Management's Discussion and Analysis

For the three month periods ended March 31, 2023 and 2022

Dated: May 10, 2023

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Management's Discussion and Analysis

(For the three month periods ended March 31, 2023 and 2022)

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. 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.

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 month periods ended March 31, 2023 and 2022 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 month periods ended March 31, 2023 and 2022. The unaudited condensed interim consolidated financial statements for the three month periods ended March 31, 2023 and 2022 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, 2022.

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 May 10, 2023.

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

CareRx is Canada’s largest provider of pharmacy services to seniors homes and other congregate care settings. We serve over 94,000 residents in over 1,600 seniors and other communities, including long-term care homes, retirement homes, assisted living facilities, and group homes. 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.

28
fulfilment centres

>1,600
long-term care and retirement homes

>94,000
beds

Highlights for the Three Month Period Ended March 31, 2023

Highlights for the First Quarter of 2023

(All comparative figures are for the first quarter of 2022)

- **Revenue decreased by 2% to $91.4 million from $93.2 million**
  - Decline was driven by the offboarding of a large customer contract which was substantially completed in the fourth quarter of 2022. This contract loss was partially offset by the contribution of new beds onboarded throughout 2022 and the first quarter of 2023; and
  - Decline was also the result of a change in the mix of branded and generic pharmaceuticals dispensed during the first quarter of 2023. This change did not negatively impact the Company's profitability in the quarter.
- **Adjusted EBITDA[1] decreased by 21% to $6.8 million from $8.6 million**
  - Decline was partially driven by the $1.7 million full-quarter impact of the offboarding of a large customer contract which was substantially completed in the fourth quarter of 2022;
  - Decline was also the result of incremental costs associated with continued challenges in the healthcare labour market. Scarcity and increased competition for pharmacists, registered pharmacy technicians, and pharmacy support staff has resulted in a higher number of open positions and a longer time to fill these vacancies. As a result, the Company incurred incremental costs totaling approximately $1.7 million in the quarter, which consisted of $0.5 million related to wage adjustments and the creation of certain new positions and $1.2 million related to overtime, contract labour and recruitment costs.These incremental costs are expected to persist into the second half of 2023; and
  - The impact of the customer offboarding and incremental labour costs was partially offset by the contribution of new beds onboarded throughout 2022 and the first quarter of 2023.
- **Net loss decreased by 22% to $2.1 million from $2.8 million**
  - Net loss is primarily a result of finance costs in addition to certain non-cash items including share-based compensation expense; and
  - Decrease in net loss was driven primarily by lower transaction and restructuring costs, share-based compensation expense and finance costs which were partially offset by the impact of the customer offboarding, incremental costs incurred as a result of the current labour market, and a lower gain on the change in fair value of derivative financial instruments.
- **Closed public offering and private placement**
  - On January 11, 2023, the Company entered into an agreement with a syndicate of investment dealers (the "Underwriters") pursuant to which the Underwriters agreed to purchase common shares of the Company for total gross proceeds of approximately $8.0 million (the "Offering");
  - Concurrent with the Offering, the Company entered into a binding agreement to sell common shares of the Company to an existing institutional investor under the same terms and conditions of the Offering, on a private placement basis (the "Private Placement"), for total gross proceeds of approximately $8.0 million, with the Private Placement to close in two equal tranches;
  - On January 18, 2023, the Company closed the Offering, and the first tranche of the Private Placement; and
  - On February 24, 2023, the Company closed the remaining second tranche of the Private Placement.
- **Pause in previously scheduled fee changes in Ontario**
  - In March 2023, the Ontario Ministry of Health issued an Executive Officer Notice announcing the postponement of the previously scheduled changes to long-term care pharmacy funding for a further year;
  - These changes, which were scheduled to go into effect on April 1, 2023, 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, 2023, further declining annually by $100 dollars per bed until it reached $1,200 dollars per bed; and
  - Absent any further postponements, the annual reductions in the per bed fee are now expected to commence on April 1, 2024.

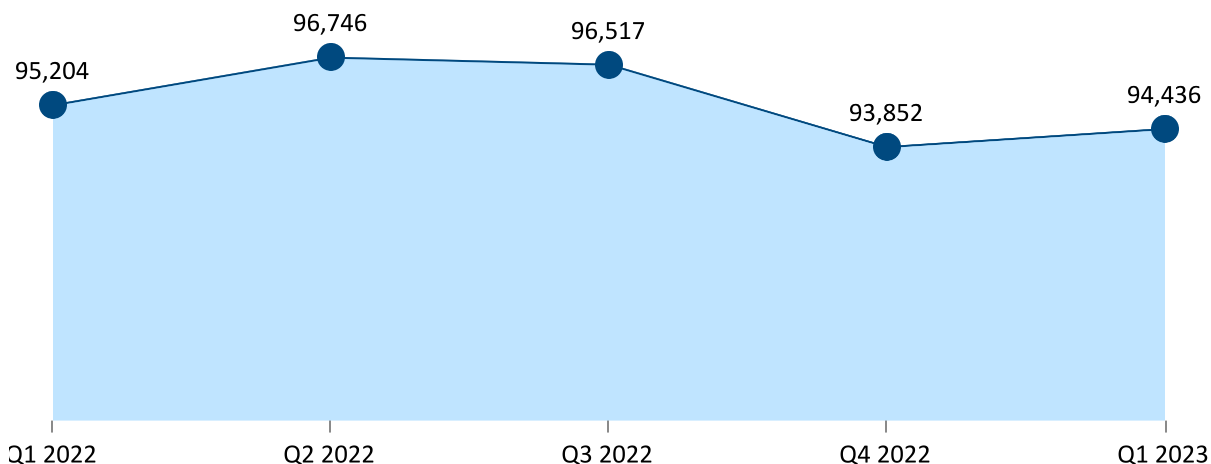
[1] *Adjusted EBITDA is a non-IFRS measure that is defined and calculated in "Reconciliation of Non-IFRS Measures"*

- **Commenced operation of BD Rowa™ Dose medication packaging system**
  - During the first quarter of 2023, the Company commenced the packaging of medications dispensed from its high-volume fulfillment centre in Oakville, Ontario, using the BD Rowa™ packaging technology.

