning on/after January 1, 2023; and
- Definition of Accounting estimates: A narrow-scope amendment to IAS 8, Accounting policies, changes in accounting estimates and errors effective for years beginning on/after January 1, 2023.

These standards, amendments and annual improvements are not expected to have a material impact on the Company in the current or future reporting periods.

Revenue

During the six month period ended June 30, 2022, 79% and 20% of the Company's revenues were derived from the sale of goods and capitated service fees, respectively (2021 - 83% and 14%). Geographically, 67% and 33% of the Company's revenues were derived from the sales of goods and capitated service fees in Ontario and Western Canada, respectively (2021 - 51% and 49%).

(unaudited, in thousands of Canadian dollars, unless otherwise noted)

3. Business Combinations

Acquisition of the long-term care pharmacy business of Hogan Pharmacy Partners Ltd.

On May 30, 2022, the Company completed the acquisition of the long-term care pharmacy business of Hogan Pharmacy Partners Ltd. ("Hogan") for a purchase price comprised of: (i) $2,200 payable in common shares of the Company at closing of the Hogan acquisition (note 10), subject to further adjustment based on the Company's common share price on a future date and (ii) a $2,200 vendor take-back note payable over the four years following closing (note 8). The final $800 principal repayment of the vendor take-back note is contingent on certain growth targets being achieved over the four-year period (note 4).

The transaction has been accounted for as a business combination in accordance with IFRS 3. IFRS 3 requires assets and liabilities acquired in a business combination to be recorded at their fair values as at the date of acquisition. The Company is in the process of concluding on the valuation of the assets and liabilities of Hogan as at the date of acquisition. At the time of the issuance of these unaudited condensed interim consolidated financial statements, certain aspects of the valuation, including working capital adjustments and the valuation of identifiable intangible assets and the associated deferred income tax impact have not been finalized, and the purchase price allocation is subject to change.

The preliminary purchase price allocation and the provisional fair values of the net identifiable assets acquired pursuant to the Hogan acquisition were determined as follows:

Purchase Price	**$**
Common shares of the Company issued (note 10)	2,219
Contingent consideration (note 4, 8)	988
Hogan Vendor Take-Back Note (note 8)	1,296
	4,503

Provisional fair values of net assets acquired	**$**
Trade and other receivables	590
Inventories	314
Prepaid expenses and other current assets	29
Property and equipment (note 5)	1,117
Trade payables and other liabilities	(202)
Goodwill and intangible assets (note 5)	2,655
	4,503

The fair value of the 481,400 common shares of the Company issued as part of the purchase price consideration was determined based on the price at the time of the closing of the Hogan acquisition of $4.61 per common share.

Goodwill resulting from the Hogan acquisition is primarily attributable to expected synergies with the Company's existing business. It is deductible for tax purposes.

The fair value of acquired trade receivables was $590 representing the gross contractual amount for trade receivables due.

Acquisition related costs of $133 that were not directly attributable to the issuance of shares are included in transaction, restructuring and other costs (note 14) in the consolidated statement of income and comprehensive income and in operating cash flows in the consolidated statement of cash flows.

(unaudited, in thousands of Canadian dollars, unless otherwise noted)

3. Business Combinations - continued

For the three and six month periods ended June 30, 2022, Hogan contributed revenue of $383 and net income of $34 to the Company's financial results. If the acquisition had occurred on January 1, 2022, management estimates that the Company's consolidated revenue would have been $97,409 and $191,380, respectively, for the three and six month periods ended June 30, 2022 and net loss would have been $25,032 and $27,805, respectively, for the three and six month periods ended June 30, 2022. These amounts have been calculated using the historical Hogan financial results and adjusting them for the additional depreciation and amortization that would have been charged assuming fair value adjustments to property, plant and equipment, and intangible assets, respectively, had been applied from January 1, 2022, together with their associated tax effects.

4. Contingent Consideration

The fair value of contingent consideration is an estimate. The valuation model considers possible scenarios of forecast EBITDA or other performance metrics, the amount to be paid under each scenario and the probability of each scenario. The fair value is dependent on certain inputs such as forecast EBITDA, non-financial metrics, risk adjusted discount rates and the Company's share price.

The continuity of the contingent consideration liability to be settled in cash, common shares and warrants is as follows:

	Hogan	SmartMeds	Remedy's	Other	Total
	$	$	$	$	$
Balance at December 31, 2021	**—**	**2,626**	**2,553**	**2,841**	**8,020**
Additions to contingent consideration (note 3)	988	—	—	—	**988**
Change in fair value during the period	5	114	256	379	**754**
Contingent consideration settled in cash	—	—	(362)	—	**(362)**
Balance at June 30, 2022	**993**	**2,740**	**2,447**	**3,220**	**9,400**
Less: Current portion	**308**	**2,740**	**2,447**	**3,220**	**8,715**
Non-current portion at June 30, 2022	**685**	**—**	**—**	**—**	**685**

On November 15, 2017, the Company recorded a contingent consideration liability as part of the consideration for the acquisition of Salus Pharmacare Inc. ("Salus") payable over a five-year period. As at June 30, 2022, the remaining contingent consideration liability for the acquisition of Salus represents the fair value of the outstanding warrants, which was nominal. The warrants will vest on renewal of a long-term contract, allowing the holder to purchase 0.05 common shares of the Company for each warrant at an exercise price of $12.91 per common share over a two-year term. The Company estimated a 80% probability of meeting the performance benchmarks related to the outstanding warrants.

