



Management's Discussion and Analysis
For the years ended December 31, 2021 and 2020

Dated: March 17, 2022

Index

| | |
|--|--------------------|
| Our Business and Growth Strategy | 5 |
| Highlights | 6 |
| Strategic Priorities | 12 |
| Business Strategy and Outlook | 12 |
| Reconciliation of Non-IFRS Measures | 14 |
| Selected Financial Information | 15 |
| Results of Continuing Operations | 16 |
| Liquidity and Capital Resources | 19 |
| Contractual Commitments | 22 |
| Equity | 23 |
| Transactions with Related Parties | 25 |
| Summary of Quarterly Results | 26 |
| Disclosure Controls and Procedures and Internal Control Over Financial Reporting | 28 |
| Critical Accounting Policies and Estimates | 29 |
| Risks and Uncertainties | 31 |
| Proposed Transactions | 41 |
| Off-Balance Sheet Arrangements | 41 |

Management's Discussion and Analysis

(For the years ended December 31, 2021 and 2020)

Forward-Looking Statements

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

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

This list is not exhaustive of the factors that may impact the Company's forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person

assumes responsibility for the accuracy and completeness of these forward-looking statements. The factors underlying current expectations are dynamic and subject to change.

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

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 years ended December 31, 2021 and 2020 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 consolidated financial statements and notes thereto for the years ended December 31, 2021 and 2020. The consolidated financial statements for the years ended December 31, 2021 and 2020 are prepared in accordance with 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 years ended December 31, 2021 and 2020.

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 continuing 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 March 17, 2022.

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

Our Business and Growth Strategy

CareRx is Canada's largest and fastest growing provider of pharmacy services to seniors homes and other congregate care settings. We serve over 96,000 residents in over 1,600 seniors and other communities, including long-term care homes, retirement homes, assisted living facilities, and group homes, dispensing over 3.1 million prescriptions every month. We play an integral role in supporting our home care partners by providing high-volume, cost-effective solutions for the supply of chronic medication, ensuring the highest level of safety and adherence for individuals with complex medication regimes.

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

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

With a passionate team and organizational culture that has an unwavering commitment to delivering superior quality of care to the communities we serve, together with our home care partners, we are dedicated to

achieving the highest service and ethical standards. This commitment is embodied in our mission, vision and values:

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

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

Values: Collaboration, Accountability, Responsiveness and Excellence.

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

With the closing of the MPGL LTC Pharmacy Business acquisition in the third quarter of 2021, we have substantially achieved our previously stated growth target of doubling our bed count to 100,000 beds under care a year in advance of our previously communicated timeline and have set a new growth target of 130,000 beds and \$500 million in revenue by 2024.



32
fulfilment centres

>1,600
long-term care and
retirement homes

>96,000
beds

~3,100,000
prescriptions monthly

Highlights for the Fourth Quarter and the Full Year ended December 31, 2021

Highlights for the Fourth Quarter of 2021

(All comparative figures are for the fourth quarter of 2020)

- **Revenue from continuing operations increased 109% to \$96.9 million from \$46.4 million**
 - Growth was driven primarily by the contribution of the SmartMeds and Rexall LTC Pharmacy Business acquisitions completed during the second quarter of 2021 and the contribution from the MPGL Acquisition which closed on August 23, 2021, in addition to organic growth from new contracts that were onboarded throughout the third and fourth quarters of 2021.
- **Adjusted EBITDA¹ from continuing operations increased by 86% to \$7.6 million from \$4.1 million**
 - Growth was driven primarily by the contribution of the SmartMeds business and the MPGL LTC Pharmacy Business, the full quarter contribution of cost saving synergies achieved from the prior year acquisition of Remedy'sRx Specialty Pharmacy ("Remedy's") from the consolidation of certain fulfillment centres and other operating cost savings that were fully realized in the first quarter of 2021 and from new contracts that were onboarded throughout the third and fourth quarters of 2021; and
 - Adjusted EBITDA¹ growth was partially offset by non-recurring costs that were incurred during the quarter that reduced Adjusted EBITDA by \$1.1 million, including certain labour costs related to the integration of the MPGL LTC Pharmacy Business, allowances for expected credit losses that were impacted by COVID-19 and inventory cost-related adjustments. These costs are one-time in nature and are not expected to recur in future periods.
- **Net loss from continuing operations increased by 47% to \$4.4 million from \$3.0 million**
 - Net loss from continuing operations is primarily a result of finance costs and transaction and restructuring costs incurred, in addition to a number of non-cash items including changes in the fair value of derivative financial instruments and share based compensation;
 - Increase in net loss was driven primarily by the increase in finance costs as a result of the increase in the Company's borrowings, transaction and restructuring costs related to the transition and integration of the MPGL LTC Pharmacy Business, and non-cash adjustments including changes in the fair values of derivative financial instruments and prior year gains on the change in fair value of the investment in AceAge Inc. ("AceAge") and on the disposal of assets; and
 - These increases to net loss were partially offset by the contribution of the Acquired Businesses.
- **Continued integration of MPGL LTC Pharmacy Business as planned**
 - Five of the locations included in the MPGL Acquisition were consolidated during the year with five additional pharmacy site consolidations expected to be completed in 2022;
 - Integration projects expected to be substantially complete by the end of the third quarter of 2022; and
 - Cost savings synergies achieved during the fourth quarter of 2021 were approximately \$0.2 million, with total annual cost savings synergies of approximately \$5.0 million expected to be realized upon the completion of the integration.
- **Deploying new state-of-the-art medication packaging technology at first high-volume fulfillment centre**
 - Signed lease to build new innovative high-volume fulfillment centre in Burlington, Ontario;
 - New site to be the first pharmacy in Canada to use BD Rowa™ Dose medication packaging system from Becton, Dickinson and Company;
 - BD Rowa™ Dose to optimize the high-volume dispensing of medications at speeds that exceed conventional packaging solutions currently utilized in Canada;
 - New fulfillment centre and centrepiece BD Rowa™ Dose technology expected to allow for higher prescription volumes without additional labour costs, while improving safety and reducing medication packaging errors and waste; and
 - New fulfillment centre is expect to commence operations in April 2022.

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

Highlights subsequent to quarter-end

- **Secured long-term contract extensions with two largest customers**
 - Secured long-term extensions with the Company's two largest customers representing approximately 15,000 total beds serviced; and
 - Beds will be under contract for an average of 5.5 years from the end of 2021.
- **Pause in previously scheduled fee changes in Ontario**
 - In February 2022, the Ontario Ministry of Health announced that it postponed the previously scheduled changes to long-term care pharmacy funding for a further year;
 - These changes, which were originally scheduled to go into effect on April 1, 2022 after previously being postponed from April 1, 2021, would have reduced the fixed professional fee under the fee-per-bed capitation model from an annual amount of \$1,500 dollars per bed to \$1,400 dollars per bed on April 1, 2022, further declining annually by \$100 dollars per bed until it reached \$1,200 dollars per bed by the fourth year of implementation; and
 - Absent any further postponements, the annual reductions in the per bed fee are now expected to commence on April 1, 2023.
- **Expansion of scope of medical supplies business under new brand, Revicare™**
 - New brand to offer significantly expanded assortment of medical supplies, including incontinence products, nutritional supplements, wound care products and other medical supplies; and
 - Replaces existing business operating under the ClassMed brand that predominantly supplied incontinence products to residents living in select seniors living communities.
- **Appointed Adrienne Sullivan-Campeau as Chief People and Culture Officer**
 - On January 17, 2022, Adrienne Sullivan-Campeau joined the Company as Chief People and Culture Officer after previously serving as Vice President, People, Culture and Communications at Allstate Insurance Company of Canada.

Highlights for the Full Year 2021

(All comparative figures are for the full year 2020)

- **Revenue from continuing operations increased by 62% to \$262.6 million from \$162.2 million**
 - Growth was driven by the full year contribution of the Remedy's business that was acquired midway through the second quarter of 2020, the contribution of the SmartMeds and Rexall LTC Pharmacy Business acquisitions completed during the second quarter of 2021 and the MPGL LTC Pharmacy Business that was acquired on August 23, 2021 in addition to organic growth from new contracts onboarded during the year.
- **Adjusted EBITDA¹ from continuing operations increased by 79% to \$22.9 million from \$12.8 million**
 - Growth was driven primarily by the partial year contributions from the SmartMeds and MPGL LTC Pharmacy Business acquisitions, the full year contribution of the Remedy's business, including over \$3.0 million in annualized cost saving synergies achieved from the consolidation of certain fulfillment centres and other operating cost savings that were fully realized in the first quarter of 2021, and organic growth during the year; and
 - These contributions were partially offset by non-recurring costs that were incurred during the fourth quarter that reduced Adjusted EBITDA¹ by \$1.1 million.
- **Net loss from continuing operations increased by 25% to \$22.7 million from \$18.2 million**
 - Net loss from continuing operations is primarily a result of finance costs and transaction and restructuring costs incurred related to the Acquired Businesses, in addition to a number of non-cash items including changes in the fair value of derivative financial instruments and share based compensation;
 - Increase in net loss was driven primarily by finance costs due to the increase in the Company's outstanding borrowings compared to the prior year recovery of accretion expense, increases in the value of contingent consideration and the prior year gain on the fair value of investment; and
 - Increase in net loss was partially offset by the full year contribution of the Remedy's business; partial year contributions of the SmartMeds and MPGL LTC Pharmacy Business acquisitions; and reductions in transaction and restructuring costs, losses on the changes in the fair value of derivative
- financial instruments and an increase in income tax recovery for the year.
- **Completed the acquisition of the Long-Term Care Pharmacy Division of Medical Pharmacies Group Limited ("MPGL" and together, the "MPGL LTC Pharmacy Business")**
 - On August 23, 2021, completed the acquisition of the MPGL LTC Pharmacy Business, including 17 fulfillment centres serving approximately 36,000 residents of long-term care, assisted living and other congregate care settings across Ontario, Alberta and British Columbia (the "MPGL Acquisition");
 - The closing purchase consideration included: (i) the \$70.0 million initial cash consideration, which was increased to \$72.8 million by certain adjustments related to preliminary working capital and liabilities assumed on closing net of a \$1.5 million holdback, and (ii) 550,359 common shares of the Company issued at closing of the MPGL Acquisition (the "MPGL Acquisition Closing");
 - Expected to contribute run-rate annualized revenue and Adjusted EBITDA¹ of approximately \$150.0 million and \$10.0-\$12.0 million, respectively, and cost savings synergies of approximately \$5.0 million²; and
 - To date, the revenue and Adjusted EBITDA¹ contribution of the MPGL LTC Pharmacy Business is in line with expectations.
- **Completed the acquisition of SmartMeds Pharmacy Inc. ("SmartMeds")**
 - On April 1, 2021, completed the acquisition of SmartMeds, a pharmacy serving over 2,400 residents in long-term care, assisted living and other congregate care settings in Ontario for a total purchase price of up to \$7.4 million;
 - Expected to contribute run-rate annualized revenue and Adjusted EBITDA¹ of approximately \$13.0 million and \$1.5 million, respectively, prior to any benefits from the integration of the operations of the two businesses³; and
 - To date, the revenue and Adjusted EBITDA¹ contribution of the SmartMeds business is in line with expectations.

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

^{2,3} See "Risks and Uncertainties - Acquisitions and Integration"

- **Completed the acquisition of a portion of the Long-Term Care Pharmacy Services business of Rexall Health Solutions ("Rexall" and together, the "Rexall LTC Pharmacy Business")**
 - On June 21, 2021, completed the acquisition of the Rexall LTC Pharmacy Business that serves approximately 4,000 residents of long-term care, assisted living and other congregate care settings across Ontario and Northern Alberta, which included a fulfillment centre in Sudbury, Ontario;
 - Rexall made the strategic decision to exit the business of providing pharmacy services to seniors homes and other congregate care settings;
 - Expected to contribute run-rate revenue of approximately \$14.0 million, on an annualized basis and nominal Adjusted EBITDA¹, prior to any benefits from the integration of the operations of the two businesses⁴; and
 - To date, the revenue and Adjusted EBITDA contribution of the Rexall LTC Pharmacy Business is in line with expectations.
- **Increased principal outstanding under Yorkville Facility**
 - On May 19, 2021 amended the credit agreement with Yorkville pursuant to which Yorkville increased the principal amount outstanding under the existing Yorkville Facility with the Company by \$6.0 million; and
 - Amended certain other terms of the credit agreement, including extending the maturity date to August 23, 2026 and reducing the interest rate from 12% to 10.5% per annum.
- **Entered into an amended and restated credit agreement with the Company's senior lender to refinance existing credit facility**
 - On August 23, 2021, concurrent with the MPGL Acquisition Closing, 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 were advanced to the Company by CPCP and certain participants (the "Senior Facility"); and
 - Approximately \$37.0 million of the Senior Facility was used to pay a portion of the cash consideration for the MPGL Acquisition and related transaction costs. The remaining Senior Facility proceeds were used to repay the Crown Capital Facility and associated financing fees.
- **Received funds under previously completed bought deal private placement and concurrent private placement of subscription receipts of the Company (the "Subscription Receipts") for total gross proceeds of \$63.3 million and issued total common shares of 12,524,880**
 - On May 19, 2021, the Company closed a bought deal private placement of 10,247,650 Subscription Receipts with a syndicate of underwriters for aggregate gross proceeds of \$51.8 million and a non-brokered private placement with Yorkville Asset Management Inc. (for and on behalf of certain managed funds, "Yorkville") for the purchase of 2,277,230 Subscription Receipts for aggregate gross proceeds of \$11.5 million (total aggregate gross proceeds of \$63.3 million);
 - Proceeds were held in escrow and were released at the time of the MPGL Acquisition Closing at which time each Subscription Receipt was exchanged for one common share of the Company; and
 - Proceeds were used by the Company to fund a portion of the cash consideration payable in connection with the MPGL Acquisition and related transaction costs and for general working capital purposes.
- **Expanded existing contract with an Ontario-based seniors home operator by an additional 1,500 beds**
 - Expanded existing contract with an Ontario-based seniors home operator that added approximately 1,500 new retirement and long-term care residents in 19 seniors housing communities. The onboarding of the new beds was completed during the fourth quarter of 2021, with these beds being serviced through the Company's existing infrastructure.
- **Supply Agreements dispute between the Company and Canopy Growth Corporation ("Canopy")**
 - A dispute arose between the Company and Canopy with respect to the Supply Agreements between the parties, which the Company and Canopy are attempting to resolve; and
 - The Supply Agreements continue to remain in place, however, in the event that the dispute cannot be resolved, the dispute may be submitted to binding arbitration. See "Risks and Uncertainties – Litigation".

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

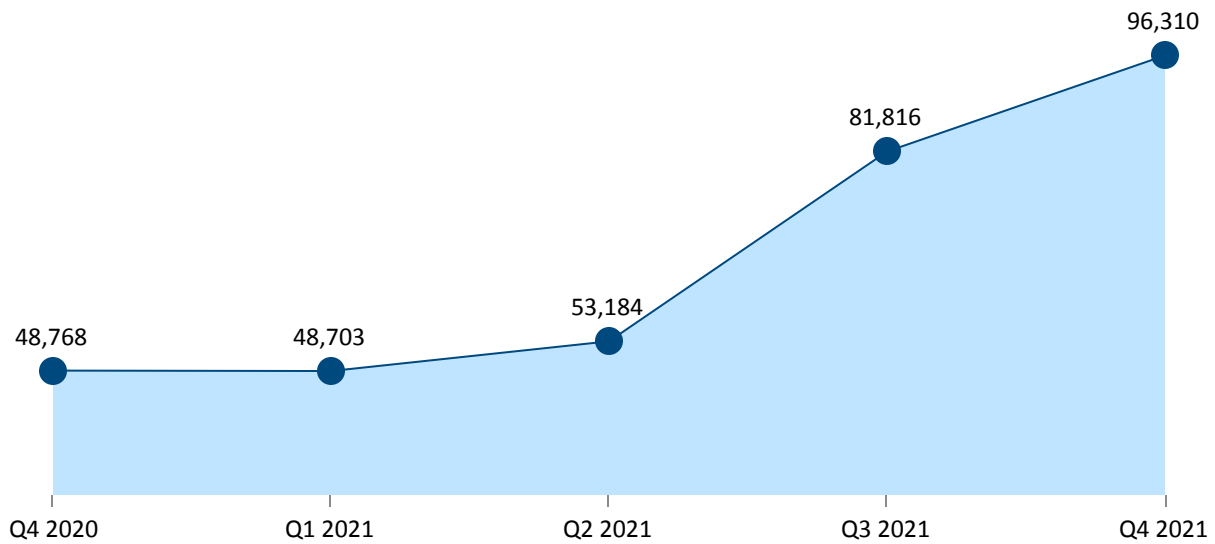
⁴ See "Risks and Uncertainties - Acquisitions and Integration"

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

- Continued to successfully minimize the overall impact of the COVID-19 pandemic;
- COVID-19-related outbreaks and the impact on occupancy levels in homes serviced reached their peak throughout December 2020 and into January 2021 and gradually improved throughout the year;
- Subsequent to year-end, the Omicron variant and associated outbreaks again impacted occupancy levels in homes serviced. While the reduction in occupancy levels has not appeared to continue beyond February 2022 with the recession of case counts, occupancy levels have yet to return to those seen in the fourth quarter of 2021;
- The Company has developed a mandatory vaccination policy in order to ensure the protection of the Company's personnel, as well as its long-term care and retirement home partners, against risks relating to COVID-19;
- The Company had previously developed protocols and procedures to address any potential epidemics and pandemics, and has put these protocols and procedures in place to address the current COVID-19 pandemic;
- The Company continues to monitor the COVID-19 situation and is taking proactive measures to manage any risks that arise that may impact the business; and
- The Company continues to work closely with its long-term care and retirement home partners to support their staff and residents in their homes.

Key Performance Indicators - Fourth Quarter of 2021

Average Beds Served



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

Strategic Priorities

1. Grow organically

- Leverage the Company's value proposition with care operators to win new contracts
- Expand scope of services to cross sell to existing customer base and attract new customers
- Maximize scale and efficiencies at existing facilities

2. Make strategic acquisitions

- Pursue opportunities that will strengthen value proposition and expand national platform, achieving operational efficiencies through increased scale and consolidation of acquisitions
- Apply strict criteria to ensure alignment, accretion and return on invested capital

3. Continuously enhance business operations

- Optimize labour models and rely on innovative technology and economies of scale to drive efficiencies
- Maintain and enhance standards of exceptional care
- Manage costs at corporate office to ensure a lean shared service model and maximize overall profitability
- Enhance quality reporting metrics that demonstrate value to customers with emphasis on best healthcare outcomes

4. Reduce debt and strengthen balance sheet

- Reduce total debt to Adjusted EBITDA over the medium term
- Utilize effective working capital management to improve cash flows

Business Strategy and Outlook

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

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

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.

In addition to the significant opportunity to grow its share of the Canadian seniors home market, an additional longer term opportunity exists through serving the needs of the approximately six million Canadian seniors living at home. With more of the Canadian seniors population choosing to live in their own homes to a later age and the life expectancy of Canadians increasing, a favourable demographic trend exists for CareRx to further leverage its national facility network and extend its seniors pharmacy capabilities to supply medications to seniors and other individuals living at home.

To pursue this opportunity, in July 2020, the Company launched Pharmacy At Your Door, a digital-based home delivery business providing a convenient and safe way for individuals living at home to receive their prescription medications, as well as a full offering of retail pharmacy products. Pharmacy At Your Door organizes and packages customer medications and vitamins by date and dose, using CareRx's state-of-the-art EasyPac technology – delivering individual pre-packed medication pouches which ensure that the right medication is taken at the right time. Pharmacy At Your Door initially launched in the greater Calgary area and has since expanded to the greater Edmonton and Vancouver areas. The Company continues to evaluate further expansion to additional regions in Canada.

To further enhance and diversify its service offerings, CareRx is also pursuing a number of innovative initiatives that have the potential to contribute to the Company's long-term growth:

Karie Device

The Company has signed a distribution and supply agreement with, and made an accompanying investment in AceAge for its home-based automated drug delivery appliance, Karie. Designed for individuals taking multiple medications, particularly seniors living independently or without full-time care, Karie is an innovative device that simplifies complex medication regimes by automatically delivering prescription drugs, in the correct dosage and at the right time. Karie is fully compatible with the Company's automated dispensing and packaging systems, and, as such, this partnership is expected to provide the Company with opportunities for additional pharmacy service offerings to seniors living in the Company's contracted seniors communities as well as those living at home. The Company is currently piloting Karie within a number of homes that it services.

Medical Cannabis Strategy

The Company has also developed a medical cannabis strategy for its seniors home pharmacy business. The Company is uniquely positioned through its presence in long-term care and retirement homes, as well as its expansion to seniors currently living at home, to provide a comprehensive service that addresses the complexities of medical cannabis use by seniors. The Company has formed a strategic partnership with Canopy (TSX: WEED) to pursue this opportunity.

Virtual Care Solution

CareRx has partnered with Think Research Corp (TSXV: THNK) ("Think"), a company focused on transforming healthcare through integrated digital health software solutions, to deliver virtual healthcare to seniors. Think's VirtualCare telemedicine software will be available in select retirement residences serviced by CareRx, providing seniors easy and secure access to a network of physicians and specialists from the comfort of their own residence. Any prescription medication a resident requires following a virtual appointment can be fulfilled by CareRx, with delivery directly to the resident on the same day.

Reconciliation of Non-IFRS Measures

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

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

The Company defines "EBITDA" as earnings before depreciation and amortization, finance costs (income), net, and income tax (recovery) expense. "Adjusted EBITDA" is defined as EBITDA before transaction and restructuring costs, change in fair value of contingent consideration liability, impairments, change in fair value of derivative financial instruments, change in fair value

of investment, gain on disposal of property and equipment and stock based compensation expense. "Adjusted EBITDA Margin" is defined as Adjusted EBITDA divided by revenue. "Adjusted EBITDA per share" is defined as Adjusted EBITDA divided by the weighted average outstanding shares on both a basic and diluted basis. 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 December 31, | | For the years ended December 31, | |
|---|--|---------|----------------------------------|----------|
| | 2021 | 2020 | 2021 | 2020 |
| (thousands of Canadian Dollars) | \$ | \$ | \$ | \$ |
| Net loss from continuing operations | (4,447) | (3,021) | (22,730) | (18,183) |
| Depreciation and amortization | 5,281 | 3,962 | 15,393 | 11,458 |
| Finance costs, net | 3,802 | 3,305 | 17,296 | 2,952 |
| Income tax recovery | (40) | (322) | (1,005) | (118) |
| EBITDA from continuing operations | 4,596 | 3,924 | 8,954 | (3,891) |
| Transaction and restructuring costs | 1,586 | 1,057 | 8,064 | 11,396 |
| Change in fair value of contingent consideration liability | 6 | (24) | 889 | (253) |
| Share-based compensation expense | 608 | 1,148 | 2,665 | 2,522 |
| Change in fair value of derivative financial instruments | 815 | (374) | 2,243 | 4,041 |
| Change in fair value of investment | — | (763) | — | (763) |
| (Gain) loss on disposal of assets | (28) | (902) | 54 | (276) |
| Adjusted EBITDA from continuing operations | 7,583 | 4,066 | 22,869 | 12,776 |
| Adjusted EBITDA from discontinued operations | — | — | — | — |
| Adjusted EBITDA | 7,583 | 4,066 | 22,869 | 12,776 |
| Weighted average number of shares - basic and diluted (in thousands) | 44,771 | 24,621 | 34,858 | 20,266 |
| Adjusted EBITDA per share from continuing operations - basic and diluted | \$0.17 | \$0.17 | \$0.66 | \$0.63 |

Selected Financial Information

The following selected financial information as at and for the year ended December 31, 2021, 2020, and 2019, 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 December 31, | | | For the years ended December 31, | | |
|---|---|----------|----------|-------------------------------------|----------|----------|
| | 2021 | 2020 | 2019 | 2021 | 2020 | 2019 |
| (thousands of Canadian Dollars) | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenue from continuing operations | 96,850 | 46,388 | 32,206 | 262,630 | 162,196 | 124,626 |
| EBITDA⁵ from continuing operations | 4,596 | 3,924 | (8,264) | 8,954 | (3,891) | (3,024) |
| Adjusted EBITDA⁵ from continuing operations | 7,583 | 4,066 | 2,470 | 22,869 | 12,776 | 9,378 |
| Per share - Basic and Diluted ⁶ | \$0.17 | \$0.17 | \$0.20 | \$0.66 | \$0.63 | \$0.85 |
| Adjusted EBITDA Margin from continuing operations | 7.8% | 8.8% | 7.7% | 8.7% | 7.9% | 7.5% |
| Adjusted EBITDA⁵ | 7,583 | 4,066 | 3,313 | 22,869 | 12,776 | 12,691 |
| Per share - Basic and Diluted ⁶ | \$0.17 | \$0.17 | \$0.27 | \$0.66 | \$0.63 | \$1.16 |
| Adjusted EBITDA Margin | 7.8% | 8.8% | 8.4% | 8.7% | 7.9% | 7.8% |
| Net loss | (4,447) | (3,021) | (18,939) | (22,730) | (18,262) | (29,307) |
| Per share - Basic and Diluted ⁶ | (\$0.10) | (\$0.12) | (\$1.56) | (\$0.65) | (\$0.90) | (\$2.67) |
| Cash provided by operations | 2,698 | 2,819 | 1,393 | 7,269 | 229 | 6,355 |
| Total assets | 282,816 | 156,110 | 87,083 | 282,816 | 156,110 | 87,083 |
| Total liabilities | 200,529 | 144,807 | 107,044 | 200,529 | 144,807 | 107,044 |
| Weighted average number of shares - basic and diluted (in thousands) | 44,771 | 24,621 | 12,152 | 34,858 | 20,266 | 10,977 |

⁵ Defined in Reconciliation of Non-IFRS Measures

⁶ Earnings per share is based on the earnings attributable to shareholders of CareRx Corporation.