Highlights subsequent to quarter-end

- **Announced CEO transition**
  - Subsequent to quarter-end, the Company announced that David Murphy will step down as President and Chief Executive Officer and as a member of the Board of Directors (the "Board") effective May 31, 2023 to pursue another employment opportunity;
  - Puneet Khanna, will assume the role of President and Chief Executive Officer on the same date and will be nominated as part of the slate of directors to be elected at the upcoming annual general meeting of shareholders to be held on June 6, 2023; and
  - Currently serving as the Company's Chief Operating Officer, Puneet Khanna has over 20 years' experience in the pharmacy and senior care sectors. Prior to assuming the role of Chief Operating Officer, he served as the Company's Chief Commercial Officer, joining CareRx in November 2020 after serving as Chief Executive Officer of MED e-care Healthcare Solutions Inc., a global software-solution provider within the long-term and chronic care sectors. His prior experience includes more than ten years in executive leadership roles at Medical Pharmacies (part of which was acquired by CareRx in 2021) and MediSystem Pharmacy.
- **Nominated Jeff Watson as an independent member of the Company's Board of Directors**
  - Subsequent to quarter-end, Jeff Watson was nominated on the slate of directors to be voted on by shareholders at the Company's annual general meeting to be held on June 6, 2023;
  - Mr. Watson most recently served as the President and Chief Executive Officer of Apotex Inc. from December 2018 to April 2023; and
  - Matthew Hills, a current independent member of the Board, will not be standing for re-election at the Company's annual general meeting.

Key Performance Indicators - First Quarter of 2023



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. **Optimize business operations**
   - Continue to integrate historical acquisitions, creating best-in-class standardized operating platform
   - Leverage innovative technology, lean principles and scale of operations to drive labour and other efficiencies
   - Centralize procurement management and implement best practices to reduce operating costs
   - Enhance quality reporting metrics that demonstrate value to customers with emphasis on improved healthcare outcomes
2. **Strengthen balance sheet and improve cash generation**
   - Simplify capital structure
   - Reduce total net debt to Adjusted EBITDA
   - Lower overall cost of capital
   - Increase conversion of Adjusted EBITDA to cash flow
3. **Continue to grow revenue**
   - Grow volume and breadth of services provided to existing customers
   - Leverage value proposition to win new customer contracts
   - Make accretive acquisitions that leverage core competencies
   - Expand service offering to new geographies
4. **Expand industry advocacy efforts**
   - Strengthen government relations capabilities to ensure sustainable funding levels
   - Promote value of long-term care pharmacy sector with key stakeholders

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 and making accretive acquisitions, as well as through the diversification of its offerings and leveraging its best-in-class platform to offer the highest levels of service to more Canadians.

In addition to winning new contracts with customers, the Company believes that there are significant organic growth opportunities available within its existing customer base and that this growth will be derived from customers that are expanding through the construction and acquisition of long-term care homes and retirement residences, through increased uptake of the Company's services in retirement homes and the expansion of the Company's other clinical and service offerings to existing customers.

CareRx is also focused on optimizing its operations to reduce its cost structure and expand its Adjusted EBITDA Margins and cash flow generation. The Company believes that there are significant opportunities within the business to leverage its scale through the use of technology, lean principles and procurement practices to drive efficiencies that will result in significant cost savings.

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, net and income tax (recovery) expense. "Adjusted EBITDA" is defined as EBITDA before transaction, start-up, restructuring and other 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 share-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 March 31,	
	2023	2022
(thousands of Canadian Dollars)	**$**	$
Net loss	**(2,149)**	(2,762)
Depreciation and amortization	**4,775**	4,699
Finance costs, net	**3,148**	3,674
Income tax recovery	**—**	(90)
EBITDA	**5,774**	5,521
Transaction, start-up, restructuring and other costs	**258**	2,688
Change in fair value of contingent consideration liability	**181**	96
Share-based compensation expense	**701**	1,330
Change in fair value of derivative financial instruments	**(177)**	(1,126)
Loss on disposal of assets	**82**	107
Adjusted EBITDA	**6,819**	8,616
Weighted average number of shares - basic and diluted (in thousands)	**55,331**	46,504
Adjusted EBITDA per share - basic	**$0.12**	$0.19

Selected Financial Information

The following selected financial information as at and for the three month period ended March 31, 2023, 2022, and 2021, 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 March 31,		
	2023	2022	2021
(thousands of Canadian Dollars)	**$**	$	$
Revenue	**91,404**	93,176	44,857
EBITDA[5]	**5,774**	5,521	(101)
Adjusted EBITDA[5]	**6,819**	8,616	4,086
Per share - Basic	**$0.12**	$0.19	$0.15
Adjusted EBITDA Margin[5]	**7.5%**	9.2%	9.1%
Net loss	**(2,149)**	(2,762)	(5,866)
Per share - Basic and Diluted	**($0.04)**	($0.06)	($0.21)
Cash provided by (used in) operations	**5,066**	(1,176)	(1,705)
Total assets	**271,936**	285,041	170,624
Total liabilities	**193,957**	203,247	143,934
Weighted average number of shares - basic and diluted (in thousands)	**55,331**	46,504	28,048

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

Results of Operations for the Three Month Periods Ended March 31, 2023 and 2022

Operating and Other Expenses as a Percentage of Revenue

	For the three month periods ended March 31,			
	2023		2022	
$ millions	**$**	**%**	$	%
Revenue	**91.4**	**100 %**	93.2	100 %
Operating expenses:				
Pharmacy services and supplies	**65.8**	**72.0 %**	65.3	70.1 %
Employee costs	**7.3**	**8.0 %**	7.5	8.0 %
Other operating expenses	**11.5**	**12.6 %**	11.8	12.7 %
Total operating expenses	**84.6**	**92.6 %**	84.6	90.8 %
Other expenses:				
Depreciation and amortization	**4.8**	**5.3 %**	4.7	5.0 %
Share-based compensation expense	**0.7**	**0.8 %**	1.3	1.4 %
Loss on disposal of assets	**0.1**	**0.1 %**	0.1	0.1 %
Transaction, start-up, restructuring and other costs	**0.3**	**0.3 %**	2.7	2.9 %
Finance costs, net	**3.1**	**3.4 %**	3.7	4.0 %
Income tax recovery	**—**	**— %**	(0.1)	(0.1) %
Total other expenses	**9.0**	**9.8 %**	12.4	13.3 %

- Revenue for the three month period ended March 31, 2023 decreased by 2% to $91.4 million from $93.2 million for the same period in the prior year.
- Revenue decreased as a result of the offboarding of a large customer contract which was substantially completed by the end of the fourth quarter of 2022, partially offset by new beds onboarded during 2022 and the first quarter of 2023. Revenue also decreased as a result of a change in the mix of branded and generic pharmaceuticals dispensed during the first quarter of 2023.

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 month period ended March 31, 2023 of $84.6 million were consistent with the same period in the prior year.
- Cost of pharmacy services and supplies for the three month period ended March 31, 2023 increased by 1% to $65.8 million as compared to $65.3 million for the same period in the prior year, primarily due to an increase in labour costs resulting from incremental costs associated with continued challenges in the healthcare labour market, partially offset by the impact of a change in the mix of branded and generic pharmaceuticals dispensed during the first quarter of 2023.
- Employee expenses for the three month period ended March 31, 2023 decreased by 3% to $7.3 million as compared to $7.5 million for the same period in the prior year related to indirect labour cost savings initiatives.
- Other operating expenses for the three month period ended March 31, 2023 decreased by 3% to

$11.5 million from $11.8 million for the same period in the prior year, primarily due to having lower average beds serviced during the quarter.

