Unaudited Condensed Interim Consolidated Financial Statements

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

(in thousands of Canadian dollars)

Dated: August 15, 2022

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Notes to the Condensed Interim Consolidated Financial Statements:

Consolidated Statements of Financial Position

(unaudited, in thousands of Canadian dollars)

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

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

Approved by the Board

"Kevin Dalton"
Kevin Dalton, Director

"Maria Perrella"
Maria Perrella, Director

Consolidated Statements of Income and Comprehensive Income

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

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

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

Consolidated Statements of Changes in Equity (Deficit)

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

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

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

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

Consolidated Statements of Cash Flows

(unaudited, in thousands of Canadian dollars)

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

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

1. Corporate Information

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

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

COVID-19 pandemic

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

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

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

2. Significant Accounting Policies

Basis of preparation

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

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

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

New and amended standards adopted by the Company

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

New standards and amendments not yet adopted by the Company

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

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

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

Revenue

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

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

3. Business Combinations

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

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

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

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

Purchase Price	**$**
Common shares of the Company issued (note 10)	2,219
Contingent consideration (note 4, 8)	988
Hogan Vendor Take-Back Note (note 8)	1,296
	4,503
Provisional fair values of net assets acquired	**$**
Trade and other receivables	590
Inventories	314
Prepaid expenses and other current assets	29
Property and equipment (note 5)	1,117
Trade payables and other liabilities	(202)
Goodwill and intangible assets (note 5)	2,655
	4,503

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

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

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

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

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

3. Business Combinations - continued

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

4. Contingent Consideration

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

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

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

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

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

4. Contingent Consideration - continued

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

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

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

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

5. Goodwill, Intangible Assets and Property and Equipment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6. Income Taxes

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

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

7. Trade Payables and Other Liabilities

Trade payables and other liabilities are comprised of the following:

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

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

8. Borrowings

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

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

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

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

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

8. Borrowings - continued

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

Hogan Vendor Take-Back Note

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

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

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

9. Other Deferred Amounts

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

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

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

10. Shareholders' Equity and Earnings per Share

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

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

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

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

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

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

Issuance of common shares

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

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

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

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

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

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

10. Shareholders' Equity and Earnings per Share - continued

Issuance of RSUs and DSUs

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

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

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

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

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

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

10. Shareholders' Equity and Earnings per Share - continued

Issuance of warrants

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

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

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

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

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

Issuance of stock options

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

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

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

10. Shareholders' Equity and Earnings per Share - continued

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

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

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

Earnings per share

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

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

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

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

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

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

Fair value hierarchy

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

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

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

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

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

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

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

The continuity of the embedded derivatives liability is as follows:

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

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

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

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

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

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

Financial instruments measured at amortized cost

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

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

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

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

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

Investment in AceAge

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

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

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

Financial risk management

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

Credit risk

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

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

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

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

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

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

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

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

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

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

Liquidity risk

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

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

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

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

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

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

Interest rate risk

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

Currency risk

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

12. Related Party Transactions and Balances

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

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

13. General and Administrative Expenses

The components of general and administrative expenses are as follows:

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

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

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

14. Transaction, Restructuring and Other Costs

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

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

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

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

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

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

15. Finance Costs, Net

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

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

16. Contingencies

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

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

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

16. Contingencies - Continued

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

17. Supplementary Disclosure to the Consolidated Statements of Cash Flows

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

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