Results of Continuing Operations for the Three Month Periods and the Years Ended December 31, 2021 and 2020

Operating and Other Expenses as a Percentage of Revenue

| | For the three month periods ended December 31, | | | | For the years ended December 31, | | | |
|--|--|--------|-------|---------|----------------------------------|---------|-------|---------|
| | 2021 | | 2020 | | 2021 | | 2020 | |
| \$ millions | \$ | % | \$ | % | \$ | % | \$ | % |
| Revenue | 96.9 | 100 % | 46.4 | 100 % | 262.6 | 100 % | 162.2 | 100 % |
| Operating expenses: | | | | | | | | |
| Pharmacy services and supplies | 70.7 | 73.0 % | 32.1 | 69.2 % | 187.4 | 71.4 % | 115.1 | 71.0 % |
| Employee costs | 7.4 | 7.6 % | 4.7 | 10.1 % | 22.5 | 8.6 % | 14.1 | 8.7 % |
| Other operating expenses | 11.1 | 11.5 % | 5.6 | 12.1 % | 29.9 | 11.4 % | 20.2 | 12.5 % |
| Total operating expenses | 89.2 | 92.1 % | 42.4 | 91.4 % | 239.8 | 91.3 % | 149.4 | 92.1 % |
| Other expenses: | | | | | | | | |
| Depreciation and amortization | 5.3 | 5.5 % | 4.0 | 8.6 % | 15.4 | 5.9 % | 11.5 | 7.1 % |
| Share-based compensation expense | 0.6 | 0.6 % | 1.1 | 2.4 % | 2.7 | 1.0 % | 2.5 | 1.5 % |
| (Gain) loss on disposal of assets | — | — % | (0.9) | (1.9) % | 0.1 | — % | (0.3) | (0.2) % |
| Transaction, restructuring and other costs | 1.6 | 1.7 % | 1.1 | 2.4 % | 8.1 | 3.1 % | 11.4 | 7.0 % |
| Finance costs, net | 3.8 | 3.9 % | 3.3 | 7.1 % | 17.3 | 6.6 % | 3.0 | 1.8 % |
| Income tax recovery | — | — % | (0.3) | (0.6) % | (1.0) | (0.4) % | (0.1) | (0.1) % |
| Total other expenses | 11.3 | 11.7 % | 8.3 | 17.9 % | 42.6 | 16.2 % | 28.0 | 17.3 % |

- Revenue from continuing operations for the three month period and year ended December 31, 2021 increased by 109% to \$96.9 million from \$46.4 million and by 62% to \$262.6 million from \$162.2 million, respectively, for the same periods in the prior year.
- Revenue increased primarily as a result of the impact of the SmartMeds and Rexall LTC Pharmacy Business acquisitions that were completed during the second quarter of 2021, and the MPGL Acquisition which closed on August 23, 2021 as well as organic bed growth from beds onboarded throughout the year.
- In addition to the impact of the acquisitions and organic growth achieved during the year, revenue for the year ended December 31, 2021 was also impacted by the full year contribution of the Remedy's business which was acquired midway through the second quarter of 2020.
- Going forward, the Company expects continued organic growth in revenue; however, the timing and cycles of the contract procurement process (and time required to realize revenue from formal procurement RFP processes), and the impact of the COVID-19

pandemic could result in some fluctuation of organic growth rates over time.

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 and year ended December 31, 2021 increased by 111% to \$89.2 million as compared to \$42.4 million and by 60% to \$239.8 million as compared to \$149.4 million, respectively, for the

same periods in the prior year, primarily as a result of the impact of the Acquired Businesses.

- Cost of pharmacy services and supplies for the three month period and year ended December 31, 2021 increased by 120% to \$70.7 million as compared to \$32.1 million and by 63% to \$187.4 million as compared to \$115.1 million, respectively, for the same periods in the prior year, primarily due to the impact of the Acquired Businesses.
- Employee expenses for the three month period and year ended December 31, 2021 increased by 60% to \$7.4 million as compared to \$4.7 million and by 60% to \$22.5 million as compared to \$14.1 million, respectively, for the same periods in the prior year, primarily due to the impact of the Acquired Businesses.
- Other operating expenses for the three month period and year ended December 31, 2021 increased by 99% to \$11.1 million from \$5.6 million and by 48% to \$29.9 million as compared to \$20.2 million, respectively, for the same periods in the prior year, primarily due to the impact of the Acquired Businesses.
- Operating expenses for the year ended December 31, 2021 were also impacted by the full year contribution of the Remedy's business which was acquired midway through the second quarter of 2020.

Gain on disposal of assets for the three month period ended December 31, 2021 was nominal, as compared to a gain on disposal of assets of \$0.9 million for the same period in the prior year primarily due to the sale of a non-operating wholly-owned subsidiary that was a pre-1954 charter company. The loss on disposal of assets of \$0.1 million for the year ended December 31, 2021 primarily related to the disposal of assets no longer in use, while the gain on disposal of assets of \$0.3 million for the year ended December 31, 2020 was primarily related to the sale of the pre-1954 charter company partially offset by losses from disposals of assets no longer in use.

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

- Transaction, restructuring and other costs for the three month period and year ended December 31,

2021 increased by 50% to \$1.6 million from \$1.1 million and decreased by 29% to \$8.1 million from \$11.4 million, respectively, for the same periods in the prior year.

Transaction costs incurred during the three month period and year ended December 31, 2021 primarily related to (i) the Acquired Businesses; (ii) transition and integration costs related to the MPGL Acquisition; and (iii) restructuring costs from labour savings and other initiatives.

Comparatively, costs incurred during the same periods in the prior year related to: (i) Remedy's related acquisition and integration costs; (ii) restructuring costs from labour savings and other initiatives; and (iii) a \$4.2 million provision recorded as a result of the outcome of a confidential arbitration that had been ongoing with the vendors of one of the Company's historical acquisitions in relation to the non-payment of a disputed earn-out.

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 loss on financial liability extinguishment for the current year. Finance costs, net includes interest expense and accretion expense (income) relating to the Company's borrowings, interest expense relating to the Company's finance leases and Special Warrants related expenses for the prior year.

Finance costs, net for the three month period ended December 31, 2021 increased by 15% to \$3.8 million as compared to \$3.3 million. Finance costs, net for the year ended December 31, 2021 were \$17.3 million as compared to \$3.0 million for the prior year.

Finance costs, net excluding accretion, loss on financial liability extinguishment and Special Warrants related expenses for the three month period and year ended December 31, 2021 increased by 32% to \$2.9 million as compared to \$2.2 million and by 23% to \$9.7 million as compared to \$7.9 million, respectively, for the same periods in the prior year, largely due to an increase in outstanding indebtedness which resulted in higher interest paid on the Company's borrowings.

Accretion for the three month period and year ended December 31, 2021 was an expense of \$0.9 million as compared to an expense of \$1.1 million and an expense of \$4.9 million as compared to income of \$6.2 million, respectively, for the same periods in the prior year, largely due to the completed refinancing transactions and \$9.8 million of accretion income recognized in the first quarter of 2020 to adjust the liability component of the Convertible Debentures to its amortized cost

following the repayment of the Company's Credit Facilities.

Loss on financial liability extinguishment for the three month period and year ended December 31, 2021 was nil and \$2.7 million, respectively, as compared to nil for the same periods in the prior year, primarily due to the restructuring of the Company's borrowings completed during the second and third quarters of 2021.

Special Warrants related expenses for the three month period and year ended December 31, 2021 were nil as compared to nil and \$1.3 million for the same periods in the prior year.

Income tax recovery for the three month period and year ended December 31, 2021 was a nominal recovery and a recovery of \$1.0 million, respectively, as compared to a recovery of \$0.3 million and \$0.1 million for the same periods in the prior year. The recovery for the three month period and year ended December 31, 2021 and for the same periods in the prior year were related to previously unrecognized deferred tax assets that were recognized in the current year.

As at December 31, 2021 and December 31, 2020, the Company had gross loss carry-forwards amounting to \$72.5 million and \$59.6 million, respectively, that can be carried forward against future taxable income. As at December 31, 2021 and December 31, 2020, based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, \$69.9 million and \$59.6 million of the loss carry-forwards were not recognized, respectively.

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 December 31, 2021, the Company had \$112.0 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 balance sheet and maximizing shareholder value.

During the year ended December 31, 2021, the Company:

- Completed a bought deal public offering (the "Offering") and concurrent private placement (the "Concurrent Private Placement") of common shares of the Company for total gross proceeds of \$21.2 million.

Pursuant to the Offering, the Company issued an aggregate of 3,517,850 common shares, including 458,850 common shares issued as a result of the exercise in full of the over-allotment option that was granted to the underwriters, at \$4.25 per common share for gross proceeds of \$15.0 million.

Pursuant to the Concurrent Private Placement, the Company issued an aggregate of 1,469,411 common shares of the Company at \$4.25 per common share to Yorkville and an existing significant shareholder and director of the Company for gross proceeds of \$6.2 million.

- Completed the acquisition of SmartMeds for a total purchase price of up to \$7.4 million, of which \$4.1 million was paid upon closing on April 1, 2021;
- Increased the outstanding principal under the Yorkville Facility by \$6.0 million on May 19, 2021;
- Completed a bought deal private placement and non-brokered private placement of Subscription Receipts for total gross proceeds of approximately \$63.3 million. Proceeds were used by the Company to fund a portion of the cash consideration payable in connection with the MPGL Acquisition and related transaction costs and for general working capital purposes;
- Completed the acquisition of the Rexall LTC Pharmacy Business for a total purchase price of \$3.5 million on June 21, 2021;
- Completed the MPGL Acquisition for a total purchase price of \$76.2 million on August 23, 2021, including cash consideration of \$72.9 million and the issuance of 550,359 common shares;
- Entered into an amended and restated credit agreement with CPCP under which the Senior Facility was advanced to the Company on August 23, 2021. Approximately \$37.0 million of the Senior Facility was used to pay a portion of the cash consideration for the MPGL Acquisition and related transaction costs. The remaining Senior Facility proceeds were used to repay the Crown Capital Facility that had a carrying value of \$21.1 million and outstanding principal amount of \$22.0 million as at August 23, 2021, and associated financing fees.

Senior Facility and Crown Capital Facility

On March 31, 2020, the Company entered into a credit agreement with Crown Capital under which Crown Capital agreed to advance a loan to the Company of up to \$30.0 million in three tranches: (i) an initial tranche of \$22.0 million, which was advanced on March 31, 2020 and was used to repay the Company's outstanding credit facilities, (ii) a second tranche of \$5.0 million, which was advanced on May 7, 2020 contemporaneously with the closing of the Remedy's acquisition, and was used by the Company to fund the cash consideration for the Remedy's acquisition, and (iii) a third tranche of \$3.0 million issuable at any time prior to May 31, 2021 upon the Company reaching certain financial milestones (the "Crown Capital Facility").

In addition, the Company issued 7,200,000 warrants to Crown Capital, with each warrant entitling the holder

thereof to acquire 0.05 common shares at an exercise price of \$5.00 per common share for a period of five years.

On August 23, 2021, concurrent with the MPGL Acquisition Closing, the Company entered into an amended and restated credit agreement with CPCP under which the Senior Facility was advanced to the Company. The Senior Facility proceeds were used to repay the Crown Capital Facility and associated financing fees.

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

Yorkville Facility

On March 31, 2020, the Company entered into a credit agreement with Yorkville 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 was accruing 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 May 19, 2021, the Company completed: (i) a bought deal private placement of 10,247,650 Subscription Receipts of the Company at a price of \$5.05 per Subscription Receipt (the "Issue Price") with a syndicate of underwriters for aggregate gross proceeds of approximately \$51.8 million (the "Bought Deal Financing"), and (ii) a non-brokered private placement with Yorkville pursuant to which Yorkville purchased 2,277,230 Subscription Receipts at the Issue Price, for aggregate gross proceeds of approximately \$11.5 million (the "Non-Brokered Financing" and, together with the Bought Deal Financing, the "Equity Financings"). The aggregate gross proceeds from the Equity Financings were approximately \$63.3 million, which were used by the Company to fund a portion of the cash consideration payable in connection with the MPGL Acquisition and related transaction costs and for general working capital purposes.

The gross proceeds from the Equity Financings, net of the expenses of the Underwriters and 50% of the commissions and fees payable to the Underwriters and Yorkville, were placed into escrow and were released upon the satisfaction of certain conditions (the "Escrow Release Conditions"), including the completion of the MPGL Acquisition. Upon satisfaction of the Escrow Release Conditions, each Subscription Receipt was exchanged for one common share of the Company. The underwriters of the Bought Deal Financing also received 512,382 broker warrants, each of which is exercisable for one common share of the Company at the Issue Price until May 19, 2022.

The related share issuance costs incurred were \$4.7 million (\$3.8 million in cash and \$0.9 million in underwriters warrants), resulting in net proceeds from the Equity Financings of \$58.6 million.

Cash Flow

Cash flow activities for the year ended December 31, 2021 were as follows:

Cash provided by operating activities

Cash provided by operating activities was \$7.3 million compared to \$0.2 million for the same period in the prior year:

- Cash provided by operating activities in the current year increased as a result of the contributions from the Acquired Businesses, which was partially offset by transaction related expenditures and the payment of \$4.2 million to settle a previously disclosed arbitration award related to one of the Company's historical acquisitions.
- Cash provided by operating activities in the same period in the prior year was lower primarily due to the timing of certain working capital payments, payment of income tax liabilities of \$1.7 million assumed as part of the Remedy's acquisition as well as transaction and integration costs related to the Remedy's acquisition and refinancing transactions.

Cash used in investing activities

Cash used in investing activities was \$93.2 million compared to \$4.2 million for the same period in the prior year:

- Cash used in investing activities in the current year related to the closing consideration paid for the Acquired Businesses; purchases of property and equipment and intangible assets; and payments of the earn-outs and deferred consideration related to historical acquisitions, including Remedy's; partially offset by the net proceeds from the disposal of property and equipment.
- Cash used in investing activities in the same period in the prior year related to the closing consideration paid for the Remedy's acquisition; purchases of property and equipment and intangible assets; the payment of an earn-out related to a historical acquisition; and a payment made related to the final working capital settlement for the divestiture of the Company's former Surgical and Medical Centres business.

Cash provided by financing activities

Cash provided by financing activities was \$101.9 million compared to \$23.5 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 Senior Facility, the amendment to the Yorkville Facility, the Offering and the Concurrent Private Placement, the Equity Financings and warrants exercises; partially offset by payments of interest and finance leases, transfers to restricted cash and the repayments of the Crown Facility and vendor take-back note related to the Remedy's acquisition.
 - Cash provided by financing activities in the same period in the prior year related to the net proceeds from the Crown Capital Facility, Yorkville Facility and Special Warrants; partially offset by payments of interest, repayments made on the Company's former credit facilities and finance leases, and a transfer to restricted cash.
-

Contractual Commitments

The Company's contractual commitments at December 31, 2021, are as follows:

| | Total | 2022 | 2023-2024 | 2025-2026 | Thereafter |
|--------------------------------------|--------------|-------------|------------------|------------------|-------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Trade payables and other liabilities | 46.3 | 46.3 | — | — | — |
| Convertible Debentures | 18.8 | 6.3 | 12.5 | — | — |
| Senior Facility | 60.0 | — | 12.2 | 47.9 | — |
| Ewing Convertible Debentures | 13.2 | — | 13.2 | — | — |
| Yorkville Facility | 20.0 | — | — | 20.0 | — |
| Finance loans | 0.1 | 0.1 | — | — | — |
| Interest payments on borrowings | 38.4 | 10.4 | 18.1 | 9.9 | — |
| Leases | 41.2 | 5.0 | 7.6 | 5.8 | 22.8 |
| Contingent consideration | 8.0 | 5.4 | 2.6 | — | — |
| Total | 246.0 | 73.5 | 66.2 | 83.6 | 22.8 |

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 December 31, 2021, the Company had total shares outstanding of 46,317,695. The outstanding shares included 27,712 (December 31, 2020 - 177,712) shares which were restricted and held in escrow and will only be released to certain vendors of acquired businesses based on the achievement of certain performance targets and to certain care operators. 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 46,289,983 common shares outstanding as at December 31, 2021 and 24,791,984 shares outstanding at December 31, 2020.

| For the year ended | December 31, 2021 | December 31, 2020 |
|--|-------------------|-------------------|
| Common shares | | |
| Balance, beginning of year | 24,791,984 | 14,196,208 |
| Issuance of shares | 17,512,141 | 213,448 |
| Shares released from escrow or issued from treasury for contingent consideration | 196,200 | 343,934 |
| RSUs and warrants exercised | 969,956 | 188,394 |
| Shares issued for acquisitions | 637,037 | 6,250,000 |
| Shares issued on exercise of Special Warrants | — | 2,875,000 |
| Conversion of Convertible Debentures | 2,182,665 | 725,000 |
| Balance, end of year | 46,289,983 | 24,791,984 |

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

As at December 31, 2021, there were a total of 1,010,248 RSUs and DSUs outstanding to grant an equivalent number of common shares.

| For the year ended | December 31, 2021 | December 31, 2020 |
|-----------------------------------|-------------------|-------------------|
| RSUs and DSUs | | |
| Balance, beginning of year | 771,385 | 390,774 |
| RSUs and DSUs granted | 625,148 | 582,217 |
| RSUs and DSUs released | (383,340) | (188,394) |
| RSUs and DSUs forfeited | (2,945) | (13,212) |
| Balance, end of year | 1,010,248 | 771,385 |

Issuance of Warrants

As at December 31, 2021, there were 13,304,253 warrants outstanding (each warrant entitles the holder to acquire 0.05 common shares in the capital of the Company, except for 782,253 warrants granted, which entitle the holder to acquire one common share in the capital of the Company) at a weighted average exercise price of \$5.02 per common share.

| For the year ended | December 31, 2021 | December 31, 2020 |
|-----------------------------------|--------------------|-------------------|
| Share purchase warrants | | |
| Balance, beginning of year | 23,202,833 | 17,730,333 |
| Warrants granted | 723,453 | 10,822,500 |
| Warrants deemed exercised | — | (3,450,000) |
| Warrants exercised | (9,572,033) | — |
| Warrants expired | (1,050,000) | (1,900,000) |
| Balance, end of year | 13,304,253 | 23,202,833 |
| Exercisable, end of period | 13,232,253 | 23,130,833 |

Should all outstanding warrants that were exercisable at December 31, 2021 be exercised, the Company would receive proceeds of \$7.0 million.

Subsequent to the year ended December 31, 2021, 202,628 warrants in aggregate, which entitled the holder to acquire one common share in the capital of the Company, were exercised.

Issuance of Stock Options

As at December 31, 2021, there were no options outstanding nor exercisable to purchase an equivalent number of common shares.

| For the year ended | December 31, 2021 | December 31, 2020 |
|-----------------------------------|-------------------|-------------------|
| Common share options | | |
| Balance, beginning of year | 45,850 | 83,500 |
| Options expired | (45,850) | (34,250) |
| Options cancelled/forfeited | — | (3,400) |
| Balance, end of year | — | 45,850 |
| Exercisable, end of period | — | 45,850 |

As at the date of this report, March 17, 2022, the number of shares outstanding, including escrowed shares, is 46,542,220; the number of RSUs and DSUs outstanding is 1,012,160; and the number of warrants outstanding is 13,093,182 (12,522,000 warrants entitle the holder to acquire 0.05 common shares each in the capital of the Company and 571,182 warrants entitle the holder to acquire one common share each in the capital of the Company). Included in the shares outstanding are 18,880 restricted shares, shares held in escrow, or in trust, that are not freely tradeable.

Transactions with Related Parties

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

Certain directors help manage funds that own the Convertible Debentures and common shares of the Company, including common shares issued as part of the Concurrent Private Placement, and that provided the Yorkville Facility.⁷

The former majority owner of Remedy's is a significant shareholder and director of the Company. During the years ended December 31, 2021 and 2020, this director held a vendor take-back note and was entitled to deferred consideration and certain contingent consideration that were issued as part of the Remedy's acquisition.

During the year ended December 31, 2021, the Company paid \$1.0 million in cash to settle a portion of the contingent consideration liability and \$4.0 million in cash to settle the deferred consideration liability. Additionally, on November 5, 2021, the Company paid \$3.4 million in cash to settle the vendor take-back note, net of the \$0.7 million (2020 - \$0.5 million) receivable from the director.

During the three month period and year ended December 31, 2021, the Company incurred nominal amounts and \$0.3 million (2020 - \$0.3 million and \$1.0 million), respectively, in relation to transition, management and support services provided by one of the director's corporations.

As at December 31, 2020, following the finalization of the Remedy's closing working capital balances, \$0.3 million was payable by the Company, net of amounts receivable from certain other affiliates of the former owners of Remedy's in relation to expenditures incurred by the Company that are reimbursable by the vendors in accordance with the Remedy's purchase agreement.

⁷ See *Liquidity and Capital Resources - Yorkville Facility and Bought Deal Financing and Concurrent Private Placement*

Summary of Quarterly Results

| | Q4 2021 | Q3 2021 | Q2 2021 | Q1 2021 |
|---|----------------|----------------|----------------|----------------|
| (thousands of Canadian Dollars) | \$ | \$ | \$ | \$ |
| Revenue from continuing operations | 96,850 | 71,267 | 49,656 | 44,857 |
| Adjusted EBITDA from continuing operations | 7,583 | 6,862 | 4,338 | 4,086 |
| Adjusted EBITDA per share from continuing operations: | | | | |
| Basic and diluted | \$0.17 | \$0.19 | \$0.14 | \$0.15 |
| Net loss from continuing operations | (4,447) | (3,928) | (8,489) | (5,866) |
| Loss per share from continuing operations: | | | | |
| Basic and diluted | (\$0.10) | (\$0.11) | (\$0.28) | (\$0.21) |
| Adjusted EBITDA | 7,583 | 6,862 | 4,338 | 4,086 |
| Adjusted EBITDA per share: | | | | |
| Basic and diluted | \$0.17 | \$0.19 | \$0.14 | \$0.15 |
| Net loss | (4,447) | (3,928) | (8,489) | (5,866) |
| Loss per share: | | | | |
| Basic and diluted | (\$0.10) | (\$0.11) | (\$0.28) | (\$0.21) |
| | Q4 2020 | Q3 2020 | Q2 2020 | Q1 2020 |
| | \$ | \$ | \$ | \$ |
| Revenue from continuing operations | 46,388 | 45,633 | 39,749 | 30,426 |
| Adjusted EBITDA from continuing operations | 4,066 | 3,840 | 2,825 | 2,045 |
| Adjusted EBITDA per share from continuing operations: | | | | |
| Basic | \$0.17 | \$0.17 | \$0.15 | \$0.14 |
| Diluted | \$0.17 | \$0.17 | \$0.15 | \$0.08 |
| Net income (loss) from continuing operations | (3,021) | (6,407) | (14,148) | 5,393 |
| Earnings (loss) per share from continuing operations: | | | | |
| Basic | (\$0.12) | (\$0.28) | (\$0.75) | \$0.37 |
| Diluted | (\$0.12) | (\$0.28) | (\$0.75) | \$0.22 |
| Adjusted EBITDA | 4,066 | 3,840 | 2,825 | 2,045 |
| Adjusted EBITDA per share: | | | | |
| Basic | \$0.17 | \$0.17 | \$0.15 | \$0.14 |
| Diluted | \$0.17 | \$0.17 | \$0.15 | \$0.08 |
| Net income (loss) | (3,021) | (6,407) | (14,148) | 5,314 |
| Earnings (loss) per share: | | | | |
| Basic | (\$0.12) | (\$0.28) | (\$0.75) | \$0.36 |
| Diluted | (\$0.12) | (\$0.28) | (\$0.75) | \$0.21 |

Beginning in the first quarter of 2020, the Company's revenue and Adjusted EBITDA were impacted by the ODBA Amendments, where the existing fee-for-service funding model for long-term care pharmacies in Ontario was replaced with a capitation model whereby pharmacy service providers receive a fixed professional fee for all pharmacy services provided. Net income generated during the first quarter of 2020 was largely due to the completed refinancing transactions and \$9.8 million of accretion income recognized to adjust the liability component of the Convertible Debentures to its amortized cost following the repayment of the Company's Credit Facilities, which was partially offset by the ODBA Amendments and transaction costs incurred related to the Remedy's acquisition.