Loss on disposal of assets for the three month period ended March 31, 2023 was consistent with the same period in the prior year. The losses were related to the disposal of assets no longer in use.

Transaction, start-up, 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, start-up, restructuring and other costs for the three month period ended March 31, 2023 decreased by 90% to $0.3 million from $2.7 million for the same period in the prior year.

  Transaction, start-up, restructuring and other costs incurred during the same period in the prior year were non-recurring and primarily related to (i) transition and integration costs related to prior year acquisitions; and (ii) restructuring costs from labour savings and other initiatives.

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

Finance costs, net for the three month period ended March 31, 2023 decreased by 14% to $3.1 million as compared to $3.7 million for the same period in the prior year.

Finance costs, net excluding accretion related expenses for the three month period ended March 31, 2023 decreased by 7% to $2.8 million as compared to $3.0 million for the same period in the prior year, primarily due to a decrease in the applicable interest rate on the Company's Senior Facility and an increase in interest income earned.

Accretion expense for the three month period ended March 31, 2023 decreased by 12% to $0.6 million as compared to $0.7 million for the same period in the prior year, primarily due to the decrease in the outstanding principal of the Convertible Debentures.

Income tax recovery for the three month period ended March 31, 2023 was nil as compared to a nominal recovery of $0.1 million for the same period in the prior year. For the three month period ended March 31, 2023, previously unrecognized deferred tax assets offset income tax expense in full, and the recovery for the same period in the prior year was related to previously unrecognized deferred tax assets that were recognized in the current year.

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 March 31, 2023, the Company had $105.0 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 Company's balance sheet and maximizing shareholder value.

Senior Facility

On August 23, 2021, concurrent with the closing of the acquisition of the Long-Term Care Pharmacy Division of Medical Pharmacies Group Limited ("MPGL LTC Pharmacy Business" and the "MPGL 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.

During the year ended December 31, 2022, the Company amended the credit agreement for the Senior Facility to amend the calculations of certain financial covenants in addition to the thresholds for one of its financial covenants for the year ended December 31, 2023. The amended credit agreement also provided a waiver for one of the financial covenants for the year ended December 31, 2023. These amendments are expected to provide the Company with greater flexibility as it continues to focus on its operations and manage current labour market challenges.

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.

Interest on the Yorkville Facility accrued at a rate of 12% per annum, increasing to 14% to the extent that the Company did not meet certain financial covenants by the third quarter of 2021. The Yorkville Facility provided for the ability to pay interest payments in-kind, in lieu of cash interest payments, adding the interest that would otherwise be payable to the principal amount accrued at a rate of 14%.

The Yorkville Facility initially had a maturity of 24 months from closing, subject to certain prepayment rights of the Company or the mutual agreement of the Company and Yorkville to extend the maturity date.

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.

Equity Financings

On January 11, 2023, the Company entered into an agreement with the Underwriters pursuant to which the Underwriters agreed to purchase 2,963,000 common shares of the Company at a price of $2.70 per common share (the “Offering Price”) for total gross proceeds of approximately $8.0 million. In addition, the Company granted the Underwriters an option (the "Over-Allotment Option") to purchase up to an additional 444,450 common shares of the Company at the Offering Price for additional gross proceeds of up to approximately $1.2 million. Concurrent with the Offering, the Company entered into a binding agreement to sell 2,963,000 common shares to an existing institutional investor under the same terms and conditions of the Offering, on a private placement basis, with the Private Placement to close in two tranches.

On January 18, 2023, the Company completed the Offering and the first tranche of the Private Placement. The Company issued 2,998,000 common shares pursuant to the Offering, including 35,000 common shares issued as a result of the partial exercise of the Over-Allotment Option, for aggregate gross proceeds of $8.1 million. The Company also issued 1,481,500 common shares pursuant to the closing of the first tranche of the Private Placement for aggregate gross proceeds of $4.0 million. On February 24, 2023, the Company issued an additional 1,481,500 common shares pursuant to the closing of the second tranche of the Private Placement for aggregate gross proceeds of $4.0 million.

During the year ended December 31, 2022, the Company incurred $0.4 million in costs related to the Offering and the Private Placement. These costs were deferred and recognized as a prepaid expense as at December 31, 2022. During the three month period ended March 31, 2023, $1.4 million in additional equity issuance costs were incurred.

Cash Flow

Cash flow activities for the three month period ended March 31, 2023 were as follows:

Cash provided by (used in) operating activities

Cash provided by operating activities was $5.1 million compared to cash used in operating activities of $1.2 million for the same period in the prior year:

- Cash provided by operating activities in the current year was positively impacted by the significant reduction in transaction and restructuring related expenditures compared to the same period in the prior year.

- Cash used in operating activities in the same period in the prior year related to the timing of certain working capital payments and transactions and restructuring related expenditures, which offset incremental cash flows from operations generated by the acquisitions completed during the year ended December 31, 2021.

Cash used in investing activities

Cash used in investing activities was $2.0 million compared to $2.6 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; partially offset by the net proceeds from the disposal of property and equipment and intangible assets.

- Cash used in investing activities in the same period in the prior year related to the purchases of property and equipment and intangible assets, which included certain leasehold improvements incurred in the prior year.

Cash provided by (used in) financing activities

Cash provided by financing activities was $9.0 million compared to cash used in financing activities of $3.3 million for the same period in the prior year:

- Cash provided by financing activities in the current year related to the net proceeds from the Offering and Private Placement; partially offset by the payments of interest and finance leases.

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

Contractual Commitments

The Company's contractual commitments at March 31, 2023, are as follows:

	Total	2023	2024-2025	2026-2027	Thereafter
	$	$	$	$	$
Trade payables and other liabilities	**49.1**	45.2	2.4	1.5	—
Convertible Debentures	**12.6**	6.3	6.3	—	—
Senior Facility	**60.1**	4.1	16.2	39.8	—
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	**23.4**	6.8	13.4	3.2	—
Leases	**59.2**	4.5	10.3	8.2	36.2
Contingent consideration	**3.9**	3.1	—	0.8	—
Total	**242.9**	**71.0**	**62.2**	**73.5**	**36.2**

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.

Equity

As at March 31, 2023, the Company had total shares outstanding of 57,436,477. The outstanding shares included 2,880 (December 31, 2022 - 2,880) 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 57,433,597 common shares outstanding as at March 31, 2023 and 51,003,993 shares outstanding at December 31, 2022.