On May 7, 2020, the Company recorded a contingent consideration liability as part of the consideration for the acquisition of Remedy Equity Corporation ("Remedy") payable over a two-year period subject to certain operational and earnings targets being achieved. In addition, the contingent consideration liability related to the acquisition of Remedy's included a liability owing to the vendor of Integrity Pharmacy Inc. ("iPharm"), a legacy acquisition of Remedy's, in the event that there were subsequent revisions to the previously announced amendments to O. Reg. 201/96 under the *Ontario Drug Benefit Act* that came into effect on January 1, 2020 (the "ODBA Amendments"), which adjusted the scheduled fee changes positively.

4. Contingent Consideration - continued

During the three and six month periods ended June 30, 2022, the Company paid $362 to settle the portion of the contingent consideration liability owing to the vendor of iPharm. Subsequent to the three and six month periods ended June 30, 2022, the Company paid $2,447 to settle the remaining portion of the contingent consideration liability for the acquisition of Remedy.

On April 1, 2021, the Company recorded a contingent consideration liability as part of the consideration for the acquisition of SmartMeds Pharmacy Inc. ("SmartMeds") payable on the second anniversary of the closing date. The fair value on acquisition consisted of $2,292 in performance cash (up to a maximum of $2,925) subject to certain operational targets being achieved over the two-year period. As at June 30, 2022, the Company estimated the probability of meeting the operational targets to be 100%. As at June 30, 2022, the fair value of the contingent consideration liability as part of the consideration for the acquisition of SmartMeds was estimated based on a risk-adjusted discount rate of 9%. As at June 30, 2022, the expected range of potential undiscounted amounts payable remaining is between nil and $2,925.

On May 30, 2022, the Company recorded a contingent consideration liability related to a portion of the vendor take-back note that was issued as part of the consideration for the Hogan acquisition (note 8). This portion of the vendor take-back note, with a maximum principal value of $800, is payable on the fourth anniversary of the closing date and is subject to downward adjustment to the extent that certain growth targets are not achieved over the four-year period. As at June 30, 2022, the Company estimated the probability of meeting the growth targets to be 100%. As at June 30, 2022, the fair value of the contingent consideration liability was estimated based on a risk-adjusted discount rate of 9%. Additionally, as part of the contingent consideration liability for the acquisition, the Company also recorded a liability related to the common shares issued as part of the purchase consideration, with a fair value of $308, which is payable depending on the Company's share price on a future date. As at June 30, 2022, the expected range of potential undiscounted amounts payable remaining is between nil and $1,108.

(unaudited, in thousands of Canadian dollars, unless otherwise noted)

5. Goodwill, Intangible Assets and Property and Equipment

	Goodwill $	Intangible Assets $	Total Goodwill and Intangible Assets $	Property and Equipment $
For the period ended June 30, 2022				
Cost				
Balance at December 31, 2021	117,894	107,408	225,302	56,632
Additions	—	4,932	4,932	18,086
Acquisition of business (note 3)	2,631	24	2,655	1,117
Disposals	—	(26,975)	(26,975)	(6,197)
Balance at June 30, 2022	**120,525**	**85,389**	**205,914**	**69,638**
Accumulated amortization and impairment losses				
Balance at December 31, 2021	(25,779)	(52,836)	(78,615)	(18,461)
Amortization charge	—	(5,342)	(5,342)	(4,484)
Disposals	—	26,899	26,899	4,328
Impairment	(22,518)	(1,812)	(24,330)	—
Balance at June 30, 2022	**(48,297)**	**(33,091)**	**(81,388)**	**(18,617)**
Net carrying value				
As at December 31, 2021	92,115	54,572	146,687	38,171
As at June 30, 2022	**72,228**	**52,298**	**124,526**	**51,021**

The Company allocated the provisional fair values of the goodwill and identifiable intangible assets acquired as part of the Hogan acquisition to goodwill (note 3).

Included in the net carrying value of property and equipment are right-of-use assets of $24,074 (December 31, 2021 - $17,824).

The right-of-use assets as at June 30, 2022 and December 31, 2021 consist of the following:

	June 30, 2022 $	December 31, 2021 $
Right-of-use assets - Properties	**23,439**	17,025
Right-of-use assets - Equipment	**329**	446
Right-of-use assets - Vehicles	**306**	353
Total	**24,074**	17,824

During the three and six month periods ended June 30, 2022, additions of property and equipment related to right-of-use assets were $1,911 and $9,742, respectively.