In the second quarter of 2020, the Company's revenue and Adjusted EBITDA increased compared to the previous quarter as a result of the partial quarter contribution of the Remedy's acquisition. The revenue growth in the quarter was partially offset by a slight temporary reduction in the average number of beds serviced as a result of COVID-19. Additionally, cost saving initiatives that were initiated throughout the first quarter in response to the regulatory changes in Ontario further offset the impact of the ODBA Amendments on Adjusted EBITDA. In addition to these changes, the net loss in the second quarter of 2020 was primarily due to the increase in finance costs, net due to the Special Warrants transaction expenses; a loss on the change in the fair value of derivative financial instruments; and increased transaction costs related to the Remedy's acquisition and the \$4.2 million provision recorded related to the outcome of a confidential arbitration.

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

In the first quarter of 2021, the Company's revenue decreased compared to the previous quarter as there were two less weekdays to generate revenue. In

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

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

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

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

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.

As permitted by the provisions of NI 52-109, the Certifying Officers have limited the scope of their design of the Company's DC&P and ICFR to exclude the controls, policies and procedures of the MPGL LTC Pharmacy Business, which was acquired during the third quarter of 2021. The assessment of the design effectiveness of the MPGL LTC Pharmacy Business' DC&P and harmonization of ICFR is expected to be completed no later than the second quarter of 2022.

Other than for these excluded controls, policies and procedures, the Certifying Officers have concluded that, as at December 31, 2021, the Company's DC&P have been designed effectively to provide reasonable 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 is recorded, processed, summarized and reported within the time periods specified in the securities legislation.

Since the acquisition date, for the three month period and year ended December 31, 2021 the MPGL LTC Pharmacy Business contributed approximately 37.1% and 20.0% of consolidated revenues, respectively, and \$1.9 million and \$3.3 million of net income, respectively, within the consolidated net loss on the consolidated statement of income and comprehensive income. In addition, as at December 31, 2021, for the consolidated statement of financial position, the MPGL LTC Pharmacy Business constitutes 26.8% of total current assets, 33.0% of total assets, 23.8% of total current liabilities and 9.2% of total liabilities.

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

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

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

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

There have been no significant changes to the Company's ICFR for the year ended December 31, 2021, which has materially affected, or is reasonably likely to materially affect the Company's ICFR. Based on their evaluation of these controls for the year ended December 31, 2021, the CEO and CFO have also concluded that the Company's ICFR have been designed effectively to provide reasonable assurance regarding the reliability of the preparation and presentation of the financial statements and that the Company's ICFR were effective as at December 31, 2021.

Critical Accounting Policies and Estimates

Critical Accounting Policies

The 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, 2021.

The Company's significant accounting policies are summarized in detail in note 2 of the consolidated financial statements for the years ended December 31, 2021 and 2020. 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 judgment in note 2 of the consolidated financial statements for the years ended December 31, 2021 and 2020.

The preparation of financial statements requires the Company to estimate the effect of various matters that are inherently uncertain as of the date of the financial statements. Each of these required estimates varies in regard to the level of judgment involved and its potential impact on the Company's reported financial results. Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimate are reasonably likely to occur from period to period, and would materially impact the Company's financial condition, changes in financial condition or results of operations.

Significant critical accounting estimates include the collectability of receivables, assessment of impairment of goodwill and intangible assets, the recognition of contingent consideration, the valuation of deferred tax assets and tax provisions, the accounting for business combinations, leases and the accounting for investments.

Collectability of Receivables

The Company assesses the collectability of receivables on an ongoing basis. A provision for expected credit losses involves management judgment and includes the review of individual receivables based on individual customer creditworthiness, current economic trends and analysis of historical bad debts, adjusted for forward-looking factors.

Goodwill and Intangible Assets Valuation

The Company tests at least annually whether goodwill or indefinite life intangible assets have suffered any

impairment, in accordance with the requirements of IAS 36, *Impairment of Assets*. The recoverable amounts of CGUs or groups of CGUs have been determined based on the greater of their fair value less costs of disposal and value in use. These calculations require the use of estimates.

The recoverable amount of the Company's CGUs and groups of CGUs as at December 31, 2021 was determined based on value-in-use calculations. The Company used a capitalized cash flow approach for these CGUs, which involves capitalizing the estimated future maintainable pre-tax cash flows from operations using a pre-tax rate of return, which serves as a measure of the rate of return required by a prospective purchaser of the business reflecting, among other factors, the risk inherent in achieving the determined level of maintainable cash flows. Significant assumptions used in the capitalized cash flow approach included revenue growth rates, operating margins and discount rates.

Recognition of Contingent Consideration

The Company recognizes the fair value of contingent consideration relating to its business acquisitions at the date the transaction closes and at each subsequent reporting date. The purchase price of most acquisitions is subject to the financial performance or other operational targets of the businesses being acquired. The number of shares, either issued in escrow and subsequently released to the vendor, or to be issued at a later date may also vary based on the acquired business achieving predetermined earnings or operational targets over a specified period.

In addition, warrants may be issued when these performance targets are exceeded generally based on an accrual of warrants to the extent of such excess. The exercise price of the warrants is based on the Company's share price at the date of closing. As a result of this variability, the fair value of the contingent consideration is recorded as a financial liability irrespective of the fact that this liability will be settled on a non-cash basis through the issuance of shares and warrants.

Subsequent changes in fair value between reporting periods are included in the determination of net income. Changes in fair value arise as a result of changes in the Company's share price and changes in the estimated probability of achieving the earnings targets. Shares issued or released from escrow in final settlement of contingent consideration are recognized at their fair value at the time of issue with a corresponding reduction in the contingent consideration liability.

Valuation of Deferred Tax Assets

In assessing the realization of deferred tax assets, the Company considers the extent to which it is probable that the deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable profits during the period in which those temporary differences and tax loss carry-forwards become deductible. The Company considers the expected reversal of deferred tax liabilities and projected future taxable income in making this assessment.

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. As at December 31, 2021, the Company had gross non-capital loss carry-forwards of \$72.5 million (2020 - \$59.6 million), of which \$2.6 million have been recognized as at December 31, 2021 (2020 - nil). These losses can be carried forward against future taxable income and expire between 2033 to 2041.

As at December 31, 2021, the Company had no gross capital loss carry-forwards (2020 - \$1.9 million, the full amount of these loss carry-forwards was not recognized).

The Company assesses any potential tax uncertainties at each reporting period in order to assess whether any provisions are required for these uncertainties.

Business Combinations

On the completion of business acquisitions, management's judgment is required to estimate the purchase price, to identify and to fair value all assets and liabilities acquired. The determination of the fair value of assets and liabilities acquired is based on management's estimates and certain assumptions generally included in a present value calculation of the related cash flows.

Management applied significant judgment in estimating the fair value of the customer relationships and brands acquired as part of the completed business combinations. This judgment includes the use of the multi-period excess earnings method for estimating the fair value of the the customer relationships and the use of the relief-from-royalty method for estimating the fair value of the brands. The multi-period excess earnings method is based on the net present value of the customer relationships' specific cash flows, and the relief-from-royalty method is based on the premise that the brands' owner is relieved from having to pay

royalties for the brands' continued use. Significant assumptions used included revenue growth rates, customer attrition rates, operating margins, royalty rate and discount rates.

Leases

Management makes assumptions and estimations in the determination of the incremental borrowing rates used to calculate the present value of lease payments. In addition, the Company exercises judgment when assessing whether renewal options are reasonably certain to be exercised.

Accounting for investment

Judgment is needed to assess whether the Company's interest in an equity instrument meets the definition of significant influence and therefore would be accounted for under the equity method as opposed to FVTPL. Management makes this determination based on its legal ownership interest, board representation and through an analysis of the Company's participation in the entity's decision making process. As at and for the years ended December 31, 2021 and 2020, management determined that it is not able to exert significant influence over AceAge.

Under IFRS 9, *Financial Instruments* ("IFRS 9"), it is acknowledged that, in certain circumstances, carrying value may be an appropriate estimate of fair value. The Company performs an assessment at each reporting date to determine if carrying value is still the best estimate of fair value. If the Company identifies any relevant factors that would indicate that carrying value is not representative of fair value, the Company will make use of other valuation methods to determine the fair value.

As at December 31, 2021, the Company considered the guidance provided by IFRS 9 and all available information about the performance and operations of the investee and concluded that the carrying amount approximates the fair value of the investment.

As at December 31, 2020, the Company determined that cost was no longer representative of the investment's fair value and, consistent with IFRS 9, used other valuation models to determine the fair value of the Company's investment in AceAge. Such valuation models reflected a recent arm's length transaction in trading of the underlying financial instrument. By their nature, these valuation models require the use of assumptions. Changes in the underlying assumptions of the models could materially impact the determination of the fair value of a financial instrument.

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 (for example, through inflation), 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. Any one of, or a combination of, these 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 1, 2020, certain amendments to O. Reg. 201/96 under the *Ontario Drug Benefit Act* ("ODBA" and the "ODBA Amendments") came into effect. Notably, the ODBA Amendments removed the payment of a dispensing fee for drug products supplied for a long-term care home resident in Ontario by a pharmacy service provider and instead imposed a capitation model where pharmacy service providers now receive a professional fee for all pharmacy services provided to the long-term care home that is based on the number of beds in the home. The original fee was set at \$1,500 per bed per year for 2019-2020 and 2020-2021, and was

supposed to decrease to \$1,400 per bed per year in 2021-2022 (with all years above referring to the Government's fiscal year from April 1 to March 31). Following two one-year pauses that were announced in January 2021 and February 2022, respectively, the capitation rate of \$1,500 per bed per year was maintained for 2021-2022 and 2022-2023, and is now expected to decrease to \$1,400 in 2023-2024, \$1,300 in 2024-2025 and \$1,200 in 2025-2026 absent any further changes.

In addition, as part of the ODBA Amendments, the \$2 dollar per prescription co-payments for residents of long-term care homes was removed and long-term care pharmacies are now precluded from billing other forms of clinical billings, such as MedsChecks. The ODBA Amendments also had an effect on the Company's non-long-term care operations in Ontario as the ODBA Amendments included a percentage deduction from the sum of the dispensing fee and mark-up for all drug claims depending on the price of the drug, with a reconciliation adjustment in the event that the Ontario Ministry of Health achieves certain desired savings. The Company has taken, and continues to take a number of actions to offset the impact of the ODBA Amendments. These changes, as well as other ongoing changes impacting pharmacy reimbursement programs, prescription drug pricing and manufacturer allowance funding, legislative or otherwise, are expected to continue to put downward pressure on prescription drug sales and payments relating thereto. These changes may have a material adverse impact on the Company's business, sales and profitability.

Liquidity and Capital Requirements

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

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

assurance that the Company will be able to raise additional capital if its capital resources are depleted or exhausted.

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

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

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

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

Exposure to Epidemic or Pandemic Outbreak

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

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

Pharmacies remain an essential service and are expected to continue to operate during the pandemic. To date, there have been minimal disruptions in supply chains and the Company has been able to procure medications and personal protective equipment in a timely manner. As well, while there have been instances of positive cases within the Company's pharmacy fulfillment centres, the Company's ability to deliver its pharmacy services has not been materially impacted as a result of staff shortages or infected staff. However, if the COVID-19 pandemic worsens, it is possible that medication supply could become disrupted or that pharmacies could be required to close if staff members become ill or there are otherwise staffing shortages.

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

The COVID-19 pandemic has also caused certain care operators to delay Requests for Proposals for bidding

on new contracts given concerns about switching pharmacy providers during a pandemic, which may affect the Company's outlook. Additionally, the onboarding of certain homes under newly awarded contracts has, from time to time, also been delayed due to COVID-19 outbreaks within the homes.

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

Additionally, the COVID-19 pandemic could result in a widespread health crisis or social unrest that could adversely affect the economies and financial markets of many regions and countries. International stock markets have reflected the uncertainty associated with the potential economic impact of the outbreak and the significant volatility in the TSX Composite Index and other major indices around the world has largely been attributed to the effects of COVID-19. There can be no assurance that a disruption in financial markets, regional economies and the world economy would not negatively affect CareRx's access to capital or the financial performance of the Company.

Cash Flow to Service Debt

As at December 31, 2021, the Company had approximately \$112.7 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 \$10.4 million, including required principal and interest payments. The Company's substantial debt servicing

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

Reliance on Contracts with Key Care Operators

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

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

Acquisitions and Integration

The Company has and continues to expect to make acquisitions of various sizes as part of its stated growth

strategy, and is currently working towards integrating the previously acquired MPGL LTC Pharmacy Business.

There is no assurance that the Company will be able to continue to acquire businesses on satisfactory terms or at all, which could impact the stated growth strategy of the Company. Acquisitions involve the commitment of capital, management time and other resources, and such acquisitions could have a major financial impact in the year of acquisition and beyond. The speed and effectiveness with which CareRx integrates acquired companies, including the Acquired Businesses 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.

The Company has provided estimates of expected annualized run-rate revenue and Adjusted EBITDA contribution and expected synergies for certain of the Acquired Businesses. The expected annualized run-rate revenue contribution from each Acquired Business has been estimated by the Company by taking historical revenues of the Acquired Businesses, and making adjustments thereto based on the due diligence of the Company to factor in certain assumptions, including changes in beds serviced due to customer churn as well as regulatory funding changes. As it relates to the MPGL LTC Pharmacy Business and SmartMeds business, the expected Adjusted EBITDA contribution of the businesses has been estimated by the Company by taking the historical EBITDA of the businesses and making adjustments thereto based on the due diligence of the Company to factor in certain assumptions, including changes in beds serviced due to customer churn, regulatory funding changes, allocations of corporate overhead costs, adjustments related to costs incurred or savings achieved due to COVID-19 and other out-of-period or non-recurring costs. As it relates to the Rexall LTC Pharmacy Business, the expected Adjusted EBITDA contribution of the business has been estimated by the Company by taking the reported gross profit of the business and making adjustments thereto based on the due diligence of the Company to factor in certain assumptions, including changes in beds serviced due to customer churn and regulatory funding changes, and applying the Company's cost structure, including labour and operating costs. The expected synergies that the Company expects to derive from the Acquired Businesses has been estimated by the Company based on its experience successfully integrating previously acquired businesses, and includes estimated benefits that the Company expects to derive, such as site consolidations, operational improvements and eliminating redundant positions.

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

The successful integration and management of the 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 the 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 The 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 Crown Capital;
- v Despite the Company undertaking comprehensive due diligence of the Acquired Businesses, such due diligence may not uncover all liabilities of the 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 of the Acquired Businesses is based on carve-out financial information given certain of the Acquired Businesses were consolidated into the larger operations of the applicable vendors;
- vii The customer contracts underlying the Acquired Businesses may not be retained or renewed on similar terms;

- viii The 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 the Acquired Businesses and its existing businesses may not be integrated as efficiently or at the rate foreseen.

Supply Chain

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

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

Utilization of Prescription Drugs

The profitability the Company's business is dependent, in part, upon the utilization of prescription drugs. Utilization trends are affected by, among other factors, the introduction of new and successful prescription drugs as well as lower-priced generic alternatives to existing brand name drugs generally due to higher gross margins on the sale of generic alternatives. Inflation in the price of drugs may also adversely affect utilization. New brand name drugs can result in increased drug utilization and associated sales, while the introduction of lower priced generic alternatives typically results in relatively lower sales, but relatively higher gross profit margins. Accordingly, a decrease in the number or

magnitude of significant new brand name drugs or generic drugs successfully introduced, delays in their introduction, or a decrease in the utilization of previously introduced prescription drugs, could have an impact on results of operations. In addition, gross profit margins could be adversely affected if there is an increase in the amounts the Company pays to procure pharmaceutical drugs, including generic drugs, or if new generic drugs replace existing brand name drugs, or if new brand name drugs replace existing generic drugs.

Litigation

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

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

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

While the Company believes it has complied with its obligations under the Supply Agreements and that lower than expected sales levels are a result of market factors, Canopy has notified the Company that it has

taken the view that the Company is in breach of its obligations under the Supply Agreements. The Company has notified Canopy that it categorically rejects Canopy's claims, and the parties are attempting to resolve the dispute.

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

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

Insurance Cover

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

Due to the nature of the pharmacy services provided by the Company, general liability, error and omissions claims and malpractice claims, amongst other types of claims, may be commenced against the Company. Although the Company carries insurance in amounts

that management believes to be customary, there can be no assurance that the Company will have coverage of sufficient scope to satisfy any particular liability claim. The Company believes that it will be able to obtain adequate insurance coverage in the future at acceptable costs, but there can be no assurance that it will be able to do so or that it will not incur significant liabilities in excess of policy limits. Any such claims that exceed the scope of coverage or applicable policy limits, or an inability to obtain adequate coverage, could have a material adverse effect on the Company's business, financial condition and results of operations.

Dilution

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

Competition

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

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.

Co-Payment 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. To the extent that the Company's customers are not able to make co-payments on a large scale, is required to waive or reduce co-payments, or co-payments are eliminated through regulatory changes, the Company's financial condition could be affected.

Confidentiality of Personal and Health Information

CareRx and its subsidiaries' employees have access, in the course of their duties, to personal information of residents serviced by the Company, and specifically personal health information, including medical histories.

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

Medication Errors

The Company dispenses approximately 3.1 million prescriptions per month, and as with any pharmacy, medication errors are an inevitability. Medication errors can arise from human error from the prescribing physician or nurse practitioner, from a pharmacist or pharmacy assistant in processing and dispensing a prescription, or from a failure in technology that the Company relies upon to package medication. Medication errors can lead to adverse health outcomes of residents. In addition, pharmacists may offer counseling to customers about medication, dosage, delivery systems, common side effects and other information, which may be incorrect. While the Company has robust policies and procedures in place to minimize the occurrence of medication errors and maintains professional liability and other insurance in amounts it deems to be sufficient, a high rate of errors or errors that cause significant resident harm could expose the Company to significant reputational damage, a loss of customers, litigation or increased insurance premiums.

Key Personnel

The Company believes that its future success will depend significantly upon its ability to attract, motivate and retain executive management. In addition, the success of the Company depends on employing or contracting, as the case may be, qualified pharmacists and other healthcare professionals. The loss of highly skilled employees or healthcare professionals or the inability to recruit these individuals in markets that the Company operates in could adversely affect the Company's ability to operate its business efficiently and profitably.

Labour Relations

The Company currently operates one pharmacy location that is unionized, with labour relations at this site governed by a collective bargaining agreement. In the future, it is possible that other locations operated by the Company could unionize. While the relationship with the existing union is positive, there can be no assurance that the Company will not at any time, whether in connection with the renegotiation of the collective agreement, future collective agreements, or otherwise, experience strikes, labour stoppages or any other type of conflict with unionized employees 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 and related adjudicators. While the Company believes it is in compliance with applicable requirements, to the extent that the Company's billing practices fail to comply with the applicable requirements or its records that support billings are not properly maintained, the Company could be exposed to significant clawbacks or financial penalties or a closure of its pharmacies.

Internal Control over Financial Reporting and Disclosure Controls and Procedures

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

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

Capital Investment

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

Significant Shareholders

There are significant shareholders of the Company that may be long-term holders of the common shares in the

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

Ethical Business Conduct

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

Volatile Market Price for Securities of the Company

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

- i actual or anticipated fluctuations in the Company's quarterly results of operations;
- ii changes in estimates of future results of operations by the Company or securities research analysts;
- iii changes in the economic performance or market valuations of other companies that investors deem comparable to the Company;
- iv addition or departure of the Company's executive officers and other key personnel;
- v release or other transfer restrictions on outstanding securities;
- vi sales or perceived sales of additional securities;
- vii the outcome of ongoing litigation;
- viii significant acquisitions, dispositions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; and,
- ix news reports relating to trends, concerns or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

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

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

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

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

Management does not expect that Company's disclosure controls and procedures and internal controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that its objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits

of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within a company are detected. The inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of some persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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

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

Directors and Officers May Have Conflicts of Interest

Certain of the directors and officers of the Company may also serve as directors and/or officers of other companies, while other directors serve as nominees of certain significant shareholders of the Company, including those who hold subordinated indebtedness of the Company and whose 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.



Consolidated Financial Statements
For the years ended December 31, 2021 and 2020

(in thousands of Canadian dollars)

Dated: March 17, 2022

Index

| | |
|--|--------------------|
| Consolidated Statements of Financial Position | 8 |
| Consolidated Statements of Income and Comprehensive Income | 9 |
| Consolidated Statements of Changes in Equity (Deficit) | 10 |
| Consolidated Statements of Cash Flows | 11 |

Notes to the Consolidated Financial Statements:

| | |
|--|--------------------|
| 1. Corporate Information | 12 |
| 2. Significant Accounting Policies | 13 |
| 3. Business Combinations | 25 |
| 4. Contingent Consideration | 32 |
| 5. Cash and Cash Equivalents | 34 |
| 6. Trade and Other Receivables | 34 |
| 7. Inventories | 34 |
| 8. Property and Equipment | 35 |
| 9. Goodwill and Intangible Assets | 36 |
| 10. Income Taxes | 38 |
| 11. Trade Payables and Other Liabilities | 39 |
| 12. Borrowings | 40 |
| 13. Other Deferred Amounts | 44 |
| 14. Shareholders' Equity and Earnings per Share | 45 |
| 15. Financial Instruments, Fair Value Measurements and Financial Risk Management | 52 |
| 16. Related Party Transactions and Balances | 58 |
| 17. General and Administrative Expenses | 59 |
| 18. Transaction, Restructuring and Other Costs | 59 |
| 19. Finance Costs, Net | 60 |
| 20. Contingencies | 60 |
| 21. Supplementary Disclosure to the Consolidated Statements of Cash Flows | 61 |
| 22. Capital Management | 61 |
| 23. Discontinued Operations | 62 |



Independent auditor's report

To the Shareholders of CareRx Corporation

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of CareRx Corporation and its subsidiaries (together, the Company) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of changes in equity (deficit) for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| <p>Valuation of intangible assets related to customer relationships and brands acquired in the Long-Term Care Pharmacy Division of Medical Pharmacies Group Limited (MPGL) business combination</p> <p><i>Refer to note 2 – Significant Accounting Policies, note 3 – Business Combinations and note 9 – Goodwill and Intangible Assets to the consolidated financial statements.</i></p> <p>During 2021, the Company acquired the Long-Term Care Pharmacy Division of Medical Pharmacies Group Limited. The fair value of the identifiable assets acquired included \$15.2 million of intangible assets related to customer relationships and \$4.3 million of intangible assets related to the brands. Management applied significant judgment in estimating the fair values of these assets. Management determined the fair values of these assets based on the multi-period excess earnings method for customer relationships and relief-from-royalty method for the brands and developed significant assumptions related to revenue growth rates, customer attrition rates, operating margins and royalty and discount rates.</p> <p>We considered this a key audit matter due to the significant judgments made by management in estimating the fair values of the customer relationships and brands relating to the MPGL business combination including the use of significant assumptions. This has resulted in a high degree of subjectivity and audit effort in performing audit procedures to test the fair values.</p> | <p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none">• Tested how management estimated the fair values of the customer relationships and the brands acquired as part of the MPGL business combination, which included the following:<ul style="list-style-type: none">– Read the purchase agreement.– Tested the underlying data used by management in the calculations.– Evaluated the reasonableness of significant assumptions used by management related to revenue growth rates, customer attrition rates and operating margins by considering the past performance of the acquired business, and similar prior acquisitions made by the Company, as well as economic and industry data.– Professionals with specialized skill and knowledge in the field of valuation assisted in evaluating the appropriateness of management's methods, as well as the reasonableness of significant assumptions related to royalty and discount rates.• Tested the disclosures made in the consolidated financial statements. |



Key audit matter

How our audit addressed the key audit matter

Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures

Impairment assessment of goodwill for Pharmacy - Ontario and Pharmacy - Western Canada

Refer to note 2 – Significant Accounting Policies and note 9 – Goodwill and Intangible Assets to the consolidated financial statements.