For the period ended	March 31, 2023	December 31, 2022
Common shares		
Balance, beginning of period	**51,003,993**	46,289,983
Issuance of shares	**6,264,093**	146,143
Shares released from escrow or issued from treasury for contingent consideration	**—**	1,340,346
RSUs, DSUs and warrants exercised	**165,511**	653,789
Shares issued for acquisitions	**—**	481,400
Conversion of Convertible Debentures	**—**	2,092,332
Balance, end of period	**57,433,597**	51,003,993

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

As at March 31, 2023, there were a total of 1,880,479 RSUs and DSUs outstanding to grant an equivalent number of common shares.

For the period ended	March 31, 2023	December 31, 2022
RSUs and DSUs		
Balance, beginning of period	**1,250,583**	1,010,248
RSUs and DSUs granted	**799,446**	711,652
RSUs and DSUs released	**(165,511)**	(425,542)
RSUs and DSUs forfeited	**(4,039)**	(45,775)
Balance, end of period	**1,880,479**	1,250,583

Issuance of Warrants

As at March 31, 2023, there were 12,600,000 warrants outstanding and exercisable (each warrant entitles the holder to acquire 0.05 common shares in the capital of the Company) at a weighted average exercise price of $5.63 per common share.

For the period ended	**March 31, 2023**	December 31, 2022
Share purchase warrants		
Balance, beginning of period	**12,600,000**	13,304,253
Warrants granted	**—**	1,000,000
Warrants exercised	**—**	(228,247)
Warrants expired	**—**	(1,404,006)
Warrants forfeited	**—**	(72,000)
Balance, end of period	**12,600,000**	12,600,000
Exercisable, end of period	**12,600,000**	12,600,000

Issuance of Stock Options

As at March 31, 2023, there were 70,000 options exercisable to purchase an equivalent number of common shares.

For the period ended	**March 31, 2023**	December 31, 2022
Common share options		
Balance, beginning of period	**310,000**	—
Options granted	**—**	310,000
Balance, end of period	**310,000**	310,000
Exercisable, end of period	**70,000**	—

Should all outstanding warrants and options that were exercisable at March 31, 2023 be exercised, the Company would receive proceeds of $3.9 million.

As at the date of this report, May 10, 2023, the number of shares outstanding, including escrowed shares, is 57,673,264; the number of RSUs and DSUs outstanding is 1,643,692; the number of stock options outstanding is 310,000; and the number of warrants outstanding is 12,600,000 (each warrant entitles the holder to acquire 0.05 common shares in the capital of the Company). Included in the shares outstanding are 2,880 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)	Q1 2023 $	Q4 2022 $	Q3 2022 $	Q2 2022 $
Revenue	91,404	94,319	97,353	96,879
Adjusted EBITDA	6,819	7,144	7,710	8,797
Adjusted EBITDA per share:				
Basic	$0.12	$0.15	$0.16	$0.19
Net loss	(2,149)	(4,680)	(1,782)	(25,129)
Loss per share:				
Basic and diluted	($0.04)	($0.10)	($0.04)	($0.53)
	Q1 2022 **$**	**Q4 2021** **$**	**Q3 2021** **$**	**Q2 2021** **$**
Revenue	93,176	96,850	71,267	49,656
Adjusted EBITDA	8,616	7,583	6,862	4,338
Adjusted EBITDA per share:				
Basic	$0.19	$0.17	$0.19	$0.14
Net loss	(2,762)	(4,447)	(3,928)	(8,489)
Loss per share:				
Basic and diluted	($0.06)	($0.10)	($0.11)	($0.28)

In the second quarter of 2021, the Company's revenue and Adjusted EBITDA increased compared to the previous quarter as a result of the SmartMeds Pharmacy Inc. ("SmartMeds") acquisition that was completed at the beginning of the second quarter of 2021. The acquisition of the a portion of the Long-Term Care Pharmacy Services business of Rexall Health Solutions ("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, start-up, restructuring and other 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 day 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 these 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 a result of the full quarter contribution from the MPGL LTC Pharmacy Business and reduction to transaction, start-up, restructuring and other costs 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 days 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 day 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, start-up, restructuring and other costs.

In the third quarter of 2022, the Company's revenue increased slightly as compared to the second quarter of 2022 as a result of an additional day to generate revenue. Adjusted EBITDA decreased compared to the second quarter of 2022 primarily due to an increase in labour costs resulting from open pharmacy staff positions and the impact from the commencement of the offboarding of a large customer contract. Net loss decreased due to non-recurring non-cash adjustments related to impairment losses recorded during the second quarter related to goodwill and intangible assets and changes in the fair value of investment, as well as a reduction in transaction, start-up, restructuring and other costs, which were partially offset by the previously mentioned factors impacting Adjusted EBITDA in addition to a lower non-cash gain on the change in the fair value of derivative financial instruments and increase in finance costs compared to the second quarter of 2022.

In the fourth quarter of 2022, the Company's revenue decreased as compared to the third quarter of 2022 as a result of one fewer weekday to generate revenue in addition to the impact from the offboarding of a large customer contract which was substantially completed by the end of 2022. Adjusted EBITDA decreased compared to the third quarter of 2022 primarily due to this customer offboarding. Net loss increased due to the previously mentioned factors impacting Adjusted EBITDA in addition to a lower non-cash gain on the change in the fair value of derivative financial instruments and an increase in share-based compensation expense.

In the first quarter of 2023, the Company's revenue decreased as compared to the fourth quarter of 2022 as a result of two fewer days to generate revenue and certain changes in the mix of prescription drugs dispensed during the quarter, in addition to the full quarter impact from the offboarding of the customer contract in the prior quarter, which was partially offset by the impact of new beds onboarding during the first quarter of 2023. Adjusted EBITDA decreased compared to the fourth quarter of 2022 primarily due to the full quarter impact from the customer offboarding, as well as incremental labour costs due to ongoing labour market challenges. Net loss decreased due to lower finance costs, transaction, start-up, restructuring and other costs and certain non-cash items including share-based compensation expense and the change in the fair value of contingent consideration liabilities.

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.

The Certifying Officers have caused such DC&P to be designed under their supervision to provide a reasonable level of assurance that (a) material information relating to the Company is made known to them by others, particularly during the period in which the annual filings are being prepared; and (b) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The Certifying Officers have caused such ICFR to be designed under their supervision using the framework established in Internal Control - Integrated Framework (2013) published by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to provide a reasonable level of assurance regarding the reliability of financial reporting and the preparation of the financial statements for external reporting purposes in accordance with IFRS.

There have been no significant changes to the Company's ICFR for the three month period ended March 31, 2023, 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, 2023.

The Company's significant accounting policies are summarized in detail in note 2 of the unaudited condensed interim consolidated financial statements for the three month periods ended March 31, 2023 and 2022. 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 month periods ended March 31, 2023 and 2022.