During the three and six month periods ended June 30, 2022, amortization charges related to right-of-use assets were $970 and $1,971, respectively.

As at June 30, 2022 and December 31, 2021 the Company had $1,820 of indefinite life intangible assets.

During 2022, the Company's MPGL CGU was integrated into its Pharmacy - Ontario and Pharmacy - Western Canada CGUs.

(unaudited, in thousands of Canadian dollars, unless otherwise noted)

5. Goodwill, Intangible Assets and Property and Equipment - continued

The Company performs its annual impairment testing of goodwill and indefinite life intangible assets during the fourth quarter, as described in note 9 in the annual consolidated financial statements for the year ended December 31, 2021. Impairment assessments for long-lived assets, including goodwill and indefinite life intangible assets are performed more frequently whenever events or changes in circumstances arise and an indicator of impairment exists. During the three month period ended June 30, 2022, as a result of a large customer awarding a request for proposal to another pharmacy services provider, increases in the Company's input costs and interest rates increases, the Company has recalculated the recoverable amounts of its two CGUs as at June 30, 2022. As a result, impairment losses of $12,329 and $10,189 were recognized for the Pharmacy - Ontario and Pharmacy - Western Canada CGUs, respectively, reducing the carrying amount of goodwill to $55,461 and $16,767 for each of these CGUs, respectively. Additionally, as a result of the loss of the customer contract, an impairment loss of $1,812 was recognized with respect to the customer relationships intangible asset.

The recoverable amount of the two CGUs was determined based on value-in-use calculations, consistent with the methods used as at October 1, 2021 (see note 9 in the annual consolidated financial statements for the year ended December 31, 2021). Significant assumptions utilized to determine the recoverable amounts of the two CGUs as at June 30, 2022 included revenue growth rates, operating margins and discount rates. The maintainable discretionary pre-tax cash flows from operations were based on the Company's approved budget for the year ended December 31, 2022 and further adjusted primarily for the projected impact of the loss of a large customer contract and increases in the Company's input costs. In arriving at its forecasts, the Company considered past and current experience, economic trends and inflation as well as industry and market trends.

The recoverable amount of the Company's CGUs is considered to be a Level 3 fair value calculation as described in note 11. The following table sets out the key assumptions utilized to determine the recoverable amounts of the two CGUs as at June 30, 2022:

CGU	Terminal growth rate	Pre-tax discount rate
Pharmacy - Ontario	2.0%	17.1%
Pharmacy - Western Canada	2.0%	17.9%

The determination of recoverable amounts is sensitive to assumptions depending on events and economic conditions. Accordingly, it is reasonably possible that future changes in assumptions may negatively impact future assessments of the recoverable amount for the CGUs.

6. Income Taxes

Income tax expense is recognized based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rates used for the three and six month periods ended June 30, 2022 were 5.42% and 5.20%, respectively. A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that the company will be able to realize these benefits. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(unaudited, in thousands of Canadian dollars, unless otherwise noted)

7. Trade Payables and Other Liabilities

Trade payables and other liabilities are comprised of the following:

	June 30, 2022	December 31, 2021
	$	$
Trade payables	**19,336**	33,207
Salaries, wages and employee benefits payable	**5,202**	4,552
Other liabilities	**708**	—
Other accrued liabilities	**9,870**	8,554
Severance costs (note 14)	**486**	—
Total	**35,602**	46,313

Other liabilities includes a liability related to a multi-year agreement with a national customer in the aggregate amount of $4,250, of which $708 is due within the next 12 months. The liability was initially recognized at its fair value of $3,295 and subsequently measured at amortized cost, using the effective interest rate method. As at June 30, 2022, the carrying value of the liability was $3,369.

8. Borrowings

	June 30, 2022	December 31, 2021
	$	$
Senior Facility	**60,119**	58,714
Yorkville Facility	**20,539**	20,015
Liability component of Convertible Debentures	**16,650**	15,902
Ewing Convertible Debentures	**12,454**	12,175
Ewing Convertible Debentures embedded derivatives (note 11)	**1,751**	5,857
Hogan Vendor Take-Back Note	**1,305**	—
Finance loans	**10**	36
Total borrowings	**112,828**	112,699
Less current portion of borrowings:		
Senior Facility	**1,249**	—
Liability component of Convertible Debentures	**322**	380
Ewing Convertible Debentures	**317**	317
Finance loans	**10**	36
Yorkville Facility	**524**	—
Total current portion of borrowings	**2,422**	**733**
Total non-current portion of borrowings	**110,406**	**111,966**

As at June 30, 2022, the current portion of borrowings includes $2,412 of interest accrued and payable within twelve months following the statement of financial position date (December 31, 2021 - $697).

Substantially all of the Company's assets are pledged as security for the Company's borrowings.