The Company tests whether there has been an impairment in the carrying amount of goodwill at least annually and whenever events or changes in circumstances arise. For the purposes of impairment testing, goodwill is allocated to a cash generating unit or a group of cash generating units (together, CGUs), which corresponds to the level at which goodwill is internally monitored. The recoverable amount is the higher of value in use and fair value less costs of disposal. An impairment of goodwill is recognized for any excess of the carrying amount of each of the CGUs over its recoverable amount. The Company had goodwill of \$92.1 million as at December 31, 2021, including goodwill allocated to the Pharmacy - Ontario and Pharmacy - Western Canada CGUs of \$34.4 million and \$21.1 million, respectively.

The recoverable amounts for the CGUs were determined based on value in use calculations using a capitalized cash flow approach. Significant assumptions used in the capitalized cash flow approach included revenue growth rates, operating margins and discount rates. No impairment was recognized as a result of the 2021 impairment tests.

We considered this a key audit matter due to the significance of the goodwill balances of the CGUs and the significant judgments made by management in estimating the recoverable

Our approach to addressing the matter included the following procedures, among others:

- Tested how management estimated the recoverable amounts of the CGUs, which included the following:
 - Tested the underlying data used by management in the calculations.
 - Evaluated the reasonableness of significant assumptions used by management related to revenue growth rates and operating margins by considering management's forecasts and strategic plans approved by the Board of Directors, the current and past financial performance of the CGUs, economic and industry data, as well as evidence obtained in other areas of the audit.
 - Professionals with specialized skill and knowledge in the field of valuation assisted in evaluating the appropriateness of management's approach, as well as the reasonableness of significant assumptions related to discount rates.
- Tested the disclosures made in the consolidated financial statements.



| Key audit matter | How our audit addressed the key audit matter |
|---|--|
| amounts, including the use of significant assumptions. This has resulted in a high degree of subjectivity and audit effort in performing audit procedures to test the recoverable amounts. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures. | |

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Swati Patel.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 17, 2022

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

| | December 31, 2021 | December 31, 2020 |
|--|-------------------|-------------------|
| | \$ | \$ |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents (note 5) | 35,625 | 19,623 |
| Restricted cash | 680 | 360 |
| Trade and other receivables (note 6) | 37,646 | 15,354 |
| Income taxes receivable (note 10) | 463 | — |
| Inventories (note 7) | 17,992 | 8,577 |
| Prepaid expenses and other current assets | 2,839 | 1,279 |
| | 95,245 | 45,193 |
| Non-current assets | | |
| Property and equipment (note 8) | 38,171 | 21,137 |
| Investment (note 15) | 2,713 | 2,713 |
| Goodwill and intangible assets (note 9) | 146,687 | 87,067 |
| Total assets | 282,816 | 156,110 |
| Liabilities | | |
| Current liabilities | | |
| Trade payables and other liabilities (note 11) | 46,313 | 25,225 |
| Income taxes payable (note 10) | — | 482 |
| Current portion of borrowings (note 12) | 733 | 4,245 |
| Current portion of contingent consideration (note 4) | 5,394 | 3,540 |
| Current portion of lease liabilities (note 15) | 533 | 1,840 |
| Deferred consideration (note 16) | — | 3,845 |
| Provisions (note 20) | — | 4,172 |
| | 52,973 | 43,349 |
| Non-current liabilities | | |
| Borrowings (note 12) | 111,966 | 71,948 |
| Other deferred amounts (note 13) | 9,302 | 12,877 |
| Contingent consideration (note 4) | 2,626 | 4,004 |
| Deferred income tax liabilities (note 10) | 5,463 | 4,854 |
| Lease liabilities (note 15) | 18,199 | 7,775 |
| Total liabilities | 200,529 | 144,807 |
| Equity | | |
| Share capital (note 14) | 283,458 | 189,776 |
| Warrants (note 14) | 2,301 | 1,999 |
| Contributed surplus | 32,333 | 31,413 |
| Equity component of Convertible Debentures (note 12) | 7,125 | 8,315 |
| Deficit | (242,930) | (220,200) |
| Total equity | 82,287 | 11,303 |
| Total liabilities and equity | 282,816 | 156,110 |

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

Approved by the Board

"Kevin Dalton"
Kevin Dalton, Director

"Christiane Bergevin"
Christiane Bergevin, Director

Consolidated Statements of Income and Comprehensive Income

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

| | For the years ended December 31, | |
|---|----------------------------------|-----------------|
| | 2021 | 2020 |
| | \$ | \$ |
| Revenue (note 2) | 262,630 | 162,196 |
| Cost of pharmacy services and supplies | 187,351 | 115,143 |
| General and administrative expenses (note 17) | 70,522 | 47,981 |
| Transaction, restructuring and other costs (note 18) | 8,064 | 11,396 |
| Loss from operations | (3,307) | (12,324) |
| Finance costs, net (note 19) | 17,296 | 2,952 |
| Change in fair value of derivative financial instruments (note 15) | 2,243 | 4,041 |
| Change in fair value of contingent consideration liability (note 4) | 889 | (253) |
| Change in fair value of investment (note 15) | — | (763) |
| Loss before income taxes | (23,735) | (18,301) |
| Income tax recovery (note 10) | (1,005) | (118) |
| Net loss from continuing operations | (22,730) | (18,183) |
| Loss from discontinued operations (note 23) | — | (79) |
| Net loss and total comprehensive loss for the year | (22,730) | (18,262) |
| Basic and diluted loss per common share: | | |
| From continuing operations | (\$0.65) | (\$0.90) |
| From discontinued operations | \$0.00 | \$0.00 |
| From loss for the year | (\$0.65) | (\$0.90) |
| Weighted average number of common shares outstanding (in thousands) (note 14): | | |
| Basic and diluted | 34,858 | 20,266 |

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

Consolidated Statements of Changes in Equity (Deficit)

(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, 2019 | 14,196,208 | 141,109 | 1,734 | 30,105 | 9,029 | (201,938) | (19,961) |
| Issuance of shares, net of share issuance costs (note 14) | 213,448 | 805 | — | — | — | — | 805 |
| RSUs exercised (note 14) | 188,394 | 1,148 | — | (1,148) | — | — | — |
| Shares released from escrow or issued from treasury related to contingent consideration (note 4, 14) | 343,934 | 1,110 | — | — | — | — | 1,110 |
| Shares issued for acquisition, net of share issuance costs (note 14) | 6,250,000 | 29,318 | — | — | — | — | 29,318 |
| Shares issued on conversion of Convertible Debentures, net of share issuance costs (note 14) | 725,000 | 2,086 | — | — | (714) | — | 1,372 |
| Shares issued on exercise of Special Warrants, net of share issuance costs (note 14) | 2,875,000 | 14,200 | — | — | — | — | 14,200 |
| Issuance of warrants (note 14) | — | — | 904 | — | — | — | 904 |
| Warrants expired (note 14) | — | — | (639) | 639 | — | — | — |
| Deferred compensation expense | — | — | — | 1,817 | — | — | 1,817 |
| Net loss for the year | — | — | — | — | — | (18,262) | (18,262) |
| Balance at December 31, 2020 | 24,791,984 | 189,776 | 1,999 | 31,413 | 8,315 | (220,200) | 11,303 |
| Balance at December 31, 2020 | 24,791,984 | 189,776 | 1,999 | 31,413 | 8,315 | (220,200) | 11,303 |
| Issuance of shares, net of share issuance costs (note 14) | 17,512,141 | 77,889 | — | — | — | — | 77,889 |
| RSUs and warrants exercised (note 14) | 969,956 | 4,464 | (805) | (1,834) | — | — | 1,825 |
| Shares released from escrow or issued from treasury related to contingent consideration (note 4, 14) | 196,200 | 999 | — | — | — | — | 999 |
| Shares issued for acquisition, net of share issuance costs (note 3) | 637,037 | 3,782 | — | — | — | — | 3,782 |
| Shares issued on conversion of Convertible Debentures, net of share issuance costs (note 14) | 2,182,665 | 6,548 | — | — | (1,190) | — | 5,358 |
| Issuance of warrants (note 14) | — | — | 1,196 | — | — | — | 1,196 |
| Warrants expired (note 14) | — | — | (89) | 89 | — | — | — |
| Deferred compensation expense | — | — | — | 2,665 | — | — | 2,665 |
| Net loss for the year | — | — | — | — | — | (22,730) | (22,730) |
| Balance at December 31, 2021 | 46,289,983 | 283,458 | 2,301 | 32,333 | 7,125 | (242,930) | 82,287 |

¹ Excludes 27,712 common shares held in escrow and restricted shares as at December 31, 2021 (December 31, 2020 - 177,712) (note 14).

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

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

| | For the years ended December 31, | |
|--|----------------------------------|----------------|
| | 2021 | 2020 |
| | \$ | \$ |
| Cash provided by (used in): | | |
| Operating activities | | |
| Net loss for the year | (22,730) | (18,262) |
| Adjustments for: | | |
| Finance costs, net (note 19) | 17,296 | 2,952 |
| Change in fair value of derivative financial instruments (note 15) | 2,243 | 4,041 |
| Change in fair value of investment (note 15) | — | (763) |
| Loss (gain) on disposal of assets (note 17) | 54 | (276) |
| Depreciation of property and equipment (note 8) | 6,967 | 4,990 |
| Amortization of finite life intangible assets (note 9) | 8,426 | 6,468 |
| Income taxes paid | (234) | (1,743) |
| Income tax recovery (note 10) | (1,005) | (174) |
| Share-based compensation expense (note 17) | 2,665 | 2,522 |
| Change in the fair value of contingent consideration liability (note 4) | 889 | (253) |
| Loss on sale of business (note 23) | — | 135 |
| Supply agreement arrangements, net of amortization (note 13) | (2,198) | (1,716) |
| Cannabis agreement, net of amortization (note 13) | (1,377) | (1,379) |
| Net change in non-cash working capital items (note 21) | (3,727) | 3,687 |
| Cash provided by operating activities | 7,269 | 229 |
| Investing activities | | |
| Proceeds on disposal of property, equipment and intangible assets | 67 | 1,401 |
| Acquisition of businesses, net of cash acquired (note 3) | (79,788) | (3,343) |
| Purchase of property and equipment (note 8) | (5,351) | (1,563) |
| Purchase of intangible assets (note 9) | (1,765) | (392) |
| Payment of deferred and contingent consideration (note 4) | (6,340) | (200) |
| Working capital settlement from sale of businesses (note 23) | — | (74) |
| Cash used in investing activities | (93,177) | (4,171) |
| Financing activities | | |
| Net proceeds from Senior Facility, Crown Capital Facility and Yorkville Facility (note 12) | 64,354 | 37,522 |
| Net proceeds from Special Warrants (note 15) | — | 10,189 |
| Transfer to restricted cash | (320) | (360) |
| Interest paid | (8,981) | (4,860) |
| Repayment of Crown Capital Facility (note 12) | (27,000) | — |
| Repayment of vendor take-back note (note 12) | (3,364) | — |
| Repayment of Subordinated Facility (note 12) | — | (11,673) |
| Repayment of Revolving Facility, net of withdrawals (note 12) | — | (4,690) |
| Repayment of finance loans (note 12) | (60) | (53) |
| Repayment of leases | (3,578) | (2,571) |
| Net proceeds from common shares issued (note 14) | 80,859 | — |
| Cash provided by financing activities | 101,910 | 23,504 |
| Increase in cash and cash equivalents | 16,002 | 19,562 |
| Cash and cash equivalents, beginning of year | 19,623 | 61 |
| Cash and cash equivalents, end of year | 35,625 | 19,623 |

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

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

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 20 Eglinton Avenue West, Suite 2100, Toronto, Ontario.

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

COVID-19 pandemic

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

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

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

In response to the COVID-19 pandemic, the Canada Emergency Wage Subsidy ("CEWS") and Canada Emergency Rent Subsidy ("CERS") programs were announced and made available by the Government of Canada since March 2020 and September 2020, respectively. CEWS provides a wage subsidy on eligible remuneration, subject to limits per employee, to eligible employers based on certain eligibility criteria, including demonstrated declines in revenue following the commencement of the COVID-19 pandemic. CERS provides a variable subsidy for rent and other occupancy-related costs incurred. For the year ended December 31, 2021, the Company recorded a recovery of \$159 in the consolidated statement of income and comprehensive income related to claims made under the CEWS program (2020 - \$297). For the year ended December 31, 2021, the Company recorded a recovery of \$151 in the consolidated statement of income and comprehensive income related to claims made under the CERS program (2020 - nil).

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

2. Significant Accounting Policies

Basis of preparation

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and its interpretations as issued by the International Accounting Standards Board ("IASB") (together, "IFRS") that are effective for the year ended December 31, 2021. The Company has consistently applied the same accounting policies throughout all years presented as if these policies had always been in effect, unless otherwise noted.

Historical Cost Convention

These consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of derivative financial instruments, investments and contingent consideration to fair value. The significant accounting policies used in the preparation of these consolidated financial statements are described below.

These consolidated financial statements were approved by the Board of Directors (the "Board") on March 17, 2022.

New and amended standards adopted by the Company

The following standards and amendments applied for the first time to financial reporting periods commencing on January 1, 2021:

- COVID-19 rent concession amendment, Amendments to IFRS 16, Leases ("IFRS 16") effective for years beginning on/after June 1, 2020, and
- Interest Rate Benchmark Reform (Phase 2) effective for years beginning on/after January 1, 2021: including amendments to:
 - IFRS 9, Financial Instruments ("IFRS 9");
 - IAS 39, Financial Instruments: Recognition and Measurement;
 - IFRS 7, Financial Instruments: Disclosures; and
 - IFRS 16.

The Company was not required to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

New standards, amendments and interpretations not yet adopted by the Company

A number of new standards, amendments and annual improvements are not mandatory for December 31, 2021 reporting periods 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:

- A number of narrow-scope amendments to IFRS 3, Business Combination ("IFRS 3"), IAS 16, Property, plant and equipment and IAS 37, Provisions, contingent liabilities and contingent assets effective for years beginning on/after January 1, 2022;
- COVID-19 rent concession amendment (extension): Amendments to IFRS 16, effective for years beginning on/after April 1, 2021;
- Annual improvements to IFRS 9 and IFRS 16 effective for years beginning on/after January 1, 2022;
- Amendments to IAS 1, Presentation of Financial Statements and IAS 12, Income Taxes effective for years beginning on/after January 1, 2023; and
- Definition of Accounting estimates: A narrow-scope amendment to IAS 8, Accounting policies, changes in accounting estimates and errors effective for years beginning on/after January 1, 2023.

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

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

2. Significant Accounting Policies - continued

Consolidation

These consolidated financial statements incorporate the assets, liabilities and financial results of CareRx and its wholly-owned subsidiaries.

Control over a subsidiary exists when the Company is exposed to and has the rights to variable returns of the subsidiaries and has the ability to affect those returns through its power over the entity. The existence and effect of voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and are deconsolidated from the date control ceases. Intercompany transactions, balances and unrealized gains/losses on transactions between group companies are eliminated.

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any liabilities resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition related costs are expensed as incurred.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of income and comprehensive income.

Recognition of contingent consideration

The Company recognizes the contingent consideration relating to its business acquisitions at fair value at the date the transaction closes and revalues the components of contingent consideration recognized as a financial liability at each subsequent reporting date and on settlement. Contingent consideration that will be settled by delivering a fixed number of common shares is classified as equity and not revalued at each subsequent reporting date. The purchase price of most acquisitions is subject to the performance of the businesses being acquired. Any contingent shares are either issued in escrow and subsequently released to the vendor, or will be issued at a later date, and can vary based on the business being acquired achieving predetermined performance targets over a specified period.

In addition, warrants may be issued when these performance targets are exceeded. The exercise price of the warrants is based on the Company's share price at the date of closing of the transaction or at a premium to the Company's share price at the date of closing of the transaction. When the number of shares and warrants to be issued varies depending on the level of performance achieved, the fair value of the contingent consideration to be settled in shares or warrants is also recorded as a financial liability irrespective of the fact that this obligation may be settled on a non-cash basis through the issuance of shares and warrants.

Share-based contingent consideration, consisting of the Company's shares and warrants to be released from escrow or issued, is based on the acquired businesses achieving predetermined performance targets and is estimated at the date of acquisition taking into consideration the quoted market prices of the Company's common shares at the dates of acquisition and the probability of achieving the performance targets. Subsequent changes in fair value between reporting periods are recognized in the consolidated statement of income and comprehensive income. Changes in fair value arise as a result of changes in the Company's share price and changes in the estimated probability of the acquired entities achieving their performance targets.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

2. Significant Accounting Policies - continued

Shares issued or released from escrow in the final settlement of contingent consideration are recognized in share capital at their fair value at the time of issuance or release with a corresponding reduction in the contingent consideration liability. The current portion of contingent consideration is based on the Company's estimate of the value that will be payable within twelve months.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM"). The CODM, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Chief Executive Officer ("CEO"). The Company has one reportable segment, which consists of the Company-owned and operated institutional pharmacy business (previously referred to as Specialty Pharmacy). This segment is comprised of several operating segments that are aggregated due to their similar economic characteristics, customers and nature of products. The Company's CODM evaluates segment performance on the basis of consolidated results, as reported to internal management, on a periodic basis.

Foreign currency translation

Balances included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional and presentation currency is the Canadian dollar. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Financial assets and financial liabilities

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from these assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the requirements to pay cash flows on these liabilities have expired or have been transferred and the Company no longer has an obligation to settle with a counterparty.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instrument was acquired:

Non-derivative financial assets and liabilities measured at amortized cost

Non-derivative financial assets that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding, that are held with the intention of collecting contractual cash flows, are recorded at amortized cost. The Company's non-derivative financial assets are comprised of cash and cash equivalents, restricted cash and trade and other receivables, and are included in current assets when due in less than one year. Non-derivative financial assets are initially recognized at the amount expected to be received less, when material, a discount to reduce trade and other receivables to fair value. Subsequently, trade and other receivables are measured at amortized cost using the effective interest rate method, less any allowance for expected credit losses ("ECLs").

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

2. Significant Accounting Policies - continued

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. For trade and other receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Non-derivative financial liabilities are measured at amortized cost using the effective interest rate method, unless they are required to be measured at fair value through profit and loss ("FVTPL"), or the Company has opted to measure them at FVTPL. Non-derivative financial liabilities at amortized cost include trade payables and other liabilities, lease liabilities, deferred consideration and borrowings. These non-derivative financial liabilities are initially recognized at fair value, net of any transaction costs incurred, and subsequently at amortized cost, using the effective interest rate method.

Trade payables and other liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade payables and other liabilities are classified as current liabilities if payment is due within twelve months; otherwise, they are presented as non-current liabilities.

Borrowings and deferred consideration are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for greater than twelve months.

Financial assets and liabilities measured at FVTPL

Financial assets and liabilities measured at FVTPL are assets and liabilities that do not qualify as financial assets and financial liabilities at amortized cost or at fair value through other comprehensive income. Derivative financial instruments are recorded at FVTPL unless they are designated as hedges. The Company's financial assets recorded at FVTPL include derivative financial instruments and investment. The Company's financial liabilities recorded at FVTPL include contingent consideration liabilities, embedded derivatives within convertible borrowings and Special Warrants. Assets and liabilities in this category are classified as current assets and liabilities if they are expected to be settled within twelve months, otherwise, they are classified as non-current assets or non-current liabilities.

Dividends received from financial assets measured at FVTPL are recognized as other income in the consolidated statement of income and comprehensive income when the right to receive the payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment.

Embedded derivatives are separated from the host contract and are accounted for separately if certain criteria are met. Derivatives are recognized initially at FVTPL; any directly attributable transaction costs are recognized in profit or loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

2. Significant Accounting Policies - continued

The amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the consolidated statement of income and comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment is recognized in the consolidated statement of income and comprehensive income.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows are comprised of cash in banks, including savings accounts and guaranteed investment certificates ("GICs") with banks and initial maturities of three months or less when purchased or which are redeemable at face value on demand. Cash and cash equivalents are measured at amortized cost. Interest income is recognized by applying the effective interest rate method.

Restricted cash

Any cash that is legally restricted from use is recorded in restricted cash. Cash and deposits are considered restricted when they are subject to contingent rights of third parties. The Company's restricted cash includes security deposits held as collateral for the Company's corporate credit cards and letter of credit.

Trade and other receivables

Trade and other receivables are amounts due for goods sold and services rendered in the ordinary course of business. Trade and other receivables also include accrued receivables, which are amounts for services rendered and not yet invoiced or billed to customers.

Inventories

Inventories consisting of pharmaceutical products are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. A provision for impairment involves significant management judgment and includes the review of inventory aging and an assessment of cost recoverability.

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and impairment losses. Cost includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be reliably measured. The carrying amount of a replaced asset is derecognized when replaced.

Repairs and maintenance costs for day-to-day servicing are charged to the consolidated statement of income and comprehensive income during the period in which they are incurred. If the replacement of a part of an item of property and equipment meets the recognition criteria, then the carrying value of the part of such an item is included as property and equipment.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

2. Significant Accounting Policies - continued

The major categories of property and equipment are depreciated as follows:

| | |
|--|----------------------------------|
| Office furniture, fixtures and equipment | 3 - 10 years straight-line |
| Computer equipment | 7 years or 30% declining balance |
| Medical equipment | 5 years straight-line |
| Packaging Equipment | 10 - 15 year straight-line |
| Automobiles | 30% declining balance |
| Leasehold improvements | Term of the lease |

The Company allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and separately depreciates each part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted, if appropriate.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of income from operations in the consolidated statement of income and comprehensive income.

Leases

The Company leases assets including properties, equipment and vehicles.

At inception of the arrangement, the Company assesses whether a contract is or contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in return for consideration. The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

2. Significant Accounting Policies - continued

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the consolidated statement of income and comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets in 'property and equipment' in the consolidated statement of financial position.

Intangible assets

Finite life intangible assets

Intangible assets acquired through purchase are initially measured at cost. Intangible assets acquired through business combinations are initially measured at fair value at the date of acquisition. The Company's finite life intangible assets include licences, computer software, contracts, contract costs, customer relationships, trademarks and non-compete arrangements with a finite useful life. These assets are amortized on a straight-line basis in the consolidated statement of income and comprehensive income as follows:

| | |
|--------------------------|----------------------------------|
| Licences | Term of the licence |
| Computer software | 7 years or 30% declining balance |
| Contracts | Term of the contract |
| Customer relationships | 5 to 10 years |
| Trademarks and brands | Up to 10 years |
| Non-compete arrangements | Term of the arrangement |

The Company incurs costs associated with the design of new technology related to the software used in the operations of the Company's business. Expenditures during the development phase are capitalized if certain criteria, including technical feasibility and intent and ability to develop and use the technology, are met; otherwise, they are expensed as incurred.

Goodwill

Goodwill is carried at cost less accumulated impairment losses.

For the purposes of impairment testing, goodwill is allocated to a cash generating unit or a group of cash generating units (together, "CGUs") which corresponds to the level at which goodwill is internally monitored. The recoverable amount is the higher of value in use and fair value less costs of disposal. An impairment of goodwill is recognized for any excess of the carrying amount of the CGUs over its recoverable amount.

Indefinite life intangible assets

As at December 31, 2021 and 2020, the Company's indefinite life intangible assets included its Ontario pre-1954 charter companies. These assets were acquired through business combinations and were initially measured at fair value at the date of acquisition. Subsequently, these assets are carried at cost less accumulated impairment losses.