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. 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 three one-year pauses that were announced in January 2021, February 2022 and March 2023, respectively, the capitation rate of $1,500 per bed per year was maintained for 2021-2022, 2022-2023 and 2023-2024, and is now expected to decrease to $1,400 in 2024-2025, $1,300 in 2025-2026 and $1,200 in 2026-2027 absent any further changes.

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 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. While the impacts of COVID-19 have recently moderated and restrictions imposed as a result of COVID-19 have been lifted, a rise in infection rates or the evolution of new variants could have a negative impact on the Company. In the event of future outbreaks of COVID-19 or other epidemic or pandemic outbreaks, 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.

Moreover, 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. 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 outbreaks of COVID-19 or other diseases, revenue and the number of beds serviced may be impacted.

The Company has developed protocols and procedures should they be required to deal with any potential epidemics and pandemics, and previously put these protocols and procedures in place to address the 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, 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.

Cash Flow to Service Debt

As at March 31, 2023, the Company had approximately $105.0 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 $30.1 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 that is not already serviced by the Company. 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.

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 previously acquired businesses.

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 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 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 addition, the Company is party to a number of customer, supply and other commercial agreements. From time to time, disputes may arise between the Company and the counterparty to such contracts over the interpretation of the contract or each party's obligations thereunder that cannot be resolved by the parties and may be contested through litigation.

While the Company is party to litigation or threatened litigation from time to time, in the opinion of the Company, at the present time, these claims, potential 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, arbitrators 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 Coverage

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 a significant volume of 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 partially unionized, with certain positions at this site governed by a collective bargaining agreement, which was recently renewed for a three-year term in February 2023. 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 and regulators. 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, Respect in the Workplace Policy 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 month periods ended March 31, 2023 and 2022

(in thousands of Canadian dollars)

Dated: May 10, 2023

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Consolidated Statements of Financial Position

(unaudited, in thousands of Canadian dollars)

	March 31, 2023	December 31, 2022
	$	$
Assets		
Current assets		
Cash and cash equivalents	**40,440**	28,371
Restricted cash	**680**	680
Trade and other receivables	**33,650**	37,205
Income taxes receivable	**56**	56
Inventories	**20,659**	20,303
Prepaid expenses and other current assets (note 9)	**2,462**	2,561
	97,947	89,176
Non-current assets		
Property and equipment (note 4)	**53,325**	52,393
Goodwill and intangible assets (note 4)	**120,664**	122,966
Total assets	**271,936**	264,535
Liabilities		
Current liabilities		
Trade payables and other liabilities (note 6)	**45,831**	50,245
Current portion of borrowings (note 7)	**20,005**	7,408
Current portion of contingent consideration (note 3)	**3,130**	3,636
Current portion of lease liabilities (note 10)	**2,902**	2,598
	71,868	63,887
Non-current liabilities		
Borrowings (note 7)	**85,014**	99,372
Other deferred amounts (note 8)	**1,692**	3,233
Contingent consideration (note 3)	**730**	716
Other liabilities (note 6)	**2,974**	3,011
Deferred income tax liabilities	**4,013**	4,013
Lease liabilities (note 10)	**27,666**	25,846
Total liabilities	**193,957**	200,078
Equity		
Share capital (note 9)	**315,518**	299,784
Warrants (note 9)	**892**	892
Contributed surplus	**34,435**	34,498
Equity component of Convertible Debentures	**6,566**	6,566
Deficit	**(279,432)**	(277,283)
Total equity	**77,979**	64,457
Total liabilities and equity	**271,936**	264,535

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 March 31,	
	2023	2022
	$	$
Revenue (note 2)	**91,404**	93,176
Cost of pharmacy services and supplies	**65,828**	65,264
General and administrative expenses (note 12)	**24,315**	25,432
Transaction, start-up, restructuring and other costs (note 13)	**258**	2,688
Income (loss) from operations	**1,003**	(208)
Finance costs, net (note 14)	**3,148**	3,674
Change in fair value of derivative financial instruments (note 10)	**(177)**	(1,126)
Change in fair value of contingent consideration liability (note 3)	**181**	96
Loss before income taxes	**(2,149)**	(2,852)
Income tax recovery (note 5)	**—**	(90)
Net loss and total comprehensive loss for the period	**(2,149)**	(2,762)
Basic and diluted loss per common share:	**($0.04)**	($0.06)
Weighted average number of common shares outstanding (in thousands) (note 9):		
Basic and diluted	**55,331**	46,504

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

Consolidated Statements of Changes in Equity

(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, 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 9)	130,140	677	—	—	—	—	677
RSUs, DSUs and warrants exercised (note 9)	378,960	2,078	(252)	(914)	—	—	912
Shares issued on conversion of Convertible Debentures, net of share issuance costs (note 9)	9,000	27	—	—	—	—	27
Warrants expired (note 9)	—	—	(11)	11	—	—	—
Share-based compensation expense	—	—	—	653	—	—	653
Net loss for the period	—	—	—	—	—	(2,762)	(2,762)
Balance at March 31, 2022	**46,808,083**	**286,240**	**2,038**	**32,083**	**7,125**	**(245,692)**	**81,794**
Balance at December 31, 2022	**51,003,993**	**299,784**	**892**	**34,498**	**6,566**	**(277,283)**	**64,457**
Issuance of shares, net of share issuance costs (note 9)	6,264,093	14,934	—	—	—	—	14,934
RSUs and DSUs exercised (note 9)	165,511	800	—	(800)	—	—	—
Share-based compensation expense	—	—	—	737	—	—	737
Net loss for the period	—	—	—	—	—	(2,149)	(2,149)
Balance at March 31, 2023	**57,433,597**	**315,518**	**892**	**34,435**	**6,566**	**(279,432)**	**77,979**

[1] Excludes 2,880 common shares held in escrow and restricted shares as at March 31, 2023 and December 31, 2022 (note 9).