The credit agreement with Crown Private Credit Partners Inc. and certain participants (the "Senior Facility") contains a number of customary positive and negative covenants, including a requirement to comply with certain financial covenants. These also include restrictions on incurring additional indebtedness, making certain investments or acquisitions and selling assets of the Company.

(unaudited, in thousands of Canadian dollars, unless otherwise noted)

8. Borrowings - continued

As at June 30, 2022, the Company was in compliance with its Senior Facility covenants.

Hogan Vendor Take-Back Note

On May 30, 2022, in connection with the Hogan acquisition (note 3), the Company issued a vendor take-back note to the vendor of Hogan with a principal amount of $2,200 payable over the four years following the closing of the Hogan acquisition (note 3). The vendor take-back note will accrue interest at an annual interest rate of 5%. To the extent that certain growth targets are not achieved by the fourth anniversary of the Hogan acquisition closing, the final $800 principal repayment on the vendor take-back note will be subject to downward adjustment, subject to an ability to extend the maturity date in certain circumstances (note 4).

The vendor take-back note has been accounted for as a financial instrument comprised of: (i) a financial liability component representing the contractual cash flows of the $1,400 principal amount payable in cash over the three years following the closing of the Hogan acquisition and 5% annual interest payments (the "Hogan Vendor Take-Back Note"); (ii) a contingent consideration liability component representing the final $800 principal repayment which is subject to certain growth targets being achieved over the four-year period (note 4).

At the time of initial recognition, the Company recorded the Hogan Vendor Take-Back Note at its fair value of $1,296, representing the present value of the payments discounted using a 9% discount rate. The Hogan Vendor Take-Back Note was subsequently measured at amortized cost, using the effective interest rate method.

9. Other Deferred Amounts

The remaining unamortized balance of other deferred amounts consist of the following:

	June 30, 2022	December 31, 2021
	$	$
Preferred drug supplier agreement	**4,815**	7,001
Preferred cannabis partner agreement (note 16)	**1,612**	2,301
Other	**19**	—
	6,446	9,302

(unaudited, in thousands of Canadian dollars, unless otherwise noted)

10. Shareholders' Equity and Earnings per Share

Authorized share capital consists of an unlimited number of common shares with no par value. The number of common shares issued and outstanding is as follows:

For the period ended (\$ thousands, except share amounts)	**June 30, 2022**		December 31, 2021	
Common shares	**Common shares**	**Stated value \$**	Common shares	Stated value \$
Balance, beginning of period	**46,289,983**	**283,458**	24,791,984	189,776
Issuance of shares, net of share issuance costs	130,143	677	17,512,141	77,889
Shares released from escrow or issued from treasury for contingent consideration	—	—	196,200	999
RSUs, DSUs and warrants exercised	537,660	2,883	969,956	4,464
Shares issued for acquisitions, net of share issuance costs	481,400	2,209	637,037	3,782
Conversion of Convertible Debentures, net of share issuance costs	9,000	27	2,182,665	6,548
Balance, end of period	**47,448,186**	**289,254**	46,289,983	283,458

The number of common shares considered to be issued for financial reporting purposes is exclusive of restricted shares issued and common shares issued in trust or held in escrow pending the achievement of certain stated milestones or performance targets.

The total common shares in aggregate as at June 30, 2022 are:

Type of common shares	
Freely tradeable	47,448,186
Escrowed and restricted	18,880
Total	**47,467,066**

On March 11, 2022, 8,832 escrowed and restricted shares were cancelled.

Issuance of common shares

During the three and six month periods ended June 30, 2022, the Company issued 133,081 and 309,413 common shares, respectively, related to RSUs and DSUs issued to management, employees and directors that vested.

During the three and six month periods ended June 30, 2022, the Company issued 25,619 and 228,247 common shares, respectively, related to warrants that were exercised.

On January 12, 2022, the Company issued 9,000 common shares that were outstanding in relation to the conversion of the Convertible Debentures that occurred during the year ended December 31, 2021.

On March 25, 2022, the Company issued 130,143 common shares as part of a multi-year agreement with a national customer.

On May 30, 2022, the Company issued 481,400 common shares as consideration for the Hogan acquisition (note 3).

(unaudited, in thousands of Canadian dollars, unless otherwise noted)

10. Shareholders' Equity and Earnings per Share - continued

Issuance of RSUs and DSUs

The Company's outstanding RSUs and DSUs are as follows:

For the period ended	**June 30, 2022**	December 31, 2021
RSUs and DSUs	**Units**	Units
Balance, beginning of period	**1,010,248**	771,385
RSUs and DSUs granted	647,419	625,148
RSUs and DSUs released	(309,413)	(383,340)
RSUs and DSUs forfeited	(17,781)	(2,945)
Balance, end of period	**1,330,473**	1,010,248

The weighted-average remaining term to vest for RSUs and DSUs outstanding as at June 30, 2022 was 2.13 years.