Impairment of non-financial assets

Goodwill and Intangible assets that have an indefinite useful life are tested annually for impairment and whenever events or changes in circumstances arise. Other long-term tangible and intangible assets are tested whenever an indicator of impairment exists. If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognized in the consolidated statement of income and comprehensive income. The recoverable amount of an asset is the higher of its fair value, less costs of disposal, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. Impairment losses on goodwill are not reversed.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

2. Significant Accounting Policies - continued

Non-financial assets, other than goodwill, that have previously been impaired are reviewed for possible reversal of the impairment at each reporting date.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The Company performs evaluations each reporting period to identify potential obligations.

Share capital and warrants

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. Warrants that are classified as equity are initially measured at fair value. The fair value of the warrants are not remeasured in subsequent periods. Warrants are transferred to common shares when they are exercised based on the terms of each individual agreement. If warrants expire unexercised, the amount initially recorded is transferred to contributed surplus.

Income taxes

Income taxes for the year are comprised of current and deferred income taxes. Income taxes are recognized in the consolidated statement of income and comprehensive income, except to the extent that they relate to items recognized directly in equity, in which case the income taxes are also recognized directly in equity.

Current income taxes

Current income tax expense is based on the results of the year, as adjusted for items that are not taxable or not deductible. Current income taxes are calculated using tax rates and laws that were substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established, where appropriate, on the basis of amounts expected to be paid to the taxation authorities.

Deferred income taxes

Deferred income taxes are recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income taxes are determined on a non-discounted basis using income tax rates and laws that have been enacted or substantively enacted at the date of the consolidated statement of financial position and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent it is probable that the assets can be recovered.

Deferred income taxes are provided on temporary differences arising on investments in subsidiaries and associates except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred income tax assets and liabilities are presented as non-current assets or liabilities.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

2. Significant Accounting Policies - continued

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods supplied or services rendered, net of discounts and returns.

During the year ended December 31, 2021, 81% and 16% of the Company's revenues were derived from the sales of goods and capitated service fees, respectively (2020 - 84% and 13%). Geographically, 60% and 40% of the Company's revenues were derived from the sales of goods and capitated service fees in Ontario and Western Canada, respectively (2020 - 49% and 51%).

Sale of Goods

Revenue is recognized at the point in time in which the prescription drugs or other over-the-counter products are delivered to the customer as the performance obligation related to the sale of these goods and any applicable dispensing fees, is satisfied at that time, with the customer gaining control of the goods.

Capitated Pharmacy Service Fees

Revenue related to capitated pharmacy service fees is recognized over the period that the capitated pharmacy service fees relate to.

Rendering of Other Pharmacy Services

Revenue related to the rendering of other pharmacy services is recognized at the point in time in which the services are rendered. Other pharmacy services represent a distinct service from the sale of goods or capitated pharmacy service fees, with a separate transaction price.

For customers with coverage for prescriptions either through a provincial health plan or third-party insurer, claims are submitted to the government and/or insurance companies and payment for eligible claims is remitted to the Company once or twice a month, depending on the insurer. For amounts payable directly by the customers, generally, statements are sent to the customers on a monthly basis, with payments due no later than 30 days.

Deferred revenue and other deferred amounts

Deferred revenue or other deferred amounts arise from upfront payments received by the Company in consideration for future commitments as specified in its various arrangements. The accounting for such arrangements is dependent on the facts and terms of each of the arrangements. Amounts recognized as deferred revenue or other deferred amounts are recognized in the consolidated statement of income and comprehensive income when services are performed or amortized into profit or loss on a straight-line basis over the term of the arrangements.

Cost of pharmacy services and supplies

Cost of pharmacy services and supplies includes the cost of pharmacy and other healthcare professionals, supplies used in rendering pharmaceutical services and the cost of pharmaceutical products sold. These costs exclude any corporate or administrative costs incurred by the Company.

Share-based payments

The Company operates a long-term incentive plan under which the Company issues equity instruments of the Company as consideration in exchange for employee or director services (the "Plan"). The Plan is open to certain directors and employees of the Company. The Plan regulates the issuance of the following equity instruments: stock options, deferred share units ("DSUs") and restricted shares ("RSUs").

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

2. Significant Accounting Policies - continued

The maximum number of common shares which may be issued under the Plan cannot exceed 10% of the common shares issued and outstanding at any given time, calculated on a non-diluted basis. Grants held by non-employee directors of the Company are at all times limited to no more than 1% of the common shares issued and outstanding, calculated on a non-diluted basis, and the total annual grant to any one non-employee director under the Plan cannot exceed a grant value of \$150,000 in total equity.

Stock options

The Company may decide to issue stock options as consideration in exchange for employee or director services. Stock options typically vest over three to four years and expire after five years. The fair value of the grant of the stock options is recognized in the consolidated statement of income and comprehensive income as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted.

The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting date, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions.

The fair value of stock options is estimated using the Black-Scholes option pricing model. This model requires the input of a number of assumptions, including expected dividend yield, expected share price volatility, expected time until exercise and risk-free interest rates. Although the assumptions used reflect historical performance and management's best estimates, they involve inherent uncertainties based on conditions outside the Company's control. Changes in these assumptions could significantly impact the valuation of the share-based payment expense.

The contributed surplus within shareholders' equity is reduced as the stock options are exercised. If the stock options are exercised, the amount initially recorded for the stock options in contributed surplus is credited to common shares, along with the proceeds received on the exercise. If the stock options expire unexercised, the amount initially recorded for the stock options remains in contributed surplus.

RSUs

The Company may decide to issue RSUs as consideration in exchange for employee or director services. RSUs typically vest over three years. The fair value of the grant of the RSUs is recognized as a share-based compensation expense. The total amount to be expensed is determined by reference to the fair value of the RSUs granted.

The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting date, the Company revises its estimates of the number of RSUs that are expected to vest based on the non-market vesting conditions. The fair value of RSUs is estimated using the Company's quoted market price on the grant date.

DSUs

The Company may issue DSUs as consideration in exchange for director or officer services. DSUs typically vest over three years. The fair value of the grant of the DSUs is recognized as a share-based compensation expense. The total amount to be expensed is determined by reference to the fair value of the DSUs granted.

The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting date, the Company revises its estimates of the number of DSUs that are expected to vest based on the non-market vesting conditions. The fair value of DSUs is estimated using the Company's quoted market price on the grant date.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

2. Significant Accounting Policies - continued

Employee benefits

Termination benefits

The Company recognizes a liability and an expense for termination benefits at the earlier of when the entity can no longer withdraw the offer of those benefits or when the Company recognizes costs for a restructuring that includes termination benefits. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

Government assistance

Government grants are not recognized until there is reasonable assurance that the Company will comply with the associated conditions, and that the grant will be received. Receipt of a grant does not of itself provide conclusive evidence that the conditions attached to the grant have or will be fulfilled. The Company recognizes government grants in the consolidated statement of income and comprehensive income on a systematic basis over the periods in which the Company recognizes the expenses for the related costs for which the grants are intended to compensate, and as a deduction from the related expenses. The government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in the consolidated statement of income and comprehensive income for the period in which it becomes receivable.

Earnings per share

Basic earnings per share ("EPS") amounts for net income or loss are calculated by dividing the net income or loss for the year attributable to equity owners of the Company by the weighted average number of common shares outstanding during the year.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The Company's potentially dilutive instruments are comprised of share options granted to employees, restricted share units, convertible debentures and warrants.

Revisions of prior period comparatives

Certain comparative disclosures in the notes to the consolidated financial statements have been retrospectively adjusted to conform to the current year's presentation.

Critical accounting estimates and judgments

The Company makes estimates and assumptions concerning its financial future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Collectibility of receivables

The Company assesses the collectability of receivables on an ongoing basis. A provision for expected credit losses involves management judgment and includes the review of individual receivables based on individual customer creditworthiness, current economic trends and analysis of historical bad debts, adjusted for forward-looking factors.

Impairment testing of goodwill and indefinite life intangible assets

The Company tests at least annually whether goodwill or indefinite life intangible assets have suffered any impairment, in accordance with the requirements of IAS 36, *Impairment of Assets*. The recoverable amounts of CGUs or groups of CGUs have been determined based on the greater of their fair value less costs of disposal and value in use. These calculations require the use of estimates.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

2. Significant Accounting Policies - continued

Recognition of contingent consideration

In certain acquisitions, the Company may include contingent consideration which is subject to the acquired company achieving certain performance targets. At each reporting period, the Company estimates the future performance of acquired companies, which are subject to contingent consideration, in order to assess the probability that the acquired company will achieve its performance targets and thus earn its contingent consideration. Any changes in the fair value of the contingent consideration classified as a liability between reporting periods are included in the consolidated statement of income and comprehensive income.

Changes in fair value arise as a result of changes in the Company's share price and changes in the estimated probability of the acquired company achieving its performance targets.

Valuation of deferred tax assets and tax provisions

In assessing the realization of deferred tax assets, the Company considers the extent to which it is probable that the deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable profits during the period in which those temporary differences and tax loss carry-forwards become deductible. The Company considers the expected reversal of deferred tax liabilities and projected future taxable income in making this assessment.

The Company assesses any potential tax uncertainties at each reporting period in order to assess whether any provisions are required for these uncertainties.

Business combinations

On the completion of business acquisitions, management's judgment is required to estimate the purchase price, to identify and to fair value all assets and liabilities acquired. The determination of the fair value of assets and liabilities acquired is based on management's estimates and certain assumptions generally included in a present value calculation of the related cash flows.

Management applied significant judgment in estimating the fair value of the customer relationships and brands acquired as part of the completed business combinations. This judgment includes the use of the multi-period excess earnings method for estimating the fair value of the the customer relationships and the use of the relief-from-royalty method for estimating the fair value of the brands. The multi-period excess earnings method is based on the net present value of the customer relationships' specific cash flows, and the relief-from-royalty method is based on the premise that the brands' owner is relieved from having to pay royalties for the brands' continued use. Significant assumptions used included revenue growth rates, customer attrition rates, operating margins, royalty rate and discount rates.

Leases

Management makes assumptions and estimations in the determination of the incremental borrowing rates used to calculate the present value of lease payments. In addition, the Company exercises judgment when assessing whether renewal options are reasonably certain to be exercised.

Accounting for investment

Judgment is needed to assess whether the Company's interest in an equity instrument meets the definition of significant influence and therefore would be accounted for under the equity method as opposed to FVTPL. Management makes this determination based on its legal ownership interest, board representation and through an analysis of the Company's participation in the entity's decision making process. As at and for the years ended December 31, 2021 and 2020, management determined that it is not able to exert significant influence over AceAge Inc. ("AceAge").

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

2. Significant Accounting Policies - continued

Under IFRS 9, it is acknowledged that, in certain circumstances, carrying value may be an appropriate estimate of fair value. The Company performs an assessment at each reporting date to determine if carrying value is still the best estimate of fair value. If the Company identifies any relevant factors that would indicate that carrying value is not representative of fair value, the Company will make use of other valuation methods to determine the fair value.

As at December 31, 2021, the Company considered the guidance provided by IFRS 9 and all available information about the performance and operations of the investee and concluded that the carrying amount approximates the fair value of the investment.

As at December 31, 2020, the Company determined that cost was no longer representative of the investment's fair value and, consistent with IFRS 9, used other valuation models to determine the fair value of the Company's investment in AceAge. Such valuation models reflected a recent arm's length transaction in trading of the underlying financial instrument. By their nature, these valuation models require the use of assumptions. Changes in the underlying assumptions of the models could materially impact the determination of the fair value of a financial instrument (note 15).

3. Business Combinations

Acquisition of SmartMeds Pharmacy business

On April 1, 2021, the Company completed the acquisition of all of the issued and outstanding shares of SmartMeds Pharmacy Inc. ("SmartMeds"). The purchase price was comprised of (i) \$4,000 of cash consideration, which was increased to \$4,052 at closing by certain adjustments related to liabilities assumed at closing and (ii) 86,678 common shares of the Company (note 14) and (iii) earn-out consideration of up to \$2,925 if certain performance targets are achieved over the two years following closing (note 4).

The transaction has been accounted for as a business combination in accordance with IFRS 3. IFRS 3 requires assets and liabilities acquired in a business combination to be recorded at their fair values as at the date of acquisition. During the fourth quarter of 2021, the Company finalized the purchase price allocation for the SmartMeds acquisition and completed the valuation of the assets and liabilities of SmartMed's as at the date of acquisition.

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

| | As initially reported | Measurement period adjustments | Revised |
|---|--------------------------|--------------------------------------|--------------|
| Purchase Price | \$ | \$ | \$ |
| Cash consideration | 4,052 | (433) | 3,619 |
| Common shares of the Company issued (note 14) | 459 | — | 459 |
| Contingent consideration (note 4) | 2,292 | — | 2,292 |
| | 6,803 | (433) | 6,370 |

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

3. Business Combinations - continued

| | As initially reported | Measurement period adjustments | Revised |
|---|--------------------------|--------------------------------------|--------------|
| Fair values of net assets acquired | \$ | \$ | \$ |
| Cash and cash equivalents | 217 | — | 217 |
| Trade and other receivables | 812 | (14) | 798 |
| Inventories | 505 | — | 505 |
| Prepaid expenses and other current assets | 19 | — | 19 |
| Income taxes receivable | 24 | — | 24 |
| Property and equipment (note 8) | 553 | (23) | 530 |
| Deferred income tax assets (liabilities) | 107 | (1,035) | (928) |
| Trade payables and other liabilities | (1,496) | 89 | (1,407) |
| Lease liabilities | (79) | — | (79) |
| Intangible assets (note 9) | — | 3,861 | 3,861 |
| Goodwill (note 9) | 6,141 | (3,311) | 2,830 |
| | 6,803 | (433) | 6,370 |

The amount of cash consideration paid on closing was \$4,052, due to certain adjustments related to liabilities assumed at closing, and was subject to further customary post-closing adjustments based upon the finalization of the working capital of SmartMeds at the closing date. During the fourth quarter of 2021, the SmartMeds working capital as at the closing date was finalized and resulted in a revision to the closing cash consideration of \$433.

The fair value of the 86,678 common shares of the Company issued as part of the purchase price consideration was determined based on the price at the time of the closing of the SmartMeds acquisition of \$5.30 per common share.

Goodwill resulting from the SmartMeds acquisition is primarily attributable to expected synergies with the Company's existing business. It is not deductible for tax purposes.

The fair value of acquired trade receivables was \$586. The gross contractual amount for trade receivables due was \$671 with an allowance for ECLs of \$85 recognized on acquisition.

The fair value of acquired intangible assets includes the fair value of customer relationships acquired of \$3,856.

Acquisition related costs of \$588 that were not directly attributable to the issuance of shares are included in transaction, restructuring and other costs (note 18) in the consolidated statement of income and comprehensive income and in operating cash flows in the consolidated statement of cash flows.

For the year ended December 31, 2021, SmartMeds contributed revenue of \$9,330 and net income of \$569 to the Company's financial results. If the acquisition had occurred on January 1, 2021, management estimates that the Company's consolidated revenue and net loss would have been \$265,672 and \$22,939, respectively, for the year ended December 31, 2021. These amounts have been calculated using the historical SmartMeds financial results and adjusting them for the additional depreciation and amortization that would have been charged assuming fair value adjustments to property, plant and equipment, and intangible assets, respectively, had been applied from January 1, 2021, together with their associated tax effects.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

3. Business Combinations - continued

Acquisition of a portion of Rexall Pharmacy Group's Long-Term Care Pharmacy Services Business

On June 21, 2021, the Company completed the acquisition of a portion of Rexall Pharmacy Group's Long-Term Care Pharmacy Services Business ("Rexall") for cash consideration of \$3,500. Under the terms of the Rexall acquisition, the Company acquired certain assets including contracts with operators of long-term care, assisted living and other congregate care settings (the "Rexall Customer Relationships") and a pharmacy fulfillment centre in Sudbury, Ontario (the "Sudbury Pharmacy").

The acquisition of the Rexall Customer Relationships has been accounted for as an acquisition of a group of assets, and the acquisition of the Sudbury Pharmacy has been accounted for as a business combination in accordance with IFRS 3. IFRS 3 requires assets and liabilities acquired in a business combination to be recorded at their fair values as at the date of acquisition. During the fourth quarter of 2021, the Company finalized the purchase price allocation for the Rexall acquisition and completed the valuation of the assets and liabilities of Rexall as at the date of acquisition.

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

| | Sudbury Pharmacy | Rexall Customer Relationships | Total |
|----------------------------------|-----------------------------|--|--------------|
| Purchase Price Allocation | \$ | \$ | \$ |
| Cash consideration | 1,843 | 1,657 | 3,500 |
| Measurement period adjustments | 5 | (5) | — |
| | 1,848 | 1,652 | 3,500 |

| | As initially reported | Measurement period adjustments | Revised |
|--|----------------------------------|---|----------------|
| Fair values of the Sudbury Pharmacy net assets acquired | \$ | \$ | \$ |
| Trade receivables | 33 | — | 33 |
| Inventories | 299 | — | 299 |
| Prepaid expenses | 90 | (28) | 62 |
| Property and equipment (note 8) | 685 | 83 | 768 |
| Intangible assets (note 9) | — | 28 | 28 |
| Lease liabilities | (200) | (83) | (283) |
| Other liabilities | (26) | 26 | — |
| Goodwill (note 9) | 962 | (21) | 941 |
| | 1,843 | 5 | 1,848 |

| Cost of Rexall Customer Relationships related assets acquired | | | |
|--|--------------|------------|--------------|
| Trade receivables | 84 | — | 84 |
| Prepaid expenses | 154 | (42) | 112 |
| Property and equipment (note 8) | 109 | — | 109 |
| Intangible assets (note 9) | 1,458 | 14 | 1,472 |
| Other liabilities | (23) | 23 | — |
| | 1,782 | (5) | 1,777 |

| Total fair values of the Sudbury Pharmacy net assets acquired and cost of Rexall Customer Relationships related assets acquired | 3,625 | — | 3,625 |
|--|--------------|----------|--------------|
|--|--------------|----------|--------------|

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

3. Business Combinations - continued

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

The fair value of acquired trade receivables was \$117. The gross contractual amount for trade receivables due was \$129 with an allowance for ECLs of \$12 recognized on acquisition.

Acquisition related costs of \$125 that were attributable to the Rexall Customer Relationships acquisition are capitalized as part of the cost of the intangible assets in the consolidated statement of financial position. Acquisition related costs of \$258 that were not directly attributable to the Rexall Customer Relationships acquisition are included in transaction, restructuring and other costs (note 18) in the consolidated statement of income and comprehensive income and in operating cash flows in the consolidated statement of cash flows.

For the year ended December 31, 2021, the Rexall acquisition contributed revenue of \$7,974 and a net loss of \$103 to the Company's financial results. If the acquisition had occurred on January 1, 2021, management estimates that the Company's consolidated revenue and net loss would have been \$269,802 and \$22,707, respectively, for the year ended December 31, 2021. These amounts have been calculated using the historical financial results for the Rexall acquisition and adjusting them for the additional depreciation and amortization that would have been charged assuming fair value adjustments to property, plant and equipment and right-of-use assets, and intangible assets, respectively, had been applied from January 1, 2021, together with their associated tax effects.

Acquisition of the Long-Term Care Pharmacy Division of Medical Pharmacies Group Limited

On August 23, 2021, the Company completed the acquisition of the Long-Term Care Pharmacy Division of Medical Pharmacies Group Limited ("MPGL"). The purchase price was comprised of (i) \$70,000 of cash consideration, increased by certain adjustments related to preliminary working capital and liabilities assumed on closing, and (ii) 550,359 common shares of the Company (note 14).

The transaction has been accounted for as a business combination in accordance with IFRS 3. IFRS 3 requires assets and liabilities acquired in a business combination to be recorded at their fair values as at the date of acquisition. During the fourth quarter of 2021, the Company finalized the purchase price allocation for the MPGL acquisition and completed the valuation of the assets and liabilities of MPGL as at the date of acquisition.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

3. Business Combinations - continued

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

| | As initially reported | Measurement period adjustments | Revised |
|---|--------------------------|--------------------------------------|---------------|
| Purchase Price | \$ | \$ | \$ |
| Cash consideration | 74,265 | (1,397) | 72,868 |
| Common shares of the Company issued (note 14) | 3,335 | — | 3,335 |
| | 77,600 | (1,397) | 76,203 |
| Fair values of net assets acquired | | | |
| Cash and cash equivalents | 4 | — | 4 |
| Trade and other receivables | 11,893 | (142) | 11,751 |
| Inventories | 6,048 | (270) | 5,778 |
| Prepaid expenses and other current assets | 542 | — | 542 |
| Property and equipment (note 8) | 12,993 | (205) | 12,788 |
| Trade payables and other liabilities | (4,674) | (53) | (4,727) |
| Lease liabilities | (6,615) | — | (6,615) |
| Intangible assets (note 9) | — | 20,077 | 20,077 |
| Goodwill (note 9) | 57,409 | (20,804) | 36,605 |
| | 77,600 | (1,397) | 76,203 |

The amount of cash consideration paid on closing was \$72,765, due to certain adjustments to the purchase price related to preliminary working capital and other liabilities assumed on closing and a holdback amount of \$1,500. During the fourth quarter of 2021, the MPGL working capital as at the closing date was finalized and resulted in a revision to the closing cash consideration and a corresponding reduction to the holdback amount of \$1,397.

The fair value of the 550,359 common shares of the Company issued as part of the purchase price consideration was determined based on the price at the time of the closing of the MPGL acquisition of \$6.06 per common share.

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

The fair value of acquired trade receivables was \$11,751. The gross contractual amount for trade receivables due was \$12,881 with an allowance for ECLs of \$1,130 recognized on acquisition.

The fair value of acquired intangible assets includes the fair value of customer relationships and brands acquired of \$15,228 and \$4,295, respectively.

Acquisition related costs of \$5,548 that were not directly attributable to the issuance of shares are included in transaction, restructuring and other costs (note 18) in the consolidated statement of income and comprehensive income and in operating cash flows in the consolidated statement of cash flows.

For the year ended December 31, 2021, MPGL contributed revenue of \$52,479 and net income of \$3,268 to the Company's financial results. If the acquisition had occurred on January 1, 2021, management estimates that the Company's consolidated revenue and net loss would have been \$356,573 and \$16,970, respectively, for the year ended December 31, 2021. These amounts have been calculated using the historical MPGL financial results and adjusting them for the additional depreciation and amortization that would have been charged assuming fair value adjustments to property, plant and equipment, and intangible assets, respectively, had applied from January 1, 2021, together with the associated tax effects.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

3. Business Combinations - continued

Acquisition of Remedy'sRx Specialty Pharmacy business

On May 7, 2020, the Company completed the acquisition of all of the issued and outstanding shares of Remedy Equity Corporation ("Remedy"), the loan payable by Remedy to Remedy Capital Corporation in the principal amount of \$20,889, and the Remedy'sRx Specialty Pharmacy business (collectively, "Remedy's"). The purchase price was comprised of (i) \$8,000 of cash consideration, which was reduced to \$1,892 at closing by certain adjustments to the cash consideration related to liabilities assumed on closing, (ii) \$23,000 of common shares of the Company, issued at an implied issue price of \$3.68 per common share (note 14), resulting in 6,250,000 common shares of the Company issued, (iii) \$4,000 of deferred consideration due twelve months following closing, (iv) \$4,000 of consideration payable under a vendor take-back note due 18 months following closing and (v) earn-out consideration of up to \$5,000 if certain performance targets are achieved over the two years following closing.

The transaction has been accounted for as a business combination in accordance with IFRS 3. IFRS 3 requires assets and liabilities acquired in a business combination to be recorded at their fair values as at the date of acquisition. During the fourth quarter of 2020, the Company finalized the purchase price allocation for the Remedy's acquisition and completed the valuation of the assets and liabilities of Remedy's as at the date of acquisition.