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 three month periods ended March 31,	
	2023	2022
Cash provided by (used in):	**$**	$
Operating activities		
Net loss for the period	**(2,149)**	(2,762)
Adjustments for:		
Finance costs, net (note 14)	**3,148**	3,674
Change in fair value of derivative financial instruments (note 10)	**(177)**	(1,126)
Loss on disposal of assets (note 12)	**82**	107
Depreciation of property and equipment (note 4)	**2,435**	2,197
Amortization of finite-life intangible assets (note 4)	**2,340**	2,502
Income taxes paid	**—**	(6)
Income tax recovery (note 5)	**—**	(90)
Share-based compensation expense (note 12)	**701**	1,330
Change in the fair value of contingent consideration liability (note 3)	**181**	96
Supply agreement arrangements, net of amortization (note 8)	**(1,197)**	(1,025)
Cannabis agreement, net of amortization (note 8)	**(344)**	(344)
Interest received	**247**	26
Net change in non-cash working capital items (note 16)	**(201)**	(5,729)
Cash provided by (used in) operating activities	**5,066**	(1,150)
Investing activities		
Proceeds on disposal of property and equipment	**18**	—
Purchase of property and equipment (note 4)	**(1,096)**	(2,319)
Purchase of intangible assets (note 4)	**(262)**	(271)
Payment of contingent consideration (note 3)	**(673)**	—
Cash used in investing activities	**(2,013)**	(2,590)
Financing activities		
Interest paid	**(4,230)**	(2,871)
Repayment of finance loans	**—**	(15)
Repayment of leases	**(1,433)**	(1,345)
Net proceeds from common shares issued (note 9)	**14,679**	912
Cash provided by (used in) financing activities	**9,016**	(3,319)
Increase (decrease) in cash and cash equivalents	**12,069**	(7,059)
Cash and cash equivalents, beginning of period	**28,371**	35,625
Cash and cash equivalents, end of period	**40,440**	28,566

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.

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, 2022. 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, 2022.

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, 2022, except for the estimation of income taxes (note 5). 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 May 10, 2023.

New and amended standards adopted by the Company

A number of amended standards became effective from January 1, 2023. 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, 2023 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:

- Classification of liabilities as current and non-current: Amendments to IAS 1, *Presentation of Financial Statements* effective for years beginning on/after January 1, 2024.

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

2. Significant Accounting Policies - continued

Revenue

The Company's revenues were derived as follows:

	For the three month periods ended March 31,	
	2023	2022
Sale of goods	**79%**	79%
Capitated pharmacy service fees	**19%**	20%
Rendering of other pharmacy services	**2%**	1%
Total	**100%**	100%

During the three month period ended ended March 31, 2023, geographically, 65% and 35% of the Company's revenues were derived from Ontario and Western Canada, respectively (2022 - 67% and 33%).

3. Contingent Consideration

The fair value of contingent consideration is an estimate. The valuation model considers possible scenarios of forecast 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 earnings, 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**	**Other**	**Total**
	$	**$**	**$**	**$**
Balance at December 31, 2022	**716**	**2,862**	**774**	**4,352**
Change in fair value during the period	14	63	104	**181**
Contingent consideration settled in cash	—	—	(673)	**(673)**
Balance at March 31, 2023	**730**	**2,925**	**205**	**3,860**
Less: Current portion	**—**	**2,925**	**205**	**3,130**
Non-current portion at March 31, 2023	**730**	**—**	**—**	**730**

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 March 31, 2023, the Company estimated the probability of meeting the operational targets to be 100%. As at March 31, 2023, 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 acquisition of the long-term care pharmacy business of Hogan Pharmacy Partners Ltd. ("Hogan") (note 7). 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 March 31, 2023, the Company estimated the probability of meeting the growth targets to be 100%. As at March 31, 2023, the fair value of the contingent consideration liability was estimated based on a risk-adjusted discount rate of 9%.

On March 17, 2023, the Company paid $673 to settle a portion of other contingent consideration liabilities.

4. Goodwill, Intangible Assets and Property and Equipment

	Goodwill $	Intangible assets $	Total goodwill and intangible assets $	Property and equipment $
For the period ended March 31, 2023				
Cost				
Balance at December 31, 2022	118,308	91,422	209,730	73,988
Additions	—	38	38	3,594
Disposals	—	—	—	(587)
Balance at March 31, 2023	**118,308**	**91,460**	**209,768**	**76,995**
Accumulated amortization and impairment losses				
Balance at December 31, 2022	(48,297)	(38,467)	(86,764)	(21,595)
Amortization charge	—	(2,340)	(2,340)	(2,435)
Disposals	—	—	—	360
Balance at March 31, 2023	**(48,297)**	**(40,807)**	**(89,104)**	**(23,670)**
Net carrying value				
As at December 31, 2022	70,011	52,955	122,966	52,393
As at March 31, 2023	**70,011**	**50,653**	**120,664**	**53,325**

Included in the net carrying value of property and equipment are right-of-use assets of $25,686 (December 31, 2022 - $23,863).

The right-of-use assets as at March 31, 2023 and December 31, 2022 consist of the following:

	March 31, 2023 **$**	December 31, 2022 $
Right-of-use assets - Properties	**23,202**	23,266
Right-of-use assets - Equipment	**2,167**	314
Right-of-use assets - Vehicles	**317**	283
Total	**25,686**	23,863

During the three month period ended March 31, 2023, additions of property and equipment related to right-of-use assets were $3,002.

During the three month period ended March 31, 2023, amortization charges related to right-of-use assets were $961.

As at March 31, 2023 and December 31, 2022, the Company had $1,820 of indefinite-life intangible assets.

The Company performs its annual impairment testing of goodwill and indefinite-life intangible assets during the fourth quarter. 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. As at March 31, 2023, the Company assessed for any indicators of impairment requiring goodwill and indefinite-life intangible assets to be further tested outside of the annual cycle. Based on this assessment, the Company concluded there were no indicators of impairment requiring goodwill and indefinite-life intangible assets to be tested for impairment as at March 31, 2023.

5. Income Taxes

Income tax expense (recovery) 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 rate used for the three month period ended March 31, 2023 was 0.00%. 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.

6. Trade Payables and Other Liabilities

Trade payables and other liabilities are comprised of the following:

	March 31, 2023	December 31, 2022
	$	$
Trade payables	**28,917**	30,481
Salaries, wages and employee benefits payable	**3,042**	5,603
Other liabilities	**2,104**	2,202
Other accrued liabilities	**11,276**	11,346
Severance costs (note 13)	**492**	613
Total	**45,831**	50,245

Other liabilities include liabilities related to multi-year agreements with national customers, of which $2,104 is due within the next 12 months. As at March 31, 2023, the aggregate carrying value of the liabilities was $5,078.

7. Borrowings

	March 31, 2023	December 31, 2022
	$	$
Senior Facility	**59,067**	60,171
Yorkville Facility	**20,021**	20,545
Ewing Convertible Debentures	**12,635**	12,754
Liability component of Convertible Debentures	**11,800**	11,666
Hogan Vendor Take-Back Note (note 3)	**1,392**	1,363
Ewing Convertible Debentures embedded derivatives (note 10)	**104**	281
Total borrowings	**105,019**	106,780
Less current portion of borrowings:		
Ewing Convertible Debentures	**12,635**	317
Senior Facility	**6,100**	5,249
Hogan Vendor Take-Back Note	**1,058**	1,041
Liability component of Convertible Debentures	**212**	271
Yorkville Facility	**—**	530
Total current portion of borrowings	**20,005**	**7,408**
Total non-current portion of borrowings	**85,014**	**99,372**

7. Borrowings - continued

As at March 31, 2023, the current portion of borrowings includes $350 of interest accrued and payable within twelve months following the consolidated statement of financial position date (December 31, 2022 - $2,305).