During the six month period ended June 30, 2022, the Company had the following RSU and DSU grants:

Grant date	**Units granted**	**Granted to**	**Vesting conditions**	**Fair valued based on the quoted market price of issuance per common share**
January 31, 2022	23,301 RSUs	Management of the Company	50% over six months, 50% over one year	$5.24
March 30, 2022	455,633 RSUs	Management and employees of the Company	Vest over three years	$5.42
March 30, 2022	53,088 RSUs	Management of the Company	Vest over one year	$5.42
March 31, 2022	16,453 RSUs	Directors of the Company	Vest Immediately	$5.47
June 7, 2022	84,975 RSUs	Directors of the Company	Vest over three years	$4.54
June 30, 2022	13,176 RSUs	Directors of the Company	Vest Immediately	$3.84
June 30, 2022	793 DSUs	Directors of the Company	Vest Immediately	$3.84

(unaudited, in thousands of Canadian dollars, unless otherwise noted)

10. Shareholders' Equity and Earnings per Share - continued

Issuance of warrants

The Company's outstanding and exercisable warrants are as follows:

For the period ended	June 30, 2022		December 31, 2021	
Share purchase warrants	**Warrants[1]**	**Weighted average exercise price per common share**	Warrants[1]	Weighted average exercise price per common share
Balance, beginning of period	**13,304,253**	**$5.02**	23,202,833	$4.25
Warrants granted	—	$—	723,453	$4.89
Warrants exercised	(228,247)	$4.56	(9,572,033)	$2.82
Warrants expired	(554,006)	$4.97	(1,050,000)	$8.00
Balance, end of period	**12,522,000**	**$5.03**	13,304,253	$5.02
Exercisable, end of period	**12,450,000**	**$5.00**	13,232,253	$4.99

[1] Each warrant entitles the holder to acquire 0.05 common shares in the capital of the Company, except for 782,253 warrants as at December 31, 2021, which entitled the holder to acquire one common share in the capital of the Company.

The weighted average remaining contractual life and weighted average exercise price of warrants outstanding as at June 30, 2022 are as follows:

	Warrants outstanding			Warrants exercisable	
Range of exercise price	**Number outstanding**	**Weighted Average Exercise Price per common share**	**Weighted average remaining contractual life (years)**	**Number exercisable**	**Weighted average exercise price per common share**
$5.00 - $7.58	12,450,000	$5.00	2.45	12,450,000	$5.00
$7.59 - $10.16	72,000	$10.16	1.45	—	$—
Balance, end of period	**12,522,000**	**$5.03**	**2.45**	**12,450,000**	**$5.00**

Issuance of stock options

The Company's outstanding and exercisable stock options are as follows:

For the period ended	June 30, 2022			December 31, 2021	
Common share options	**Options**	**Weighted average exercise price**	**Weighted average remaining contractual life (years)**	Options	Weighted average exercise price
Balance, beginning of period	—	**$—**	—	45,850	$8.12
Options granted	280,000	$5.18	4.75	—	$—
Options expired	—	$—	—	(45,850)	$8.12
Balance, end of period	**280,000**	**$5.18**	**4.75**	—	$—
Exercisable, end of period	—	$—	—	—	$—

(unaudited, in thousands of Canadian dollars, unless otherwise noted)

10. Shareholders' Equity and Earnings per Share - continued

On March 30, 2022, the Company issued 280,000 stock options to key management of the Company at an exercise price of $5.18 with a term of five years, vesting over four years from the date of grant. The fair value of the options issued was calculated using the Black-Scholes pricing model with the following assumptions:

Number of options issued	280,000
Dividend yield	Nil
Expected volatility	69.25%
Risk-free interest rate	2.42%
Expected life in years	5
Strike price	$5.18
Share price at valuation date	$5.42
Forfeiture rate	Year 1 and 2: nil, 12.5% thereafter
Fair value per option	$3.24

The weighted average remaining term to vest for stock options outstanding as at June 30, 2022 was 2.25 years.

Earnings per share

Earnings per share has been calculated on the basis of profit or loss for the period divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share, for all periods presented, was calculated based on the weighted average number of common shares outstanding and takes into account the effects of contingently issuable common shares, unvested share options, RSUs and DSUs, warrants and convertible debentures outstanding during the period. A loss per share is not adjusted for anti-dilutive instruments. The diluted weighted average calculation is based on a time weighting factor that includes all stock options, RSUs, DSUs, warrants and conversion features that were issued at exercise prices lower than the market price of the Company's common shares at the respective period-ends. These instruments were anti-dilutive for the three and six month periods ended June 30, 2022.

The following table illustrates the basic and diluted weighted average common shares outstanding for the three and six month periods ended June 30, 2022 and 2021:

	For the three month periods ended June 30,		**For the six month periods ended June 30,**	
	2022	2021	**2022**	2021
Weighted average number of common shares outstanding - basic and diluted	47,076,311	30,366,056	46,791,732	29,213,525

(unaudited, in thousands of Canadian dollars, unless otherwise noted)

11. Financial Instruments, Fair Value Measurements and Financial Risk Management

As at June 30, 2022 and December 31, 2021, the Company's financial instruments consisted of cash and cash equivalents, restricted cash, trade and other receivables, investment, trade and other payables, contingent consideration, lease liabilities, borrowings and derivative financial instruments.