The purchase price allocation and the fair values of the net identifiable assets acquired pursuant to the Remedy's acquisition were determined as follows:

| Purchase Price | \$ |
|---|---------------|
| Common shares of the Company issued (note 14) | 29,375 |
| Cash consideration | 2,454 |
| Liabilities assumed on closing | 5,470 |
| Deferred consideration | 3,571 |
| Vendor take-back note (note 12) | 3,459 |
| Contingent consideration (note 4) | 3,293 |
| | 47,622 |
| Fair values of net assets acquired | \$ |
| Cash and cash equivalents | 22 |
| Trade and other receivables | 5,271 |
| Inventories | 3,826 |
| Prepaid expenses and other current assets | 352 |
| Property and equipment (note 8) | 4,668 |
| Deferred income tax assets (liabilities) | (5,383) |
| Trade payables and other liabilities | (6,431) |
| Lease liabilities | (1,797) |
| Goodwill and intangible assets (note 9) | 47,094 |
| | 47,622 |

The amount of cash consideration paid on closing was \$1,892, due to certain adjustments related to liabilities assumed on closing, and was subject to further customary post-closing adjustments based upon the finalization of the working capital of Remedy's at the closing date. During the fourth quarter of 2020, the filing of the pre-closing tax returns and the finalization of the Remedy's working capital as at the closing date were completed and resulted in a revision to the liabilities assumed on closing and closing cash consideration of \$562.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

3. Business Combinations - continued

The fair value of the 6,250,000 common shares of the Company (note 14) issued as part of the purchase price consideration was revalued based on the price of the Company's common shares at the time of the closing of the Remedy's acquisition and a measurement period adjustment was recorded for the difference between the share price at the time of closing of \$4.70 per common share and the implied issue price of \$3.68 per common share that was used to value the common share consideration at initial recognition.

Goodwill resulting from the Remedy's acquisition is primarily attributable to expected synergies with the Company's existing business. It is not deductible for tax purposes.

The fair value of acquired trade receivables was \$4,991. The gross contractual amount for trade receivables due was \$5,185 with an allowance for doubtful accounts of \$194 recognized on acquisition.

The fair values of the deferred consideration and vendor take-back note recognized on the acquisition date represent the present value of the respective payments (note 12) on that date. The fair value of the contingent consideration recognized on the acquisition date represents the present value of the payment based on the estimated probability that the operational and earnings targets will be achieved (note 4).

Acquisition related costs of \$2,346 for the year ended December 31, 2020 that were not directly attributable to the issuance of shares were included in transaction, restructuring and other costs (note 18) in the consolidated statement of income and comprehensive income and in operating cash flows in the consolidated statement of cash flows.

For the year ended December 31, 2020, Remedy's contributed revenue of \$40,285 and net income of \$1,304, respectively, to the Company's financial results. If the acquisition had occurred on January 1, 2020, management estimates that the Company's consolidated revenue and net loss for the year ended December 31, 2020 would have been \$184,619 and \$20,380, respectively. These amounts have been calculated using the historical Remedy's financial results and adjusting them for the additional depreciation and amortization that would have been charged assuming fair value adjustments to property, plant and equipment and right-of-use assets, and intangible assets, respectively, had applied from January 1, 2020, together with the associated tax effects.

During the second half of 2020, the Company paid \$3,198 to settle certain liabilities assumed on the closing of the Remedy's acquisition, which resulted in a reduction to the closing cash consideration. The amounts paid consisted of \$1,722 paid in relation to income tax liabilities assumed, which was included in operating cash flows in the consolidated statement of cash flows and \$1,476 for outstanding payments owed related to Remedy's previous acquisition of Integrity Pharmacy Inc. ("iPharm"), which was included in investing cash flows in the consolidated statement of cash flows.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

4. Contingent Consideration

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

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

| | SmartMeds | Remedy's | CareRx Enterprises | Grande Prairie | Salus | Other | Total |
|---|--------------|--------------|-----------------------|-------------------|------------|--------------|--------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at December 31, 2019 | — | — | 1,774 | 1,008 | 1,284 | 1,799 | 5,865 |
| Additions to contingent consideration | — | 3,293 | — | — | — | 406 | 3,699 |
| Change in fair value during the year | — | 459 | (409) | — | (439) | 136 | (253) |
| Amounts receivable from vendor (note 16) | — | (559) | — | — | — | — | (559) |
| Contingent consideration settled in shares | — | — | — | (1,008) | — | — | (1,008) |
| Contingent consideration settled in cash | — | — | — | — | (200) | — | (200) |
| Balance at December 31, 2020 | — | 3,193 | 1,365 | — | 645 | 2,341 | 7,544 |
| Additions to contingent consideration (note 3) | 2,292 | — | — | — | — | 440 | 2,732 |
| Change in fair value during the year | 334 | 463 | 17 | — | 17 | 58 | 889 |
| Changes in amounts receivable from vendor (note 16) | — | 81 | — | — | — | — | 81 |
| Contingent consideration settled in shares | — | — | (426) | — | (460) | — | (886) |
| Contingent consideration settled in cash | — | (1,184) | (956) | — | (200) | — | (2,340) |
| Balance at December 31, 2021 | 2,626 | 2,553 | — | — | 2 | 2,839 | 8,020 |
| Less: Current portion | — | 2,553 | — | — | 2 | 2,839 | 5,394 |
| Non-current portion at December 31, 2021 | 2,626 | — | — | — | — | — | 2,626 |

On October 7, 2016, the Company recorded a contingent consideration liability as part of the consideration for the acquisition of CareRx Enterprises Ltd. ("CareRx Enterprises") payable over a three-year period. On March 1, 2021, the Company paid \$956 and issued 81,900 common shares (note 14), respectively, to settle the remaining contingent consideration liability for the acquisition of CareRx Enterprises which was related to outstanding payments based on the share price of the Company's common shares that were issued as consideration at the closing of the transaction.

On December 22, 2016, the Company recorded a contingent consideration liability as part of the consideration for the acquisition of Grande Prairie payable over a three-year period. On February 3, 2020, the Company issued 318,934 common shares (note 14) to settle the remaining contingent consideration liability for the acquisition of Grande Prairie.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

4. Contingent Consideration - continued

On November 15, 2017, the Company recorded a contingent consideration liability as part of the consideration for the acquisition of Salus Pharmicare Inc. ("Salus") in the amount of \$1,384, which represented its fair value at the date of acquisition, payable over a five-year period. The fair value on acquisition consisted of \$774 in performance cash (up to a maximum of \$1,533), \$250 in performance shares (up to a maximum of 34,849 common shares) and \$269 in warrants (up to a maximum of 1,000,000 warrants) subject to certain performance benchmarks being achieved over the five-year period. On the acquisition date, the Company estimated a 70% probability of meeting the performance benchmarks. As at December 31, 2021, the Company estimated a 80% probability of meeting the remaining performance benchmarks. The warrants will vest on renewal of a long-term contract, allowing the holder to purchase 0.05 common shares of the Company for each warrant at an exercise price of \$12.91 per common share (note 14) over a two-year term. In addition, the fair value of contingent consideration on the date of acquisition included \$91, which was payable depending on the Company's share price on a future date.

During the year ended December 31, 2020, the Company paid \$200 in performance cash related to the completion of a portion of the Salus earn-out.

During the year ended December 31, 2021, the Company paid \$200 in performance cash and issued 89,300 common shares related to the completion of a portion of the Salus earn-out.

As at December 31, 2021, the remaining contingent consideration liability for the acquisition of Salus represents the fair value of the outstanding warrants.

On May 7, 2020, the Company recorded a contingent consideration liability as part of the consideration for the acquisition of Remedy's in the amount of \$3,293, which represented its fair value at the date of acquisition, payable over a two-year period. The fair value on acquisition consisted of \$3,293 in performance cash (up to a maximum of \$5,000) subject to certain operational and earnings targets being achieved over the two-year period. As at December 31, 2021, the Company estimated the probability of meeting the remaining operational and earnings targets to be 90%. As at December 31, 2021, the fair value of the contingent consideration liability as part of the consideration for the acquisition of Remedy's was estimated based on a risk-adjusted discount rate of 9%.

In addition, the contingent consideration liability related to the acquisition of Remedy's included a liability owing to the vendor of iPharm, a legacy acquisition of Remedy's, in the event that there were subsequent revisions to the previously announced amendments to O. Reg. 201/96 under the *Ontario Drug Benefit Act* that came into effect on January 1, 2020 (the "ODBA Amendments"), which adjusted the scheduled fee changes positively. On the acquisition date, the Company estimated a nil probability of revisions occurring. During the year ended December 31, 2020, the probability of an additional payment increased from nil to 100% as a result of the Ontario Ministry of Health announcing certain revisions to the ODBA Amendments. The Company has assessed these revisions to the ODBA Amendments and recognized \$407 as a change in the fair value of the contingent consideration liability for the year ended December 31, 2020. Subsequent to the year ended December 31, 2021 further revisions to the ODBA Amendments were announced. The Company has assessed these additional revisions to the ODBA Amendments and recognized \$87 as a change in the fair value of the contingent consideration liability for the year ended December 31, 2021.

On April 15, 2021, the Company paid \$138 to settle a portion of the contingent consideration liability owing to the vendor of iPharm.

On May 7, 2021, the Company paid \$1,046 in cash to settle a portion of the contingent consideration liability.

As at December 31, 2021, the expected range of potential undiscounted amounts payable in relation to the contingent consideration liability related to the acquisition of Remedy's is between \$362 and \$2,862.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

4. Contingent Consideration - continued

On April 1, 2021, the Company recorded a contingent consideration liability as part of the consideration for the acquisition of SmartMeds in the amount of \$2,292, which represented its fair value at the date of acquisition, 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 April 1, 2021 and December 31, 2021, the Company estimated the probability of meeting the operational targets to be 91% and 97%, respectively. As at December 31, 2021, the fair value of the contingent consideration liability as part of the consideration for the acquisition of SmartMeds was estimated based on a risk-adjusted discount rate of 9%. As at December 31, 2021, the expected range of potential undiscounted amounts payable remaining is between nil and \$2,925.

5. Cash and Cash Equivalents

Cash and cash equivalents as at December 31, 2021 and 2020 are comprised of the following:

| | December 31, 2021 | December 31, 2020 |
|-------------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Cash | 9,935 | 5,119 |
| Savings accounts and GICs on demand | 25,690 | 14,504 |
| Total | 35,625 | 19,623 |

6. Trade and Other Receivables

Trade and other receivables as at December 31, 2021 and 2020 are comprised of the following:

| | December 31, 2021 | December 31, 2020 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Trade receivables, net of provision (note 15) | 36,118 | 14,809 |
| Indirect taxes receivable | 1,528 | 545 |
| Total | 37,646 | 15,354 |

7. Inventories

The Company's December 31, 2021 inventory balance of \$17,992 (2020 - \$8,577) consisted of pharmaceutical products and medical supplies. Inventories are pledged as security as part of the Company's lending agreements as outlined in note 12. Inventory provisions of nil were recognized as at December 31, 2021 and 2020, respectively. Inventories that were expensed during the year ended December 31, 2021 were \$131,173 (2020 - \$79,665).

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

8. Property and Equipment

| | Office furniture, fixtures and equipment \$ | Computer equipment \$ | Medical equipment \$ | Packaging Equipment \$ | Vehicles \$ | Leasehold improvements \$ | Right-of-use assets - Properties \$ | Right-of-use assets - Equipment \$ | Right-of-use assets - Vehicles \$ | Total \$ |
|---|---|-----------------------------|----------------------------|------------------------------|----------------|---------------------------------|--|---|--|-----------------|
| Year ended December 31, 2020 | | | | | | | | | | |
| Cost | | | | | | | | | | |
| Balance at December 31, 2019 | 13,643 | 6,073 | 2,830 | — | — | 2,261 | 8,558 | 259 | 811 | 34,435 |
| Acquisition of business | 1,914 | 728 | — | — | — | 229 | 1,474 | 310 | 13 | 4,668 |
| Additions | 523 | 993 | 4 | — | — | 43 | 347 | 229 | 61 | 2,200 |
| Disposals | (738) | (55) | (447) | — | — | (251) | (164) | — | (128) | (1,783) |
| Balance at December 31, 2020 | 15,342 | 7,739 | 2,387 | — | — | 2,282 | 10,215 | 798 | 757 | 39,520 |
| Accumulated depreciation and impairment losses | | | | | | | | | | |
| Balance at December 31, 2019 | (5,224) | (4,289) | (2,077) | — | — | (1,296) | (1,197) | (57) | (247) | (14,387) |
| Depreciation | (1,714) | (797) | (334) | — | — | (270) | (1,429) | (195) | (251) | (4,990) |
| Disposals | 379 | 30 | 308 | — | — | 148 | 28 | — | 101 | 994 |
| Balance at December 31, 2020 | (6,559) | (5,056) | (2,103) | — | — | (1,418) | (2,598) | (252) | (397) | (18,383) |
| Year ended December 31, 2021 | | | | | | | | | | |
| Cost | | | | | | | | | | |
| Balance at December 31, 2020 | 15,342 | 7,739 | 2,387 | — | — | 2,282 | 10,215 | 798 | 757 | 39,520 |
| Acquisition of businesses | 440 | 3,847 | — | 2,285 | 207 | 573 | 6,764 | 79 | — | 14,195 |
| Transfers | (3,236) | (1) | (1,600) | 4,654 | 194 | (11) | 6 | (18) | 12 | — |
| Additions | 1,582 | 2,743 | 4 | 16 | — | 983 | 7,909 | 257 | 205 | 13,699 |
| Disposals | (2,918) | (2,358) | (791) | — | — | (1,006) | (3,241) | (251) | (217) | (10,782) |
| Balance at December 31, 2021 | 11,210 | 11,970 | — | 6,955 | 401 | 2,821 | 21,653 | 865 | 757 | 56,632 |
| Accumulated depreciation and impairment losses | | | | | | | | | | |
| Balance at December 31, 2020 | (6,559) | (5,056) | (2,103) | — | — | (1,418) | (2,598) | (252) | (397) | (18,383) |
| Depreciation | (1,972) | (1,544) | (73) | (140) | — | (322) | (2,395) | (305) | (216) | (6,967) |
| Transfers | 1,479 | 160 | 1,425 | (2,896) | (180) | 12 | — | — | — | — |
| Disposals | 2,722 | 1,869 | 751 | — | — | 835 | 365 | 138 | 209 | 6,889 |
| Balance at December 31, 2021 | (4,330) | (4,571) | — | (3,036) | (180) | (893) | (4,628) | (419) | (404) | (18,461) |
| Net carrying value | | | | | | | | | | |
| As at December 31, 2020 | 8,783 | 2,683 | 284 | — | — | 864 | 7,617 | 546 | 360 | 21,137 |
| As at December 31, 2021 | 6,880 | 7,399 | — | 3,919 | 221 | 1,928 | 17,025 | 446 | 353 | 38,171 |

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

9. Goodwill and Intangible Assets

| | Goodwill \$ | Licences \$ | Contracts \$ | Non- complete Arrange- ments \$ | Computer software \$ | Customer Relation- ships \$ | Trade- marks and Brands \$ | Total Intangible Assets \$ | Total \$ |
|---|-----------------|----------------|-----------------|---|----------------------------|--------------------------------------|--|-------------------------------------|-----------------|
| Year ended December 31, 2020 | | | | | | | | | |
| Cost | | | | | | | | | |
| Balance at December 31, 2019 | 53,018 | 3,372 | 20,771 | 380 | 7,320 | 38,463 | 5,943 | 76,249 | 129,267 |
| Additions | — | — | 636 | — | 159 | — | — | 795 | 795 |
| Acquisition of business | 24,500 | 1,500 | — | — | — | 21,094 | — | 22,594 | 47,094 |
| Disposals | — | (3,052) | — | — | (149) | (2,200) | — | (5,401) | (5,401) |
| Balance at December 31, 2020 | 77,518 | 1,820 | 21,407 | 380 | 7,330 | 57,357 | 5,943 | 94,237 | 171,755 |
| Accumulated amortization and impairment losses | | | | | | | | | |
| Balance at December 31, 2019 | (25,779) | (2,742) | (9,900) | (230) | (6,372) | (32,628) | (5,640) | (57,512) | (83,291) |
| Amortization | — | — | (2,610) | (76) | (309) | (3,303) | (170) | (6,468) | (6,468) |
| Disposals | — | 2,742 | — | — | 129 | 2,200 | — | 5,071 | 5,071 |
| Balance at December 31, 2020 | (25,779) | — | (12,510) | (306) | (6,552) | (33,731) | (5,810) | (58,909) | (84,688) |
| Year ended December 31, 2021 | | | | | | | | | |
| Cost | | | | | | | | | |
| Balance at December 31, 2020 | 77,518 | 1,820 | 21,407 | 380 | 7,330 | 57,357 | 5,943 | 94,237 | 171,755 |
| Additions | — | — | 2,161 | — | 170 | — | — | 2,331 | 2,331 |
| Acquisition of businesses (note 3) | 40,376 | — | 215 | — | 415 | 20,513 | 4,295 | 25,438 | 65,814 |
| Disposals | — | — | (798) | — | (4,310) | (3,547) | (5,943) | (14,598) | (14,598) |
| Balance at December 31, 2021 | 117,894 | 1,820 | 22,985 | 380 | 3,605 | 74,323 | 4,295 | 107,408 | 225,302 |
| Accumulated amortization and impairment losses | | | | | | | | | |
| Balance at December 31, 2020 | (25,779) | — | (12,510) | (306) | (6,552) | (33,731) | (5,810) | (58,909) | (84,688) |
| Amortization | — | — | (3,031) | (70) | (270) | (4,734) | (321) | (8,426) | (8,426) |
| Disposals | — | — | 777 | (4) | 4,231 | 3,555 | 5,940 | 14,499 | 14,499 |
| Balance at December 31, 2021 | (25,779) | — | (14,764) | (380) | (2,591) | (34,910) | (191) | (52,836) | (78,615) |
| Net carrying value | | | | | | | | | |
| As at December 31, 2020 | 51,739 | 1,820 | 8,897 | 74 | 778 | 23,626 | 133 | 35,328 | 87,067 |
| As at December 31, 2021 | 92,115 | 1,820 | 8,221 | — | 1,014 | 39,413 | 4,104 | 54,572 | 146,687 |

As at December 31, 2021 and 2020, the Company had \$1,820 of indefinite life intangible assets.

On October 5, 2020, the Company completed the sale of one of its wholly-owned subsidiaries, Haviland Drugs Limited ("Haviland"), a pre-1954 charter company, for gross proceeds of \$1,500, resulting in a disposal of \$310 of indefinite life intangible asset and a gain on sale of \$1,055. The transaction costs incurred related to the sale of the subsidiary were \$135. Prior to the sale, the operating assets and liabilities held by Haviland were transferred to one of the Company's other wholly-owned subsidiaries and Haviland was sold as a non-operating shell company along with its charter.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

9. Goodwill and Intangible Assets - continued

Annual impairment testing of goodwill

During 2021, the Company had the following CGUs: Pharmacy - Ontario (previously referred to as Pharmacy - Eastern Canada), Pharmacy - Western Canada and MPGL, which was added as a new CGU during the year as a result of the MPGL acquisition.

As at October 1, 2021, the Company performed its annual impairment testing of goodwill and indefinite life intangible assets. The recoverable amount of the Company's Pharmacy - Ontario, Pharmacy - Western Canada and MPGL CGUs was determined based on value-in-use calculations. The Company used a capitalized cash flow approach for these CGUs, which involves capitalizing the estimated future maintainable pre-tax cash flows from operations using a pre-tax rate of return, which serves as a measure of the rate of return required by a prospective purchaser of the business reflecting, among other factors, the risk inherent in achieving the determined level of maintainable cash flows. Significant assumptions used in the capitalized cash flow approach included revenue growth rates, operating margins and discount rates. The maintainable discretionary pre-tax cash flows from operations were based on the Company's approved budget for the year ended December 31, 2022.

The Company projected normalized revenue, operating margin and cash flows and applied a perpetual long-term growth rate. In arriving at its forecasts, the Company considered past and current experience, economic trends and inflation as well as industry and market trends.

The Company assumed a discount rate in order to calculate the present value of its capitalized cash flows. The discount rate represented a weighted average cost of capital ("WACC") for comparable companies operating in similar industries as the applicable CGU, based on publicly available information. The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate. Determination of the WACC requires separate analysis of the cost of equity and debt and considers a risk premium based on an assessment of risks related to the projected cash flows of the CGU. Lower discount rates were applied to CGUs whose cash flows are expected to be less volatile due to factors such as the maturity of the market they serve and their market position. Higher discount rates were applied to CGUs whose cash flows are expected to be more volatile due to competition or other market uncertainty.

The recoverable amount of the Company's CGUs is considered to be a Level 3 fair value calculation as described in note 15. The significant assumptions used by the Company in its goodwill impairment testing as at October 1, 2021 (the date of the Company's annual impairment testing of goodwill and indefinite life intangible assets) were as follows:

| CGU | Goodwill as at October 1, 2021 | Terminal growth | Pre-tax discount |
|---------------------------|-----------------------------------|-----------------|------------------|
| | \$ | rate | rate |
| Pharmacy - Ontario | 34,452 | 2.0% | 13.2% |
| Pharmacy - Western Canada | 21,058 | 2.0% | 15.5% |
| MPGL | 36,605 | 2.0% | 16.5% |

For each of these CGUs, the recoverable amount calculated was in excess of the carrying value as at October 1, 2021. The Company has assessed whether a reasonable change in assumptions would cause the recoverable amount for its Pharmacy - Ontario, Pharmacy - Western Canada and MPGL CGUs for which no impairment charge was recorded to be less than its carrying value. The Company has defined a reasonable change in significant assumptions to be a 1% increase in the discount rate. The Company found that a 1% increase in the discount rate would not result in the recoverable amount becoming less than the carrying value of the CGUs. The Company did not reverse any impairment losses for definite life intangible assets for the year ended December 31, 2021.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

10. Income Taxes

The major components of income tax recovery for the years ended December 31, 2021 and 2020 are:

| | December 31, 2021 | December 31, 2020 |
|---------------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Current income tax (recovery) expense | (686) | 441 |
| Deferred income tax recovery | (319) | (559) |
| Total | (1,005) | (118) |

The total provision for income taxes varies from the amounts that would be computed by applying the applicable Canadian federal and provincial statutory income tax rates of approximately 23.49% (2020 - 24.39%). Permanent differences in the years ended December 31, 2021 and 2020 arose as a result of contingent consideration, share-based compensation and other expenses, as these amounts have been recorded for accounting purposes but will never be realized as a deduction for income tax purposes.

| | December 31, 2021 | December 31, 2020 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Loss before income taxes from continuing operations | (23,735) | (18,301) |
| Expected income tax recovery based on statutory tax rate | (5,575) | (4,464) |
| Impact from non-deductible items | 1,504 | 3,228 |
| Impact from unrecognized deferred tax assets | 3,587 | 230 |
| Provision to return and other adjustments | 68 | 756 |
| Change in the applicable Canadian federal and provincial statutory income tax rates | 127 | 57 |
| Other | (716) | 75 |
| Income tax recovery | (1,005) | (118) |

Deferred income tax assets and liabilities are presented on a net basis by legal entity on the consolidated statement of financial position.

The components of net deferred income tax liabilities recognized are as follows:

| | December 31, 2021 | December 31, 2020 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Property and equipment | 875 | 684 |
| Goodwill and intangible assets | 551 | — |
| Non- and net-capital losses | 702 | — |
| Financing costs ¹ | 10 | 1,472 |
| Other deferred amounts ² | 3,806 | 3,976 |
| Deferred income tax assets | 5,944 | 6,132 |
| Property and equipment | 1,026 | 5 |
| Goodwill and intangible assets | 6,036 | 6,247 |
| Other | 4,345 | 4,735 |
| Deferred income tax liabilities | 11,407 | 10,987 |
| Net deferred income tax liabilities recognized³ | (5,463) | (4,854) |

¹As at December 31, 2021, the Company had gross financing costs of \$9,250 (2020 - \$7,476).

²As at December 31, 2021, the Company had gross undeducted reserves of \$11,431 (2020 - \$14,171).

³As at December 31, 2021, in addition to non- and net-capital losses, the Company did not recognize deferred tax assets of \$5,476 (2020 - \$2,929) arising from financing costs, other deferred amounts and other deductible temporary differences.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

10. Income Taxes - continued

| | December 31, 2021 | 31 December 2020 |
|--|-------------------|------------------|
| | \$ | \$ |
| Net deferred tax liabilities, beginning of year | (4,854) | (18) |
| Recognized in consolidated statement of income and comprehensive income | 319 | 559 |
| Not recognized through consolidated statement of income and comprehensive income | (928) | (5,395) |
| Net deferred tax liabilities, end of year | (5,463) | (4,854) |

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. As at December 31, 2021, the Company had gross non-capital loss carry-forwards of \$72,491 (December 31, 2020 - \$59,566), of which \$2,636 have been recognized as at December 31, 2021 (December 31, 2020 - nil). These losses can be carried forward against future taxable income and expire between 2033 to 2041.