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.

As at March 31, 2023, the Company was in compliance with its Senior Facility covenants.

8. Other Deferred Amounts

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

	March 31, 2023 **$**	December 31, 2022 $
Preferred drug supplier agreement	**1,113**	2,310
Preferred cannabis partner agreement	**579**	923
	1,692	3,233

9. 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)**	**March 31, 2023**		December 31, 2022	
Common shares	**Common shares**	**Stated value $**	Common shares	Stated value $
Balance, beginning of period	**51,003,993**	**299,784**	46,289,983	283,458
Issuance of shares, net of share issuance costs	6,264,093	14,934	146,143	757
Shares released from escrow or issued from treasury for contingent consideration	—	—	1,340,346	3,693
RSUs, DSUs and warrants exercised	165,511	800	653,789	3,390
Shares issued for acquisitions, net of share issuance costs	—	—	481,400	2,209
Conversion of Convertible Debentures, net of share issuance costs	—	—	2,092,332	6,277
Balance, end of period	**57,433,597**	**315,518**	51,003,993	299,784

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.

9. Shareholders' Equity and Earnings per Share - continued

The total common shares in aggregate as at March 31, 2023 are:

Type of common shares	
Freely tradeable	57,433,597
Escrowed and restricted	2,880
Total	**57,436,477**

Issuance of common shares

During the three month period ended March 31, 2023, the Company issued 165,511 common shares, related to RSUs and DSUs issued to management, employees and directors that vested.

On January 11, 2023, the Company entered into an agreement with a syndicate of investment dealers (the "Underwriters") pursuant to which the Underwriters agreed to purchase 2,963,000 common shares of the Company at a price of $2.70 per common share (the "Offering Price") for total gross proceeds of approximately $8,000 (the "Offering"). In addition, the Company granted the Underwriters an option (the "Over-Allotment Option") to purchase up to an additional 444,450 common shares of the Company at the Offering Price for additional gross proceeds of up to approximately $1,200. Concurrent with the Offering, the Company entered into a binding agreement to sell 2,963,000 common shares to an existing institutional investor under the same terms and conditions of the Offering, on a private placement basis (the "Private Placement"), with the Private Placement to close in two tranches.

On January 18, 2023, the Company closed the Offering and the first tranche of the Private Placement. The Company issued 2,998,000 common shares pursuant to the Offering, including 35,000 common shares issued as a result of the partial exercise of the Over-Allotment Option, for aggregate gross proceeds of $8,100. The Company also issued 1,481,500 common shares pursuant to the closing of the first tranche of the Private Placement for aggregate gross proceeds of $4,000. On February 24, 2023, the Company issued an additional 1,481,500 common shares pursuant to the closing of the second tranche of the Private Placement for aggregate gross proceeds of $4,000.

During the year ended December 31, 2022, the Company incurred $417 in costs related to the Offering and the Private Placement. These costs were deferred and recognized as a prepaid expense as at December 31, 2022, and subsequently reclassed to equity issuance costs. During the three month period ended March 31, 2023, the Company incurred $1,416 in additional equity issuance costs.

On March 17, 2023, the Company issued 303,093 common shares as part of a multi-year agreement with a national customer.

Issuance of RSUs and DSUs

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

For the period ended	**March 31, 2023**	December 31, 2022
RSUs and DSUs	**Units**	Units
Balance, beginning of period	**1,250,583**	1,010,248
RSUs and DSUs granted	799,446	711,652
RSUs and DSUs released	(165,511)	(425,542)
RSUs and DSUs forfeited	(4,039)	(45,775)
Balance, end of period	**1,880,479**	1,250,583

9. Shareholders' Equity and Earnings per Share - continued

The weighted-average remaining term to vest for RSUs and DSUs outstanding as at March 31, 2023 is 2.15 years.

During the three month period ended March 31, 2023, 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
March 30, 2023	780,487 RSUs	Management and employees of the Company	Vest over three years	$2.20
March 31, 2023	18,959 RSUs	Directors of the Company	Vest immediately	$2.35

Issuance of warrants

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

For the period ended	**March 31, 2023**		December 31, 2022	
Share purchase warrants	**Warrants[1]**	**Weighted average exercise price per common share**	Warrants	Weighted average exercise price per common share
Balance, beginning of period	**12,600,000**	**$5.63**	13,304,253	$5.02
Warrants granted	—	$—	1,000,000	$12.91
Warrants exercised	—	$—	(228,247)	$4.56
Warrants expired	—	$—	(1,404,006)	$4.99
Warrants forfeited	—	$—	(72,000)	$10.16
Balance, end of period	**12,600,000**	**$5.63**	12,600,000	$5.63
Exercisable, end of period	**12,600,000**	**$5.63**	12,600,000	$5.63

[1] Each warrant entitles the holder to acquire 0.05 common shares in the capital of the Company.

The weighted average remaining contractual life and weighted average exercise price of warrants outstanding as at March 31, 2023 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 - $8.96	11,600,000	$5.00	1.87	11,600,000	$5.00
$8.97 - $12.91	1,000,000	$12.91	1.67	1,000,000	$12.91
Balance, end of period	**12,600,000**	**$5.63**	**1.85**	**12,600,000**	**$5.63**

9. Shareholders' Equity and Earnings per Share - continued

Issuance of stock options

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

For the period ended	**March 31, 2023**		December 31, 2022	
Common share options	**Options**	**Weighted average exercise price**	Options	Weighted average exercise price
Balance, beginning of period	310,000	$4.95	—	$—
Options granted	—	$—	310,000	$4.95
Balance, end of period	**310,000**	**$4.95**	310,000	$4.95
Exercisable, end of period	**70,000**	**$5.18**	—	$—

The weighted average remaining term to vest for stock options outstanding as at March 31, 2023 was 1.56 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 month periods ended March 31, 2023 and 2022.

The following table illustrates the basic and diluted weighted average common shares outstanding for the three month periods ended March 31, 2023 and 2022:

	For the three month periods ended March 31,	
	2023	2022
Weighted average number of common shares outstanding - basic and diluted	**55,330,778**	46,503,990

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

As at March 31, 2023 and December 31, 2022, the Company's financial instruments consisted of cash and cash equivalents, restricted cash, trade and other receivables, 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 the 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 liabilities measured and recognized at fair value on a recurring basis are as follows:

	March 31, 2023	December 31, 2022
	$	$
Contingent consideration	**3,860**	4,352
Derivative financial instruments	**104**	281
Total	**3,964**	4,633

There were no financial instruments classified as Level 1 or Level 2 as at March 31, 2023. There were no transfers between levels during the three month periods ended March 31, 2023 and 2022.