Fair value hierarchy

Financial instruments carried at fair value have been categorized under the three levels of fair value hierarchy as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs that are observable for the assets or liabilities either directly or indirectly
- Level 3: Inputs for assets or liabilities that are not based on observable market data.
  This level of the hierarchy includes contingent consideration settled with the Company's common shares, derivative liabilities associated with convertible borrowings and investments.

The Company's Level 3 financial assets (liabilities) measured and recognized at fair value on a recurring basis are as follows:

	June 30, 2022	December 31, 2021
	$	**$**
Contingent consideration	**(9,400)**	(8,020)
Derivative financial instruments	**(1,751)**	(5,857)
Investment	**—**	2,713
Total	**(11,151)**	(11,164)

There were no financial instruments classified as Level 1 or Level 2 as at June 30, 2022 and December 31, 2021. There were no transfers between levels during the three and six month periods ended June 30, 2022 and 2021.

Details regarding Level 3 fair value measurements for contingent consideration can be found in note 4 in these unaudited condensed interim consolidated financial statements and note 4 in the annual consolidated financial statements for the year ended December 31, 2021.

There were no changes in the valuation techniques used during the three and six month periods ended June 30, 2022.

The continuity of the embedded derivatives liability is as follows:

	June 30, 2022	December 31, 2021
	$	$
Fair value of embedded derivatives, beginning of period	**5,857**	3,614
Change in fair value of embedded derivatives	**(4,106)**	2,243
Embedded derivatives, end of period	**1,751**	5,857

(unaudited, in thousands of Canadian dollars, unless otherwise noted)

11. Financial Instruments, Fair Value Measurements and Financial Risk Management - continued

The Ewing Convertible Debentures contain an embedded derivative liability component (note 8). The fair value of the Ewing Morris conversion option embedded derivative is calculated using the Black-Scholes pricing model using the following assumptions as at June 30, 2022:

Estimated number of common shares	2,696,890
Dividend yield	Nil
Expected volatility	47.47%
Risk-free interest rate	3.10%
Expected life in years	1.70
Strike price	$5.00
Share price at valuation date	$3.84
Fair value	$0.65

Other conversion and redemption features were determined to have nil values. Their fair values will be reassessed by the Company at each reporting date.

Financial instruments measured at amortized cost

The carrying value of financial assets and financial liabilities that are measured at amortized cost is an approximation of the fair value for the following financial assets and financial liabilities unless otherwise disclosed below:

	June 30, 2022 **$**	December 31, 2021 $
Financial assets measured at amortized cost:		
Cash and cash equivalents	**15,200**	35,625
Restricted cash	**680**	680
Trade receivables, net of provision	**41,097**	36,118
Financial liabilities measured at amortized cost:		
Trade payables and other liabilities	**37,777**	46,313
Lease liabilities	**27,792**	18,732
Senior Facility	**60,119**	58,714
Liability component of Convertible Debentures	**16,650**	15,902
Ewing Convertible Debentures	**12,454**	12,175
Yorkville Facility	**20,539**	20,015
Hogan Vendor Take-Back Note	**1,305**	—
Finance loans	**10**	36

As at June 30, 2022, the current portion of lease liabilities was presented net of a $586 lease incentive receivable (December 31, 2021 - $2,448).

(unaudited, in thousands of Canadian dollars, unless otherwise noted)

11. Financial Instruments, Fair Value Measurements and Financial Risk Management - continued

Investment in AceAge

As at June 30, 2022 and December 31, 2021, the Company's ownership interest in AceAge was 10.43%.

As at June 30, 2022, the Company determined the fair value of the Company's investment in AceAge was nil as a result of the recently completed sale of business, from which the Company received nil proceeds, and recognized a change in fair value of investment of $2,713 in the consolidated statement of income and comprehensive income.

During the three and six month periods ended June 30, 2022, no dividends were declared by AceAge.

Financial risk management

The Company is exposed to certain financial risks, including credit risk, liquidity risk and interest rate risk. The following is a description of those risks and how the exposures are managed:

Credit risk

The Company is exposed to credit risk to the extent that its clients become unable to meet their payment obligations. The Company's exposure to concentrations of credit risk is limited. Trade receivables include amounts receivable from the sale of goods and services to government agencies, employers, insurance companies and individual patients.