As at December 31, 2021, the Company had no gross capital loss carry-forwards (December 31, 2020 - \$1,945, the full amount of these loss carry-forwards was not recognized).

11. Trade Payables and Other Liabilities

Trade payables and other liabilities are comprised of the following:

| | December 31, 2021 | December 31, 2020 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Trade payables | 33,207 | 16,406 |
| Salaries, wages and employee benefits payable | 4,552 | 2,744 |
| Other accrued liabilities | 8,554 | 5,067 |
| Other payables (note 16) | — | 288 |
| Severance costs (note 18) | — | 720 |
| Total | 46,313 | 25,225 |

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

12. Borrowings

Borrowings consist of the following:

| | December 31, 2021 | December 31, 2020 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Senior Facility | 58,714 | — |
| Yorkville Facility | 20,015 | 13,349 |
| Liability component of Convertible Debentures | 15,902 | 18,522 |
| Ewing Convertible Debentures | 12,175 | 11,621 |
| Ewing Convertible Debentures embedded derivatives (note 15) | 5,857 | 3,614 |
| Finance loans | 36 | 96 |
| Vendor take-back note | — | 3,254 |
| Crown Capital Facility | — | 25,737 |
| Total borrowings | 112,699 | 76,193 |
| Less current portion of borrowings: | | |
| Liability component of Convertible Debentures | 380 | 441 |
| Ewing Convertible Debentures | 317 | 266 |
| Finance loans | 36 | 55 |
| Crown Capital Facility | — | 229 |
| Vendor take-back note | — | 3,254 |
| Total current portion of borrowings | 733 | 4,245 |
| Total non-current portion of borrowings | 111,966 | 71,948 |

As at December 31, 2021, the current portion of borrowings includes \$697 of interest accrued and payable within twelve months following the statement of financial position date (December 31, 2020 - \$936).

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

Senior Facility and Crown Capital Facility

On March 31, 2020, the Company entered into a credit agreement with Crown Capital Partner Funding LP ("Crown Capital"), under which Crown Capital advanced a loan to the Company of up to \$30,000 in three tranches: (i) an initial tranche of \$22,000, which was advanced on March 31, 2020 and was used to repay the Company's outstanding Credit Facilities, (ii) a second tranche of \$5,000, which was advanced on May 7, 2020 contemporaneously with the closing of the Remedy's acquisition, and was used by the Company to fund the cash consideration for the Remedy's acquisition (the "Crown Capital Facility").

Interest on the Crown Capital Facility accrued at a rate of 10% per annum. The Crown Capital Facility was repayable five years from closing, subject to certain prepayment rights and contained a number of customary positive and negative covenants, including a requirement to comply with certain financial covenants. These included restrictions on incurring additional indebtedness, making certain investments or acquisitions, selling assets of the Company and making regularly scheduled interest payments on the Company's subordinated indebtedness unless the Company had sufficient liquidity to do so.

The Company incurred \$1,900 in transaction costs, of which \$1,264 and \$464 were allocated towards the initial and the second tranche, respectively, and \$172 was deferred and recognized as a prepaid expense as at December 31, 2020. During the year ended December 31, 2021, the prepaid expense of \$172 was amortized and recognized as accretion expense in the statement of income and comprehensive income. Included within the transaction costs were 7,200,000 warrants issued by the Company to Crown Capital (note 14).

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

12. Borrowings - continued

On May 21, 2021, the Company made a prepayment of \$5,000 on the outstanding principal balance of the Crown Capital Facility. The prepayment resulted in a \$372 adjustment to accretion expense (note 19) due to the revision of the estimates of the remaining payments under the Crown Capital Facility.

On August 23, 2021, concurrent with the closing of 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 \$60,000 were advanced to the Company by CPCP and certain participants (the "Senior Facility"). Approximately \$37,000 of the Senior Facility was used to pay a portion of the cash consideration for the MPGL acquisition and related transaction costs. The remaining Senior Facility proceeds were used to repay the Crown Capital Facility that had a carrying value of \$21,079 and principal amount of \$22,000 as at August 23, 2021, and associated financing fees.

Interest on the Senior Facility will accrue 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.

As at December 31, 2021, the Company was in compliance with its Senior Facility covenants.

The repayment of the Crown Capital Facility and the advance of the Senior Facility has been accounted for as an extinguishment of the original financial liability as required under IFRS, and a loss on financial liability extinguishment of \$1,904 was recognized (note 19). The loss on extinguishment included financing costs of \$158 and a prepayment fee of \$825 related to the Crown Capital Facility. The Company incurred \$1,350 in incremental transaction costs which were allocated towards the Senior Facility.

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 advanced a subordinated facility to the Company of up to \$12,702 (the "Yorkville Facility") in two tranches: (i) an initial tranche of \$6,319, which was advanced on March 31, 2020, and (ii) a second tranche of \$6,383, 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 Convertible Debentures and Ewing Convertible Debentures, but subordinate to the Senior Facility.

Interest on the Yorkville Facility initially 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 provides 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%. During the year ended December 31, 2020, the Company added \$1,289 to the principal amount of the Yorkville Facility.

The Yorkville Facility had a maturity date 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.

The Company incurred \$804 in transaction costs, of which \$345 and \$459 were allocated towards the initial and the second tranche, respectively.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

12. Borrowings - continued

On May 19, 2021, the Yorkville Facility was amended to: (i) include a third tranche in the amount of \$6,027, which was advanced on May 19, 2021, (ii) extend the maturity date to the later of March 31, 2026 and the fifth anniversary of the MPGL Acquisition closing, (iii) reduce the interest rate from 12% to 10.5% per annum, and (iv) eliminate certain financial covenants. The Company accounted for these Yorkville Facility amendments as an extinguishment of the original financial liability as required under IFRS, and a loss on extinguishment of \$803 was recognized (note 19). The loss on extinguishment included financing costs of \$344 related to the Yorkville Facility amendment.

Convertible Debentures

On November 22, 2019, the Company issued 8.25% unsecured debentures convertible into common shares of the Company in the aggregate principal amount of \$27,500 (the "Convertible Debentures"). Each Convertible Debenture is convertible into common shares at the option of the holder at a conversion price of \$3.00 per common share (note 14) (the "Conversion Price"). In addition, the Convertible Debentures provide the Company with a mandatory conversion right where 25% of the outstanding original principal amount of the Convertible Debentures may be converted into common shares at the Conversion Price at the beginning of years three, four and five following their issue date, provided that no event of default is continuing at the time of conversion. The Convertible Debentures will mature on the fifth anniversary of the issue date at which point any remaining principal amount not already converted will be repaid in common shares based on the Conversion Price. The Convertible Debentures have been accounted for as a compound financial instrument comprised of: (i) a financial liability component representing the contractual cash flows of 8.25% annual coupon payments and the principal amount payable in cash under certain circumstances; (ii) an equity component representing certain conversion and redemption features; and (iii) the embedded derivative component representing the holder's redemption option in the event of a change in the Company's control, and purchase for cancellation features and classified as a financial liability at FVTPL.

The liability component was recognized initially at the fair value of a similar liability that does not have any equity conversion and redemption features. The equity component was recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. The embedded derivatives were determined to have nil values. Any directly attributable financing costs were allocated to the liability and equity components in proportion to their initial carrying values. The Company has ascribed the following carrying values to the components of the Convertible Debentures at the time of initial recognition on November 22, 2019:

| | Initial carrying value \$ | Financing costs \$ | Net carrying value \$ |
|---|------------------------------|-----------------------|--------------------------|
| Liability component of Convertible Debentures | 17,210 | 2,108 | 15,102 |
| Equity component of Convertible Debentures | 10,290 | 1,261 | 9,029 |
| Embedded derivatives | — | — | — |
| Total | 27,500 | 3,369 | 24,131 |

Subsequent to initial recognition, the liability component of the Convertible Debentures is measured at amortized cost using the effective interest method. The equity component of Convertible Debentures is not remeasured subsequent to initial recognition, except on conversion or expiry. The embedded derivative fair values are reassessed by the Company at each reporting date. The outstanding principal amount of the Convertible Debentures is payable in cash under certain circumstances, including a default by the Company on its other indebtedness.

Subsequent to initial recognition, although the Company received covenant waivers and further amended its agreements for the Credit Facilities subsequent to December 31, 2019, the Company adjusted the liability component of the Convertible Debentures to its principal amount of \$27,500 and recognized accretion expense with respect to the Convertible Debentures in the amount of \$12,404 for the year ended December 31, 2019.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

12. Borrowings - continued

As at March 31, 2020, following the advances of the first tranches of the Crown Capital Facility and Yorkville Facility, and the repayment of the Subordinated Facility and Revolving Facility, the Company remeasured the liability component of the Convertible Debentures to its amortized cost of \$18,147 and recognized accretion income with respect to the Convertible Debentures in the gross amount of \$9,825 for the year ended December 31, 2020 (note 19).

During the years ended December 31, 2021 and 2020, \$6,575 and \$2,175 of Convertible Debentures, respectively, were converted to common shares resulting in \$5,359 and \$1,432, respectively, representing the carrying value of the liability component of the Convertible Debentures, being transferred to share capital (note 14). As at December 31, 2021, the Company recognized \$27 as a payable in relation to 9,000 common shares still to be issued in relation to the Convertible Debentures. On January 12, 2022, the remaining 9,000 common shares were issued.

Ewing Convertible Debentures

During the year ended December 31, 2019, the Company exchanged its convertible preferred shares previously issued to Ewing Morris & Co. Investment Partners Ltd. ("Ewing Morris"), including accrued and unpaid dividends in the aggregate amount of \$12,540 for an equivalent amount of 8% unsecured debentures convertible into common shares of the Company (the "Ewing Convertible Debentures"). The Ewing Convertible Debentures mature on March 12, 2024.

The Ewing Convertible Debentures are convertible into common shares of the Company at the holder's option at a conversion price of \$0.25 per 0.05 common share (note 14) and at the Company's option in certain circumstances, subject to customary anti-dilution adjustments. The share price threshold required to trigger the Company's ability to exercise a forced conversion of the Ewing Convertible Debentures into common shares is \$7.50 per common share (note 14) and is exercisable from the Ewing Convertible Debentures issuance date. Additionally, the Ewing Convertible Debentures provide 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 of the convertible debentures in an amount equal to an annual rate of 10% of the outstanding principal amount of the convertible debentures. Interest that has been accrued to the principal balance continues to accrue interest at a rate of 8% per annum until such accrued interest is paid. During the year ended December 31, 2021, the Company added nil (2020 - \$627) to the principal amount of the Ewing Convertible Debentures.

The Ewing Convertible Debentures have been accounted for as a compound financial instrument comprised of: (i) a financial liability component representing the contractual cash flows of 8% in annual interest payments and a cash repayment of \$12,540 on maturity; and (ii) a derivative liability component representing the fair value of the conversion and redemption features. The derivative liability component is fair valued at each reporting date (note 15).

Vendor Take-Back Note

On May 7, 2020, in connection with the Remedy's acquisition (note 4), the Company entered into a vendor take-back note with the vendor of Remedy's with a principal amount of \$4,000 due 18 months following the closing of the Remedy's acquisition. The vendor take-back note was non-interest bearing for the first twelve months and accrued interest at an annual interest rate of 5% after the first anniversary of the closing of the Remedy's acquisition. At the time of initial recognition, the Company recorded the vendor take-back note at its fair value of \$3,459, representing the present value of the payments discounted using a 12% discount rate. The vendor take-back note was subsequently measured at amortized cost, using the effective interest rate method.

On November 5, 2021, the Company paid \$3,364 in cash to settle the vendor take-back note, net of the \$718 (December 31, 2020 - \$470) receivable from certain other affiliates of the former owners of Remedy's in relation to expenditures incurred by the Company in accordance with the Remedy's purchase agreement (note 16).

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

12. Borrowings - continued

Credit Facilities

The Company's credit facilities were previously with a syndicate of lenders comprised of three major Canadian banks. The credit facilities were made up of up to \$100,000 in senior secured facilities (the "Senior Secured Facilities") and \$13,500 in a secured subordinated term credit facility (the "Subordinated Facility") (collectively, the "Credit Facilities"). The Senior Secured Facilities were structured as follows: (i) a revolving credit facility in the amount of up to \$18,000, including a swingline of up to \$3,000 ("Revolving Facility"); (ii) a non-revolving term loan facility in the amount of up to \$60,000 ("Term Facility"); and (iii) a limited revolving acquisition and capital expenditure term loan facility in the amount of up to \$4,786 to be available in multiple draws ("Acquisition Facility"). On November 26, 2019, the Company repaid all outstanding balances under the Term Facility and Acquisition Facility. On March 31, 2020, the Company repaid all outstanding balances remaining under the Credit Facilities with the net proceeds received from the Crown Capital Facility and Yorkville Facility.

13. Other Deferred Amounts

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

| | December 31, 2021 | December 31, 2020 |
|--|-------------------|-------------------|
| | \$ | \$ |
| Preferred drug supplier agreement | 7,001 | 9,199 |
| Preferred cannabis partner agreement (note 20) | 2,301 | 3,678 |
| | 9,302 | 12,877 |

Preferred drug supplier

On July 14, 2016, the Company entered into ten-year Business Development, Technology and Supply Agreements with a new drug supplier (the "Agreements"). Under the terms of these Agreements, the Company committed to an exclusive supply agreement with this supplier. In addition, the supplier paid \$16,850 to support innovative programs and solutions, as well as organic and acquisitive growth strategies of the Company. The Company had classified \$16,850 as other deferred amounts and was amortizing the amounts into income on a straight-line basis over the term of the Agreements.

On June 21, 2021, the Company entered into an enterprise agreement with this supplier (the "Enterprise Agreement"), which replaced the Agreements. Under the Enterprise Agreement, the methodology for amortizing the remaining deferred amounts from the Agreements was prospectively revised from a straight-line basis to a purchase volume-based method, effective June 21, 2021.

Preferred cannabis partner

On September 4, 2018, the Company entered into multi-year supply and service agreements with a preferred cannabis partner for the provision of medical cannabis ("Cannabis Agreements"). Under the Cannabis Agreements, the preferred cannabis partner will be the education partner and supplier of medical cannabis to the Company and the seniors that it serves. As consideration for appointing the preferred cannabis partner as the preferred supplier of medical cannabis, the Company received \$7,000. The Company issued 850,000 warrants to the preferred cannabis partner at an exercise price of \$5.00 per common share (note 14), vesting after two years and expiring after four years. The consideration received, net of the fair value of warrants issued (\$104), has been accounted for as deferred revenue and is being amortized into income on a straight-line basis over the term of the Cannabis Agreements.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

14. 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 year ended (\$ thousands, except share amounts) | December 31, 2021 | | December 31, 2020 | |
|---|-------------------|-----------------|-------------------|-----------------|
| | Common shares | Stated value \$ | Common shares | Stated value \$ |
| Common shares | | | | |
| Balance, beginning of year | 24,791,984 | 189,776 | 14,196,208 | 141,109 |
| Issuance of shares, net of share issuance costs | 17,512,141 | 77,889 | 213,448 | 805 |
| Shares released from escrow or issued from treasury for contingent consideration (note 4) | 196,200 | 999 | 343,934 | 1,110 |
| RSUs and warrants exercised | 969,956 | 4,464 | 188,394 | 1,148 |
| Shares issued for acquisitions, net of share issuance costs | 637,037 | 3,782 | 6,250,000 | 29,318 |
| Shares issued on exercise of Special Warrants, net of share issuance costs | — | — | 2,875,000 | 14,200 |
| Conversion of Convertible Debentures, net of share issuance costs (note 12) | 2,182,665 | 6,548 | 725,000 | 2,086 |
| Balance, end of year | 46,289,983 | 283,458 | 24,791,984 | 189,776 |

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.

On June 22, 2020, the Company filed articles of amendment consolidating its outstanding common shares at a ratio of twenty pre-consolidation common shares to one post-consolidation common share (the "Share Consolidation"). As a result of the Share Consolidation, the Company's outstanding stock options, RSUs and DSUs were proportionately adjusted on the same basis. All common share numbers, numbers of shares issuable under options, RSUs and DSUs and related per share amounts in these consolidated financial statements have been retrospectively adjusted to reflect the Share Consolidation.

The number of outstanding warrants, Special Warrants and Underwriter's Special Warrants remained unchanged, with the number of common shares received on the exercise of these instruments having been reduced proportionately in accordance with the Share Consolidation. The associated weighted average exercise prices per common share have been adjusted to reflect the Share Consolidation for the warrants, Special Warrants and Underwriter's Special Warrants.

The total common shares in aggregate as at December 31, 2021 are:

| Type of common shares | |
|-------------------------|-------------------|
| Freely tradeable | 46,289,983 |
| Escrowed and restricted | 27,712 |
| Total | 46,317,695 |

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

14. Shareholders' Equity and Earnings per Share - continued

Issuance of common shares

On February 3, 2020, the Company issued 318,934 common shares to settle the remaining contingent consideration liability for the acquisition of Grande Prairie (note 4).

On May 7, 2020, the Company issued 6,250,000 common shares as consideration for the Remedy's acquisition.

On May 14, 2020, \$2,175 of Convertible Debentures were converted into 725,000 common shares (note 12).

On August 13, 2020, the Company issued 2,875,000 common shares upon exercise of the Special Warrants (note 15).

Additionally, during the year ended December 31, 2020, the Company issued 37,232 common shares to the Company's financial advisor as payment for services rendered and 176,216 common shares as part of a multi-year agreement with a national customer.

During the years ended December 31, 2021 and 2020, the Company issued 383,340 and 188,394 common shares, respectively, related to RSUs issued to management, employees and directors that vested.

During the years ended December 31, 2021 and 2020, the Company released 25,000 and 25,000 common shares, respectively, from escrow as part of a multi-year agreement with a national customer. As at December 31, 2021, 150,000 shares were freely tradeable and nil remained in escrow (December 31, 2020 - 125,000 shares were freely tradeable and 25,000 were held in escrow).

On February 3, 2021, the Company completed a bought deal public offering (the "Offering") and concurrent private placement (the "Concurrent Private Placement") of common shares of the Company for aggregate gross proceeds of \$21,196. Pursuant to the Offering, the Company issued an aggregate of 3,517,850 common shares of the Company at \$4.25 per common share for gross proceeds of \$14,951. Pursuant to the Concurrent Private Placement, the Company issued an aggregate of 1,469,411 common shares of the Company at \$4.25 per common share to Yorkville and an existing significant shareholder and director of the Company for total gross proceeds of \$6,245. Total transaction costs incurred were \$1,875.

On March 1, 2021, the Company issued 81,900 common shares for the settlement of contingent consideration related to the CareRx Enterprises acquisition (note 4).

On April 1, 2021, the Company issued 86,678 common shares as consideration for the SmartMeds acquisition (note 3).

On May 19, 2021, the Company completed: (i) a bought deal private placement of 10,247,650 subscription receipts of the Company (the "Subscription Receipts") at a price of \$5.05 per Subscription Receipt (the "Issue Price") for aggregate gross proceeds of \$51,751 (the "Bought Deal Financing"), and (ii) a non-brokered private placement of 2,277,230 Subscription Receipts at the Issue Price, for aggregate gross proceeds of \$11,500 (the "Non-Brokered Financing" and, together with the Bought Deal Financing, the "Equity Financings"). Each Subscription Receipt entitled the holder to receive one common share of the Company upon closing of the MPGL acquisition, subject to certain adjustments in the event that the MPGL acquisition closing did not occur by certain prescribed dates, in which case each Subscription Receipt would have been exchanged for up to 1.1 common shares of the Company. The aggregate gross proceeds from the Equity Financings were \$63,251. The gross proceeds of the Equity Financings, net of the financing fees payable on the closing of the Equity Financings were placed into escrow subject to the satisfaction of the applicable escrow release conditions.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

14. Shareholders' Equity and Earnings per Share - continued

On August 23, 2021, concurrent with the closing of the MPGL acquisition, the \$63,251 of gross proceeds raised from the Equity Financings were released to the Company given the satisfaction of the applicable escrow release conditions, and 12,524,880 Subscription Receipts were automatically converted into an equivalent number of common shares of the Company. The proceeds raised from the Equity Financings were used to pay a portion of the cash consideration for the MPGL acquisition and related transaction costs, as well as for general working capital purposes. The related share issuance costs incurred were \$4,683 (\$3,750 in cash and \$933 in underwriters warrants), resulting in net proceeds from the Equity Financings of \$58,568.

On August 23, 2021, the Company issued 550,359 common shares as consideration for the MPGL acquisition (note 3).

During the year ended December 31, 2021, \$6,548 of the Convertible Debentures were converted to 2,182,665 common shares (note 12).

Additionally, during the year ended December 31, 2021, the Company issued 586,616 common shares related to the warrants exercised and 89,300 common shares related to the completion of a portion of the Salus earn-out (note 4).

Issuance of RSUs and DSUs

RSUs and DSUs vest over a period of three years on each anniversary of the grant date unless a different vesting schedule is approved by the Board. DSUs are only eligible to be converted into common shares of the Company when the holder ceases to be employed by the Company.

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

| For the year ended | December 31, 2021 | December 31, 2020 |
|-----------------------------|-------------------|-------------------|
| RSUs and DSUs | Units | Units |
| Balance, beginning of year | 771,385 | 390,774 |
| RSUs and DSUs granted | 625,148 | 582,217 |
| RSUs and DSUs released | (383,340) | (188,394) |
| RSUs and DSUs forfeited | (2,945) | (13,212) |
| Balance, end of year | 1,010,248 | 771,385 |

The weighted-average remaining term to vest for RSUs and DSUs outstanding as at December 31, 2021 is 2.47 years.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

14. Shareholders' Equity and Earnings per Share - continued

During the year ended December 31, 2021, 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 12, 2021 | 390,170 RSUs | Management and employees of the Company | Vest over three years | \$5.15 |
| March 12, 2021 | 110,000 RSUs | Management of the Company | Vest immediately | \$5.15 |
| March 31, 2021 | 14,505 RSUs | Directors of the Company | Vest immediately | \$5.32 |
| March 31, 2021 | 2,733 DSUs | Directors of the Company | Vest immediately | \$5.32 |
| June 4, 2021 | 64,369 RSUs | Directors of the Company | Vest over three years | \$6.02 |
| June 30, 2021 | 19,732 RSUs | Directors of the Company | Vest immediately | \$6.64 |
| June 30, 2021 | 4,231 DSUs | Directors of the Company | Vest immediately | \$6.64 |
| September 30, 2021 | 2,961 RSUs | Directors of the Company | Vest immediately | \$5.21 |
| September 30, 2021 | 1,635 DSUs | Directors of the Company | Vest immediately | \$5.21 |
| December 31, 2021 | 12,857 RSUs | Directors of the Company | Vest Immediately | \$5.69 |
| December 31, 2021 | 1,955 DSUs | Directors of the Company | Vest Immediately | \$5.69 |

During the year ended December 31, 2020, the Company had the following RSU and DSU grants:

| Grant date | Units granted | Granted to | Vesting conditions | Fair valued based on the quoted market price of issuance per common share |
|--------------------|---------------|---|-----------------------|---|
| January 30, 2020 | 9,717 DSUs | Directors of the Company | Vest Immediately | \$3.00 |
| January 30, 2020 | 8,068 RSUs | Directors of the Company | Vest Immediately | \$3.00 |
| February 4, 2020 | 19,608 RSUs | Employee of the Company | Vest Immediately | \$3.10 |
| March 30, 2020 | 21,616 DSUs | Directors of the Company | Vest Immediately | \$3.10 |
| March 30, 2020 | 14,499 RSUs | Directors of the Company | Vest Immediately | \$3.10 |
| March 31, 2020 | 15,000 DSUs | Management of the Company | Vest over three years | \$3.20 |
| March 31, 2020 | 179,484 RSUs | Management and employees of the Company | Vest over three years | \$3.20 |
| May 15, 2020 | 67,935 RSUs | Management of the Company | Vest in one year | \$4.70 |
| June 18, 2020 | 14,000 RSUs | Directors of the Company | Vest over three years | \$4.60 |
| June 30, 2020 | 28,000 RSUs | Directors of the Company | Vest over three years | \$4.20 |
| June 30, 2020 | 28,000 DSUs | Directors of the Company | Vest over three years | \$4.20 |
| July 27, 2020 | 5,045 RSUs | Directors of the Company | Vest Immediately | \$4.48 |
| July 27, 2020 | 8,188 DSUs | Directors of the Company | Vest Immediately | \$4.48 |
| September 30, 2020 | 17,748 RSUs | Directors of the Company | Vest Immediately | \$4.23 |
| September 30, 2020 | 5,643 DSUs | Directors of the Company | Vest Immediately | \$4.23 |
| November 16, 2020 | 116,263 RSUs | Management and employees of the Company | Vest over three years | \$4.03 |
| December 31, 2020 | 18,760 RSUs | Directors of the Company | Vest Immediately | \$3.98 |
| December 31, 2020 | 4,643 DSUs | Directors of the Company | Vest Immediately | \$3.98 |

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

14. Shareholders' Equity and Earnings per Share - continued

Issuance of warrants

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

| For the year ended | December 31, 2021 | | December 31, 2020 | |
|---------------------------------|-----------------------|--|-------------------|--|
| | | Weighted average exercise price per common share | | Weighted average exercise price per common share |
| Share purchase warrants | Warrants ¹ | | Warrants | |
| Balance, beginning of year | 23,202,833 | \$4.25 | 17,730,333 | \$5.63 |
| Warrants granted | 723,453 | \$4.89 | 10,822,500 | \$4.81 |
| Warrants deemed exercised | — | \$— | (3,450,000) | \$— |
| Warrants exercised | (9,572,033) | \$2.82 | — | \$— |
| Warrants expired | (1,050,000) | \$8.00 | (1,900,000) | \$20.00 |
| Balance, end of year | 13,304,253 | \$5.02 | 23,202,833 | \$4.27 |
| Exercisable, end of year | 13,232,253 | \$4.99 | 23,130,833 | \$4.25 |

¹ Each warrant entitles the holder to acquire 0.05 common shares in the capital of the Company, except for 782,253 warrants at December 31, 2021 (December 31, 2020 - 172,500), which entitle the holder to acquire one common share in the capital of the Company.