Details regarding Level 3 fair value measurements for contingent consideration can be found in note 3 in these unaudited condensed interim consolidated financial statements and note 4 in the annual consolidated financial statements for the year ended December 31, 2022.

There were no changes in the valuation techniques used during the three month period ended March 31, 2023.

The continuity of the embedded derivatives liability is as follows:

	March 31, 2023	December 31, 2022
	$	$
Fair value of embedded derivatives, beginning of period	**281**	5,857
Change in fair value of embedded derivatives	**(177)**	(5,576)
Embedded derivatives, end of period	**104**	281

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

The Ewing Convertible Debentures contain an embedded derivative liability component (note 7). The fair value of the Ewing Morris conversion option embedded derivative is calculated using the Black-Scholes pricing model using the following assumptions:

	March 31, 2023
Estimated number of common shares	2,644,366
Dividend yield	Nil
Expected volatility	47.50%
Risk-free interest rate	3.74%
Expected life in years	0.95
Strike price	$5.00
Share price at valuation date	$2.35
Fair value	$0.04

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:

	March 31, 2023 **$**	December 31, 2022 $
Financial assets measured at amortized cost:		
Cash and cash equivalents	**40,440**	28,371
Restricted cash	**680**	680
Trade receivables, net of provision	**32,596**	36,400
Financial liabilities measured at amortized cost:		
Trade payables and other liabilities	**48,313**	52,643
Lease liabilities	**30,568**	28,444
Senior Facility	**59,067**	60,171
Liability component of Convertible Debentures	**11,800**	11,666
Ewing Convertible Debentures	**12,635**	12,754
Yorkville Facility	**20,021**	20,545
Hogan Vendor Take-Back Note (note 3)	**1,392**	1,363

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

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 and other receivables aging (net of provision) was as follows:

	March 31, 2023	December 31, 2022
	$	$
Current	**25,510**	27,790
More than 30 days past due	**2,625**	2,648
More than 60 days past due	**1,091**	1,274
More than 90 days past due	**3,370**	4,688
	32,596	36,400

Included in trade and other receivables as at March 31, 2023 are $11,501 (December 31, 2022 - $13,875) of amounts receivable from government funding related to product sales and services rendered.

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.

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

For the period ended	**March 31, 2023**	December 31, 2022
	$	$
Provision, beginning of period	**3,655**	2,228
Provision for receivables impairment	**426**	2,350
Write-offs charged against the provision for receivables impairment	**(14)**	(923)
Provision, end of period	**4,067**	3,655

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.

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

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 March 31, 2023:

	Total	2023	2024-2025	2026-2027	Thereafter
	$	$	$	$	$
Trade payables and other liabilities	**49,189**	45,230	2,417	1,542	—
Convertible Debentures	**12,500**	6,250	6,250	—	—
Senior Facility	**60,000**	4,050	16,200	39,750	—
Ewing Convertible Debentures	**13,167**	—	13,167	—	—
Yorkville Facility	**20,015**	—	—	20,015	—
Hogan Vendor Take-Back Note	**1,400**	1,000	400	—	—
Interest payments on borrowings	**23,509**	6,831	13,434	3,244	—
Leases	**59,168**	4,452	10,284	8,244	36,188
Contingent consideration	**3,930**	3,130	—	800	—
Total	**242,878**	**70,943**	**62,152**	**73,595**	**36,188**

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.

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 March 31, 2023, 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 March 31, 2023, the Company held no significant financial instruments that were denominated in a currency other than Canadian currency.

11. 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 7) and common shares of the Company, and that provided the Yorkville Facility (note 7).

12. General and Administrative Expenses

The components of general and administrative expenses are as follows:

	For the three month periods ended March 31,	
	2023	2022
	$	$
Employee costs	**7,254**	7,469
Other operating expenses	**11,503**	11,827
Depreciation and amortization	**4,775**	4,699
Share-based compensation expense	**701**	1,330
Loss on disposal of assets	**82**	107
Total	**24,315**	25,432

Other operating expenses for the three month periods ended March 31, 2023 and 2022 include expenses of $268 and $243, respectively, relating to short-term leases, low-value asset leases and variable lease payments.

13. Transaction, Start-up, 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.

13. Transaction, Start-up, Restructuring and Other Costs - continued

Transaction, start-up, restructuring and other costs for the three month periods ended March 31, 2023 and 2022 consist of the following:

	For the three month periods ended March 31,	
	2023	2022
	$	$
Transaction and start-up costs	**91**	608
Restructuring and other costs	**167**	2,080
Total	**258**	2,688

As at March 31, 2023, the Company had accrued liabilities related to severance of $492 (December 31, 2022 - 613) included in trade payables and other liabilities consisting of the following:

	Severance $
Balance at December 31, 2022	613
Accruals	195
Payments	(316)
Balance at March 31, 2023	**492**

14. Finance Costs, Net

Finance costs, net for the three month periods ended March 31, 2023 and 2022 are comprised of the following:

	For the three month periods ended March 31,	
	2023	2022
	$	$
Interest on Senior Facility	**1,110**	1,332
Accretion on Senior Facility	**139**	128
Interest on Yorkville Facility	**518**	525
Interest on Convertible Debentures	**254**	381
Accretion on Convertible Debentures	**192**	390
Interest on Ewing Convertible Debentures	**260**	260
Accretion on Ewing Convertible Debentures	**148**	141
Interest on leases	**657**	543
Interest on Hogan Vendor Take-Back Note	**17**	—
Accretion on Hogan Vendor Take-Back Note	**12**	—
Accretion on other liabilities	**88**	—
Interest income, net	**(247)**	(26)
Total	**3,148**	3,674

15. 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.

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.

16. Supplementary Disclosure to the Consolidated Statements of Cash Flows

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

	For the three month periods ended March 31,	
	2023	2022
	$	$
Trade and other receivables	**3,659**	2,255
Inventories	**(356)**	(1,393)
Prepaid expenses	**(318)**	(264)
Trade payables and other liabilities	**(3,186)**	(6,327)
Total	**(201)**	(5,729)

The movements in liabilities from financing activities consist of the following:

	Leases	**Borrowings**	**Total**
	$	**$**	**$**
Balance at December 31, 2022	**28,444**	**106,780**	**135,224**
Additions	2,323	—	2,323
Changes in fair value (note 10)	—	(177)	(177)
Payments	(1,433)	(4,234)	(5,667)
Modifications of leases	577	—	577
Interest expense (note 14)	657	2,159	2,816
Accretion expense (note 14)	—	491	491
Balance at March 31, 2023	**30,568**	**105,019**	**135,587**