Trade receivables aging (net of provision) was as follows:

	June 30, 2022	December 31, 2021
	$	$
0-30 days	**28,859**	26,265
31-60 days	**3,799**	4,787
61-90 days	**2,050**	2,195
Over 90 days	**6,389**	2,871
	41,097	36,118

Included in trade and other receivables as at June 30, 2022 are $16,777 (December 31, 2021 - $15,461) of amounts receivable from government funding related to product sales and services rendered, and $2,448 (December 31, 2021 - nil) of lease incentive receivable.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, historical credit losses and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions, including consideration of the impact of the COVID-19 pandemic as part of the Company's impairment analysis as at June 30, 2022 and December 31, 2021.

(unaudited, in thousands of Canadian dollars, unless otherwise noted)

11. Financial Instruments, Fair Value Measurements and Financial Risk Management - continued

The movement in the provision for impairment against trade and other receivables was as follows:

	June 30, 2022	December 31, 2021
	$	$
Provision, beginning of period	**2,228**	560
Acquisition of business	—	1,227
Provision for receivables impairment	774	594
Write-offs charged against the provision for receivables impairment	—	(153)
Provision, end of period	**3,002**	2,228

The Company's cash and cash equivalents are held through Canadian chartered banks. The Company is not exposed to significant credit risk arising from its financial instruments.

Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash, another financial asset or equity instrument. Liquidity risk is managed by maintaining appropriate levels of cash and cash equivalents. The Company also manages liquidity risk by continuously monitoring actual and projected cash flows. To the extent the Company does not believe it has sufficient liquidity to meet its obligations, it will consider generating funds from additional sources of financing or other strategic alternatives. The Company's liquidity may be adversely affected if its access to the capital and debt markets is hindered, whether as a result of a downturn in general market conditions, or as a result of conditions specific to the Company. If any of these events were to occur, they could adversely affect the financial performance of the Company.

The following table presents the contractual terms to maturity of the financial liabilities owed by the Company as at June 30, 2022:

	Total	2022	2023-2024	2025-2026	Thereafter
	$	$	$	$	$
Trade payables and other liabilities	**38,658**	35,116	1,417	1,417	708
Convertible Debentures	**18,750**	6,250	12,500	—	—
Senior Facility	**60,000**	—	12,150	47,850	—
Ewing Convertible Debentures	**13,167**	—	13,167	—	—
Yorkville Facility	**20,022**	—	—	20,022	
Hogan Vendor Take-Back Note	**1,400**	—	1,000	400	—
Finance loans	**10**	10	—	—	—
Interest payments on borrowings	**33,037**	6,710	17,067	9,260	—
Leases	**55,653**	1,910	9,859	7,854	36,030
Contingent consideration	**9,399**	5,858	2,741	800	—
Total	**250,096**	**55,854**	**69,901**	**87,603**	**36,738**

In the normal course of business, the Company enters into significant commitments for the purchase of goods and services, such as the purchase of inventory, most of which are short-term in nature and are settled under normal trade terms. As at June 30, 2022, the Company had committed expenditures in relation to certain leasehold improvement projects of approximately $1,988.

(unaudited, in thousands of Canadian dollars, unless otherwise noted)

11. Financial Instruments, Fair Value Measurements and Financial Risk Management - continued

Interest rate risk

Interest rate risk is the risk borne by an interest bearing asset or liability as a result of fluctuations in interest rates. As at June 30, 2022, the Company was not exposed to interest rate risk as all of the Company's borrowings have fixed interest rates.

Currency risk

Virtually all of the Company's transactions are denominated in Canadian dollars. As at June 30, 2022, the Company held no significant financial instruments that were denominated in a currency other than Canadian currency.

12. Related Party Transactions and Balances

In the normal course of operations, the Company may enter into certain related party transactions, which may include transactions entered into with the Company's directors and management. All related party transactions would be for consideration established with the related parties, generally on market terms, and approved by the independent non-executive directors of the Company, including the transactions described below.

Certain directors help manage funds that own the Convertible Debentures (note 8) and common shares of the Company, and that provided the Yorkville Facility (note 8).

13. General and Administrative Expenses

The components of general and administrative expenses are as follows:

	For the three month periods ended June 30,		**For the six month periods ended June 30,**	
	2022	2021	**2022**	2021
	$	$	**$**	$
Employee costs	**7,615**	4,654	**15,084**	9,081
Other operating expenses	**12,211**	5,679	**24,038**	10,508
Depreciation and amortization	**5,127**	3,234	**9,826**	6,326
Share-based compensation expense	**823**	739	**2,153**	1,492
Loss on disposal of assets	**88**	451	**195**	344
Total	**25,864**	14,757	**51,296**	27,751

Other operating expenses for the three and six month periods ended June 30, 2022 include expenses of $363 and $607 (2021 - $152 and $268), respectively, relating to short-term leases, low-value assets leases and variable lease payments.

(unaudited, in thousands of Canadian dollars, unless otherwise noted)

14. Transaction, Restructuring and Other Costs

Transaction, start-up, restructuring and other costs are expensed as incurred. Transaction costs are comprised primarily of legal, consulting, due diligence and other professional fees directly related to business combinations and divestitures. Start-up costs for new initiatives are costs incurred by the Company for a new business initiative prior to this initiative generating any revenue. Restructuring and other costs include legal, consulting and other professional fees associated with business restructuring; costs associated with new customer contract implementation and the integration of newly acquired businesses; and severance and other costs associated with corporate reorganization, other staffing reductions and divestitures.