On March 31, 2020, 7,200,000 warrants were issued to Crown Capital in relation to the Crown Capital Facility, with each warrant entitling the holder to acquire 0.05 common shares in the capital of the Company for a period of five years from the closing date at an exercise price of \$5.00 per common share (note 12).

Included in warrants granted during the year ended December 31, 2020 were 3,450,000 Underwriter's Special Warrants granted in relation to the Special Warrants offering (note 15), which were subsequently converted into 172,500 Underwriter's Warrants following the deemed exercise of the Underwriter's Special Warrants on August 13, 2020.

The fair values of the warrants issued during the year ended December 31, 2020 were calculated using the Black-Scholes pricing model with the following assumptions:

| Grant date | March 31, 2020 | June 4, 2020 |
|---|----------------|--------------|
| Number of warrants issued | 7,200,000 | 3,450,000 |
| Dividend yield | Nil | Nil |
| Expected volatility | 74.17% | 85.27% |
| Risk-free interest rate | 0.60% | 0.32% |
| Expected life in years | 5.0 | 2.0 |
| Strike price per common share | \$5.00 | \$4.40 |
| Share price at date of issue per common share | \$3.20 | \$4.20 |
| Fair value per warrant | \$0.081 | \$0.093 |

On February 3, 2021, on the closing of the Offering and the Concurrent Private Placement, 211,071 warrants were issued to the Company's financial advisor, with each warrant entitling the holder to acquire one common share in the capital of the Company for a period of 12 months from the closing date at an exercise price of \$4.50 per common share.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

14. Shareholders' Equity and Earnings per Share - continued

On May 19, 2021, on the closing of the Bought Deal Financing, 512,382 warrants were issued to the Company's financial advisor, with each warrant entitling the holder to acquire one common share in the capital of the Company for a period of 12 months from the closing date at an exercise price of \$5.05 per common share.

The fair values of the warrants issued during the year ended December 31, 2021 were calculated using the Black-Scholes pricing model with the following assumptions:

| Grant date | February 3, 2021 | May 19, 2021 |
|---|------------------|--------------|
| Number of warrants issued | 211,071 | 512,382 |
| Dividend yield | Nil | Nil |
| Expected volatility | 79.64% | 57.68% |
| Risk-free interest rate | 0.17% | 0.33% |
| Expected life in years | 1.0 | 1.0 |
| Strike price per common share | \$4.50 | \$5.05 |
| Share price at date of issue per common share | \$4.27 | \$6.04 |
| Fair value per warrant | \$1.25 | \$1.82 |

The weighted average remaining contractual life and weighted average exercise price of warrants outstanding as at December 31, 2021 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 |
| \$4.40 - \$4.45 | 58,800 | \$4.40 | 0.42 | 58,800 | \$4.40 |
| \$4.46 - \$4.75 | 211,071 | \$4.50 | 0.09 | 211,071 | \$4.50 |
| \$4.76 - \$5.03 | 12,450,000 | \$5.00 | 2.95 | 12,450,000 | \$5.00 |
| \$5.04 - \$7.61 | 512,382 | \$5.05 | 0.38 | 512,382 | \$5.05 |
| \$7.62 - \$10.16 | 72,000 | \$10.16 | 0.83 | — | \$— |
| Balance, end of year | 13,304,253 | \$5.02 | 2.79 | 13,232,253 | \$4.99 |

Subsequent to the year ended December 31, 2021, as of the date of these financial statements, 202,628 warrants in aggregate, which entitled the holder to acquire one common share in the capital of the Company, were exercised.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

14. Shareholders' Equity and Earnings per Share - continued

Issuance of stock options

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

| For the year ended | December 31, 2021 | | December 31, 2020 | |
|---------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Options | Weighted average exercise price | Options | Weighted average exercise price |
| Common share options | | | | |
| Balance, beginning of year | 45,850 | \$8.12 | 83,500 | \$8.07 |
| Options expired | (45,850) | \$8.12 | (34,250) | \$8.00 |
| Options cancelled/forfeited | — | \$— | (3,400) | \$8.11 |
| Balance, end of year | — | \$— | 45,850 | \$8.12 |
| Exercisable, end of year | — | \$— | 45,850 | \$8.12 |

Earnings per share

Earnings per share has been calculated on the basis of profit or loss for the year divided by the weighted average number of common shares outstanding during the year. Diluted earnings per share, for all years 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 year. 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 year-ends. These instruments were anti-dilutive for the years ended December 31, 2021 and 2020.

The following table illustrates the basic and diluted weighted average common shares outstanding for the years ended December 31, 2021 and 2020:

| | For the years ended December 31, | |
|---|----------------------------------|-------------------|
| | 2021 | 2020 |
| Weighted average number of common shares outstanding - basic and diluted | 34,858,095 | 20,266,079 |

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

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

As at December 31, 2021 and 2020, the Company's financial instruments consisted of cash and cash equivalents, restricted cash, trade and other receivables, investment, trade and other payables, contingent consideration, deferred consideration, lease liabilities, borrowings and derivative financial instruments.

Fair value hierarchy

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

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

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

| | December 31, 2021 | December 31, 2020 |
|----------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Contingent consideration | (8,020) | (7,544) |
| Derivative financial instruments | (5,857) | (3,614) |
| Investment | 2,713 | 2,713 |
| Total | (11,164) | (8,445) |

There were no financial instruments classified as Level 1 or Level 2 as at December 31, 2021 and 2020. There were no transfers between levels during the years ended December 31, 2021 and 2020.

Details regarding Level 3 fair value measurements for contingent consideration can be found in note 4.

There were no changes in the valuation techniques used during the year ended December 31, 2021.

The continuity of the embedded derivatives liability is as follows:

| | December 31, 2021 | December 31, 2020 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Fair value of embedded derivatives, beginning of year | 3,614 | 2,448 |
| Change in fair value of embedded derivatives | 2,243 | 1,166 |
| Embedded derivatives, end of year | 5,857 | 3,614 |

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

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

The Ewing Convertible Debentures contain an embedded derivative liability component (note 12). The fair value of the Ewing Morris conversion option embedded derivative is calculated using the Black-Scholes pricing model using the following assumptions:

| | December 31, 2021 | December 31, 2020 |
|-----------------------------------|-------------------|-------------------|
| Estimated number of common shares | 2,697,756 | 2,697,756 |
| Dividend yield | Nil | Nil |
| Expected volatility | 57.61% | 62.20% |
| Risk-free interest rate | 0.99% | 0.26% |
| Expected life in years | 2.19 | 3.19 |
| Strike price | \$5.00 | \$5.00 |
| Share price at valuation date | \$5.69 | \$3.84 |
| Fair value | \$2.17 | \$1.34 |

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

Special Warrants

On June 4, 2020 (the "Closing Date"), the Company completed a bought deal private placement of 57,500,000 special warrants of the Company (each, a "Special Warrant", and collectively the "Special Warrants"), including 7,500,000 Special Warrants issued pursuant to the over-allotment option that was granted to the underwriters and which was exercised in full, at a price of \$0.20 per Special Warrant for gross proceeds of \$11,500.

In connection with the offering, the Company paid a total of \$690 in cash commissions to the underwriters and issued a total of 3,450,000 underwriter special warrants (the "Underwriter's Special Warrants"). Each Underwriter's Special Warrant would be deemed to be exercised for one common share purchase warrant (0.05 common share purchase warrants following the Share Consolidation (note 14)) of the Company (the "Broker Warrants") on the Deemed Exercise Date. Each Broker Warrant had an exercise price of \$0.22 per common share (\$4.40 following the Share Consolidation (note 14)) and may have been exercised for a period of two years from the Closing Date.

Upon issuance, the Special Warrants were exercisable by the holders thereof at any time after the Closing Date for no additional consideration. Every unexercised Special Warrant was to be automatically exercised without payment of additional consideration and without any further act by the holder into one common share of the Company (0.05 common shares, following the Share Consolidation (note 14)) on the earlier of: (a) the date which is four months and a day following the Closing Date, and (b) the third business day after a receipt was issued for the filing of a final prospectus by the securities regulatory authorities in each of the Provinces of Canada where the Special Warrants were sold, qualifying the distribution of the common shares underlying the Special Warrants (the "Deemed Exercise Date").

If the Company did not obtain a receipt for the filing of the final prospectus on or prior to the date that was 70 days from the Closing Date (the "Penalty Date"), each unexercised Special Warrant would have entitled the holder to receive upon the exercise thereof, for no additional consideration, 1.1 common shares (0.055 common shares, following the Share Consolidation (note 14)) per Special Warrant.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

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

The Special Warrants contained terms that could have resulted in variability in the number of common shares issued, with an increase in the conversion ratio if the final prospectus was not filed by the Penalty Date. Accordingly, the Special Warrants were classified as a derivative financial instrument under IFRS and were measured at fair value through profit and loss. On initial recognition, the carrying value of the liability was equal to the gross proceeds of \$11,500.

On August 10, 2020, the receipt for the filing of the final prospectus was received, prior to the Penalty Date. On August 13, 2020, the 57,500,000 Special Warrants were converted into 2,875,000 common shares of the Company. Upon the conversion of the Special Warrants to common shares, the Special Warrants liability was settled. The fair value of the Special Warrants as at August 13, 2020 was transferred to share capital, net of share issuance costs.

During the year ended December 31, 2020, the change in fair value of the Special Warrants was \$2,875. In addition, the Company incurred transaction costs of \$1,311 (\$991 in cash and \$320 in Underwriter's Special Warrants) for the year ended December 31, 2020 in relation to the issuance of the Special Warrants. These amounts were recorded as a change in the fair value of derivative financial instruments and finance costs, net, respectively, in the consolidated statement of income and comprehensive income.

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:

| | December 31, 2021 | December 31, 2020 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Financial assets measured at amortized cost: | | |
| Cash and cash equivalents | 35,625 | 19,623 |
| Restricted cash | 680 | 360 |
| Trade receivables, net of provision | 36,118 | 14,809 |
| Financial liabilities measured at amortized cost: | | |
| Trade payables and other liabilities | 46,313 | 24,505 |
| Lease liabilities | 18,732 | 9,615 |
| Senior Facility | 58,714 | — |
| Crown Capital Facility | — | 25,737 |
| Liability component of Convertible Debentures | 15,902 | 18,522 |
| Ewing Convertible Debentures | 12,175 | 11,621 |
| Yorkville Facility | 20,015 | 13,349 |
| Vendor take-back note | — | 3,254 |
| Deferred consideration | — | 3,845 |
| Finance loans | 36 | 96 |

As at December 31, 2021, the current portion of lease liabilities was presented net of a \$2,448 lease incentive receivable.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

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

Investment in AceAge

As at December 31, 2021 and 2020, the Company's ownership interest in AceAge was 10.43% and 10.85%, respectively.

As at December 31, 2020, the Company determined the fair value of the Company's investment in AceAge by reference to the recent equity instrument issuance and recognized a change in fair value of investment of \$763 in the consolidated statement of income and comprehensive income.

As at December 31, 2021 the Company has concluded that the carrying value of the investment in AceAge approximates its fair value and will continue to perform an assessment at each reporting date to determine if the carrying value is still the best estimate of fair value at that time.

During the year ended December 31, 2021 and 2020, no dividends were declared by AceAge.

Financial risk management

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

Credit risk

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

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

| | December 31, 2021 | December 31, 2020 |
|--------------|-------------------|-------------------|
| | \$ | \$ |
| 0-30 days | 26,265 | 10,936 |
| 31-60 days | 4,787 | 2,366 |
| 61-90 days | 2,195 | 1,069 |
| Over 90 days | 2,871 | 438 |
| | 36,118 | 14,809 |

Included in trade and other receivables as at December 31, 2021 are \$15,461 (December 31, 2020 - \$6,915) 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, including consideration of the impact of the COVID-19 pandemic as part of the Company's impairment analysis as at December 31, 2021 and 2020.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

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

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

| | December 31, 2021 | December 31, 2020 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Provision, beginning of year | 560 | 370 |
| Acquisition of business (note 3) | 1,227 | 194 |
| Provision for receivables impairment | 594 | 456 |
| Write-offs charged against the provision for receivables impairment | (153) | (460) |
| Provision, end of year | 2,228 | 560 |

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

Liquidity risk

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

The following table presents the contractual terms to maturity of the financial liabilities owed by the Company as at December 31, 2021:

| | Total | 2022 | 2023-2024 | 2025-2026 | Thereafter |
|--------------------------------------|----------------|---------------|---------------|---------------|---------------|
| | \$ | \$ | \$ | \$ | \$ |
| Trade payables and other liabilities | 46,313 | 46,313 | — | — | — |
| Convertible Debentures | 18,750 | 6,250 | 12,500 | — | — |
| Senior Facility | 60,000 | — | 12,150 | 47,850 | — |
| Ewing Convertible Debentures | 13,167 | — | 13,167 | — | — |
| Yorkville Facility | 20,015 | — | — | 20,015 | — |
| Finance loans | 36 | 36 | — | — | — |
| Interest payments on borrowings | 38,433 | 10,417 | 18,088 | 9,928 | — |
| Leases | 41,180 | 4,961 | 7,622 | 5,803 | 22,794 |
| Contingent consideration | 8,020 | 5,394 | 2,626 | — | — |
| Total | 245,914 | 73,371 | 66,153 | 83,596 | 22,794 |

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

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

The following table presents the contractual terms to maturity of the financial liabilities owned by the Company as at December 31, 2020:

| | Total | 2021 | 2022-2023 | 2024-2025 | Thereafter |
|--------------------------------------|----------------|---------------|---------------|---------------|--------------|
| | \$ | \$ | \$ | \$ | \$ |
| Trade payables and other liabilities | 24,505 | 24,505 | — | — | — |
| Convertible Debentures | 25,325 | 6,875 | 13,750 | 4,700 | — |
| Crown Capital Facility | 27,000 | — | 6,683 | 20,317 | — |
| Ewing Convertible Debentures | 13,167 | — | — | 13,167 | — |
| Yorkville Facility | 13,991 | — | 13,991 | — | — |
| Vendor take-back note | 3,530 | 3,530 | — | — | — |
| Finance loans | 96 | 55 | 41 | — | — |
| Interest payments on borrowings | 21,191 | 7,900 | 10,005 | 3,286 | — |
| Leases | 12,686 | 2,742 | 4,515 | 3,270 | 2,159 |
| Deferred consideration | 4,000 | 4,000 | — | — | — |
| Contingent consideration | 7,544 | 3,540 | 4,004 | — | — |
| Total | 153,035 | 53,147 | 52,989 | 44,740 | 2,159 |

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 December 31, 2021 and 2020, 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 December 31, 2021 and 2020, the Company held no significant financial instruments that were denominated in a currency other than Canadian currency.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

16. 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 Company 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 (note 12). One of the former directors, who ceased to be a director during the year ended December 31, 2020, helped manage funds that own the Ewing Convertible Debentures (note 12).

The former majority owner of Remedy's is a significant shareholder and director of the Company. During the years ended December 31, 2021 and 2020, this director held a vendor take-back note and was entitled to deferred consideration and certain contingent consideration (note 4). During the year ended December 31, 2021, the Company paid \$1,046 in cash to settle a portion of the contingent consideration liability (note 4) and \$4,000 in cash to settle the deferred consideration liability related to the acquisition of Remedy's. On November 5, 2021, the Company paid \$3,364 in cash to settle the vendor take-back note, net of the \$718 (2020 - \$470) receivable from the director.

During the year ended December 31, 2021, the Company incurred \$255 (2020 - \$1,029), in relation to transition, management and support services provided by one of the director's corporations.

As at December 31, 2020, following the finalization of the Remedy's closing working capital balances, \$288 was payable by the Company, net of amounts receivable from certain other affiliates of the former owners of Remedy's in relation to expenditures incurred by the Company that are reimbursable by the vendors in accordance with the Remedy's purchase agreement (note 11).

Key management compensation

Key management includes directors and executive management of the Company. The compensation expense, which includes amounts recognized during the year in the statement of income and comprehensive income related to share-based payments vested during the year, related to directors and executive management are shown below.

| | For the years ended December 31, | |
|-----------------------|----------------------------------|--------------|
| | 2021 | 2020 |
| | \$ | \$ |
| Salaries and benefits | 2,228 | 1,871 |
| Share-based payments | 1,574 | 582 |
| Director fees | 525 | 554 |
| Total | 4,327 | 3,007 |

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

17. General and Administrative Expenses

The components of general and administrative expenses are as follows:

| | For the years ended December 31, | |
|-----------------------------------|----------------------------------|---------------|
| | 2021 | 2020 |
| | \$ | \$ |
| Employee costs | 22,466 | 14,078 |
| Other operating expenses | 29,944 | 20,199 |
| Depreciation and amortization | 15,393 | 11,458 |
| Share-based compensation expense | 2,665 | 2,522 |
| (Gain) loss on disposal of assets | 54 | (276) |
| Total | 70,522 | 47,981 |

Other operating expenses for the year ended December 31, 2021 include expenses of \$682 (2020 - \$687), relating to short-term leases, low-value assets leases and variable lease payments.

18. Transaction, Restructuring and Other Costs

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

Transaction, restructuring and other costs for the years ended December 31, 2021 and 2020 consist of the following:

| | For the years ended December 31, | |
|--------------------------------|----------------------------------|---------------|
| | 2021 | 2020 |
| | \$ | \$ |
| Transaction and start-up costs | 7,023 | 7,283 |
| Restructuring and other costs | 1,041 | 4,113 |
| Total | 8,064 | 11,396 |

As at December 31, 2021, the Company had accrued liabilities from continuing operations related to severance of nil (December 31, 2020 - \$720) included in trade payables and other liabilities consisting of the following:

| | Severance |
|--|-----------|
| | \$ |
| Balance at December 31, 2020 | 720 |
| Accruals, net of release of excess accrual | 71 |
| Payments | (791) |
| Balance at December 31, 2021 | — |

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

19. Finance Costs, Net

Finance costs, net for the years ended December 31, 2021 and 2020 are comprised of the following:

| | For the years ended December 31, | |
|--|----------------------------------|--------------|
| | 2021 | 2020 |
| | \$ | \$ |
| Interest on Convertible Debentures | 2,016 | 2,163 |
| Accretion on Convertible Debentures, net | 2,825 | (7,987) |
| Interest on Senior Facility | 1,938 | — |
| Accretion on Senior Facility | 169 | — |
| Interest on Crown Capital Facility | 1,609 | 1,980 |
| Accretion on Crown Capital Facility (note 12) | 754 | 292 |
| Interest on Yorkville Facility | 1,947 | 1,288 |
| Accretion on Yorkville Facility | 181 | 168 |
| Interest on Ewing Convertible Debentures | 1,055 | 1,048 |
| Accretion on Ewing Convertible Debentures | 553 | 539 |
| Interest on leases | 1,087 | 965 |
| Interest on vendor take-back note | 82 | — |
| Accretion on vendor take-back note | 276 | 266 |
| Accretion on deferred consideration | 155 | 274 |
| Interest on Subordinated Facility | — | 355 |
| Special Warrants related expenses | — | 1,311 |
| Accretion on Subordinated Facility | — | 207 |
| Interest on Revolving Facility | — | 141 |
| Interest income, net | (58) | (58) |
| Loss on financial liability extinguishment (note 12) | 2,707 | — |
| Total | 17,296 | 2,952 |

20. Contingencies

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

During the year ended December 31, 2020, the Company received the outcome of a confidential arbitration that had been ongoing with the vendors of one of its historical acquisitions in relation to the non-payment of a disputed earn-out. The arbitrator sided with the vendors, and awarded them \$4,172 and the Company recorded a provision in the same amount as at December 31, 2020. During the year ended December 31, 2021 the Company settled the provision in full.

During the third quarter for 2021, the Company received notice from Canopy Growth Corporation ("Canopy") that it has taken the view that the Company is in breach of its obligations under the multi-year supply and service agreements and a business development agreement (the "Supply Agreements") that were entered into with Canopy in September 2018. At the time of entering into the Supply Agreements, the parties jointly developed non-binding projected sales targets based on agreed-upon assumptions about the expected market for medical cannabis. To date, sales under the Supply Agreements have not achieved these non-binding targets.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

20. Contingencies - continued

The Company believes it has complied with its obligations under the Supply Agreements and that lower than expected sales levels are a result of market factors. The Company has also notified Canopy that it categorically rejects Canopy's claims, and the parties are attempting to resolve the dispute. At the present time, the Supply Agreements remain in full force and effect, and the parties continue to engage in discussions in an attempt to resolve their dispute. No provision has been recorded as at December 31, 2021 in relation to this dispute.

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.

21. Supplementary Disclosure to the Consolidated Statements of Cash Flows

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

| | For the years ended December 31, | |
|--------------------------------------|----------------------------------|--------------|
| | 2021 | 2020 |
| | \$ | \$ |
| Trade and other receivables | (10,721) | 2,391 |
| Inventories | (2,833) | 492 |
| Prepaid expenses | (997) | 145 |
| Trade payables and other liabilities | 14,996 | (2,765) |
| Provisions (note 20) | (4,172) | 3,424 |
| Total | (3,727) | 3,687 |

22. Capital Management

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 operate in an environment in which government regulations and funding play a key role. The Board establishes a quantitative return on capital criteria, which it reviews with management on a regular basis. 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.

Notes to the Consolidated Financial Statements

(in thousands of Canadian dollars, unless otherwise noted)

23. Discontinued Operations

The results from discontinued operations for the year ended December 31, 2020 were as follows:

| | For the year ended December 31, 2020 | | |
|--|--------------------------------------|---------------------------------------|--------------|
| | Pharmacy \$ | Surgical and Medical Centres \$ | Total \$ |
| Loss on sale of business | 4 | 131 | 135 |
| Loss before income taxes from discontinued operations | (4) | (131) | (135) |
| Income tax recovery | — | (56) | (56) |
| Net loss from discontinued operations | (4) | (75) | (79) |

On November 26, 2019, the Company completed the sale of the Company's Surgical and Medical Centres business. During the year ended December 31, 2020, the final working capital settlement in relation to the Surgical and Medical Centres sale resulted in an adjustment of \$74, being the difference between the preliminary estimate at closing and the final settlement amount.

During the year ended December 31, 2020, a tax provision to return adjustment of \$56 was recognized.

The cash flows from discontinued operations are as follows:

| | For the years ended December 31, | |
|-------------------------|----------------------------------|-------------|
| | 2021 \$ | 2020 \$ |
| Operating cash flows | — | (5) |
| Investing cash flows | — | (74) |
| Financing cash flows | — | — |
| Total cash flows | — | (79) |