Transaction, restructuring and other costs for the three and six month periods ended June 30, 2022 and 2021 consist of the following:

	For the three month periods ended June 30,		**For the six month periods ended June 30,**	
	2022	2021	**2022**	2021
	$	**$**	**$**	$
Transaction and start-up costs	**177**	1,618	**785**	2,159
Restructuring and other costs	**856**	204	**2,936**	430
Total	**1,033**	1,822	**3,721**	2,589

As at June 30, 2022, the Company had accrued liabilities related to severance of $486 (December 31, 2021 - nil) included in trade payables and other liabilities consisting of the following:

	Severance **$**
Balance at December 31, 2021	—
Accruals	947
Payments	(461)
Balance at June 30, 2022	**486**

(unaudited, in thousands of Canadian dollars, unless otherwise noted)

15. Finance Costs, Net

Finance costs, net for the three and six month periods ended June 30, 2022 and 2021 are comprised of the following:

	For the three month periods ended June 30,		For the six month periods ended June 30,	
	2022	2021	**2022**	2021
	$	$	**$**	$
Interest on Senior Facility	**1,196**	—	**2,528**	—
Accretion on Senior Facility	**132**	—	**260**	—
Interest on Yorkville Facility	**517**	468	**1,042**	888
Accretion on Yorkville Facility	**—**	69	**—**	181
Interest on Convertible Debentures	**386**	516	**767**	1,031
Accretion on Convertible Debentures	**414**	750	**804**	1,435
Interest on Ewing Convertible Debentures	**263**	263	**523**	523
Accretion on Ewing Convertible Debentures	**142**	136	**283**	271
Interest on leases	**494**	251	**1,037**	510
Interest on Hogan Vendor Take-Back Note	**6**	—	**6**	—
Accretion on Hogan Vendor Take-Back Note	**4**	—	**4**	—
Interest on vendor take-back note	**—**	25	**—**	25
Accretion on vendor take-back note	**—**	97	**—**	202
Accretion on other liabilities	**74**	—	**74**	—
Interest on Crown Capital Facility	**—**	618	**—**	1,284
Accretion on Crown Capital Facility	**—**	528	**—**	715
Accretion on deferred consideration	**—**	46	**—**	155
Interest income, net	**(53)**	(22)	**(79)**	(54)
Loss on financial liability extinguishment	**—**	803	**—**	803
Total	**3,575**	4,548	**7,249**	7,969

16. Contingencies

From time to time the Company is involved in and potentially subject to litigation, investigations, disputes, proceedings or other similar matters related to claims arising out of its operations in the ordinary course of business, performance under its contracts, and the completion of acquisitions or divestitures.

During the year ended December 31, 2021, the Company received notice from Canopy Growth Corporation ("Canopy") that it has taken the view that the Company is in breach of its obligations under the multi-year supply and service agreements and a business development agreement (the "Supply Agreements") that were entered into with Canopy in September 2018. At the time of entering into the Supply Agreements, the parties jointly developed non-binding projected sales targets based on agreed-upon assumptions about the expected market for medical cannabis. To date, sales under the Supply Agreements have not achieved these non-binding targets. The Company believes it has complied with its obligations under the Supply Agreements and that lower than expected sales levels are a result of market factors. The Company has also notified Canopy that it categorically rejects Canopy’s claims, and the parties are attempting to resolve the dispute. At the present time, the Supply Agreements remain in full force and effect, and the parties continue to engage in discussions in an attempt to resolve their dispute. No provision has been recorded as at June 30, 2022 in relation to this dispute.

(unaudited, in thousands of Canadian dollars, unless otherwise noted)

16. Contingencies - Continued

The Company believes that all claims and lawsuits in the aggregate, when settled, are not expected to have a material impact on the Company's financial position, results of operations or cash flows. There are a number of uncertainties involved in such matters, individually or in aggregate, and as such, to the extent that the Company's assessment of its exposure in respect of such matters is either incorrect or changes, there is a possibility that the ultimate resolution of these matters may result in a material adverse effect on the Company's reputation, operations, financial condition or performance in future periods. The Company regularly assesses the adequacy of accruals or provisions related to such matters and makes adjustments as necessary.

17. Supplementary Disclosure to the Consolidated Statements of Cash Flows

The net change in non-cash working capital comprises of the following:

	For the six month periods ended June 30,	
	2022	2021
	$	$
Trade and other receivables	**(5,443)**	(2,451)
Inventories	**(2,347)**	(2,272)
Prepaid expenses	**99**	(3,040)
Trade payables and other liabilities	**(8,294)**	298
Provisions	**—**	(4,172)
Total	**(15,985)**	(11,637)