Management's Discussion and Analysis

For the years ended December 31, 2023 and 2022

Dated: March 6, 2024

Index

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(For the years ended December 31, 2023 and 2022)

Forward-Looking Statements

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

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

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

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

The following is a discussion of the consolidated statements of financial position and the consolidated statements of income and comprehensive income of the Company for the years ended December 31, 2023 and 2022 and of certain factors that the Company believes may affect its prospective financial condition, cash flows and results of operations. The MD&A should be read in conjunction with the consolidated financial statements and notes thereto for the years ended December 31, 2023 and 2022. The consolidated financial statements for the years ended December 31, 2023 and 2022 are prepared in accordance with International Financial Reporting Standards as outlined by International Financial Reporting Standards ("IFRS") and its interpretations as issued by the International Accounting Standards Board ("IASB"). The Company's material accounting policies are summarized in detail in note 2 of the consolidated financial statements for the years ended December 31, 2023 and 2022.

Non-IFRS Financial Measures

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

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

Non-IFRS Ratios

The Company uses certain non-IFRS ratios that are not standardized financial measures under IFRS, such as "Net Debt to Adjusted EBITDA". "Net Debt to Adjusted EBITDA" is a ratio of two non-IFRS financial measures - "Net Debt", being the sum of the outstanding principal balances of the Company's Credit Facilities, net of cash and cash equivalents for the year ended December 31, 2023 and the sum of the outstanding principal balances of the Company's Legacy Senior Facility, Yorkville Facility and Ewing Convertible debentures, net of cash and cash equivalents for periods ending prior to December 31, 2023, and "Adjusted EBITDA", as described in "*Reconciliation of Non-IFRS Measures".*

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

Key Performance Indicators

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

Unless otherwise specified, amounts reported in this MD&A are in millions of dollars, except shares and per share amounts and percentages. The following MD&A is presented as of March 6, 2024.

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

Our Business

CareRx is Canada's largest provider of pharmacy services to seniors homes and other congregate care settings. We serve approximately 91,000 residents in over 1,500 seniors and other communities, including long-term care homes, retirement homes, assisted living facilities, and group homes. We play an integral role in supporting our home care partners by providing high-volume, cost-effective solutions for the supply of chronic medication, ensuring the highest level of safety and adherence for individuals with complex medication regimens.

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.

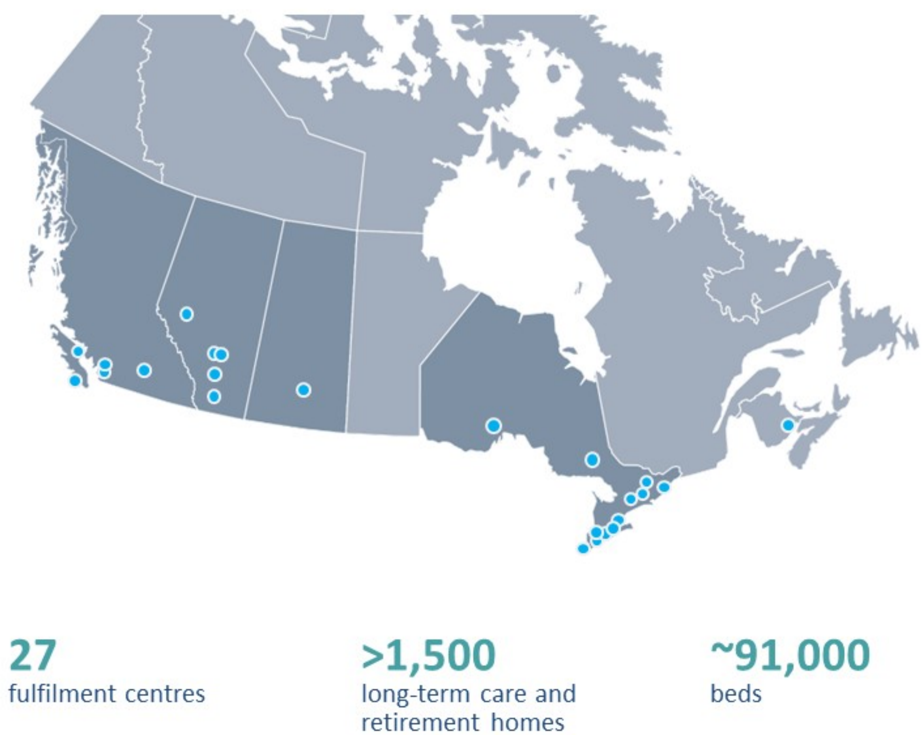
We utilize best-in-class technology that automates the preparation and verification of multi-dose compliance packaging of medication, providing the highest levels of safety and adherence for individuals with complex medication regimens. We are committed to the continued innovation in our service offering 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.



Highlights for the Fourth Quarter and the Full Year ended December 31, 2023

Highlights for the Fourth Quarter of 2023

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

- **Revenue decreased by 3% to $91.1 million from $94.3 million**
  - Decline was primarily driven by a change in the mix of branded and generic pharmaceuticals dispensed during the fourth quarter of 2023. This change did not negatively impact the Company's profitability in the quarter; and
  - Decline was also partially the result of a net reduction in the average number of beds serviced.
- **Adjusted EBITDA[1] increased by 5% to $7.5 million from $7.1 million**
  - Despite the reduction in the average number of beds serviced, Adjusted EBITDA increased primarily due to certain efficiencies and cost savings initiatives implemented during the second half of 2023.
- **Net loss decreased by 21% to $3.7 million from $4.7 million**
  - Decline in net loss was driven primarily by decreases in share-based compensation expense and loss on the change in fair value of contingent consideration liabilities; in addition to the impact of certain cost savings initiatives implemented during the second half of 2023; and
  - Decline was partially offset by a lower gain on the change in fair value of derivative financial instruments, the intangible assets impairment recorded during the fourth quarter of 2023 and the impact of a reduction in the average number of beds serviced.
- **Completed refinancing of credit facilities**
  - On December 21, 2023, the Company entered into a comprehensive refinancing transaction led by a Canadian Schedule I chartered bank and arranged and managed by Crown Private Credit Partners Inc. ("CPCP"). Under the terms of the refinancing, CPCP provided a senior secured revolving operating loan of up to $20.0 million (the "Operating Loan") and a $50.0 million senior secured term loan (the "Term Loan", and together with the Operating Loan, the "Credit Facilities"), of which $14.0 million and $47.0 million were advanced, respectively, on December 21, 2023 with future draws on the Term Loan available to fund certain capital expenditures; and
  - The proceeds from the Credit Facilities, plus available cash on hand, were used to repay $78.0 million of existing debt, including the existing $58.0 million Legacy Senior Facility[2] and $20 million Yorkville Facility[2]; and to redeem the entire aggregate principal of the Ewing Convertible Debentures[2] that were otherwise set to mature on March 12, 2024.

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

[2] *Legacy Senior Facility, Yorkville Facility and Ewing Convertible Debentures are defined in "Liquidity and Capital Resources"*

Highlights for the Full Year 2023

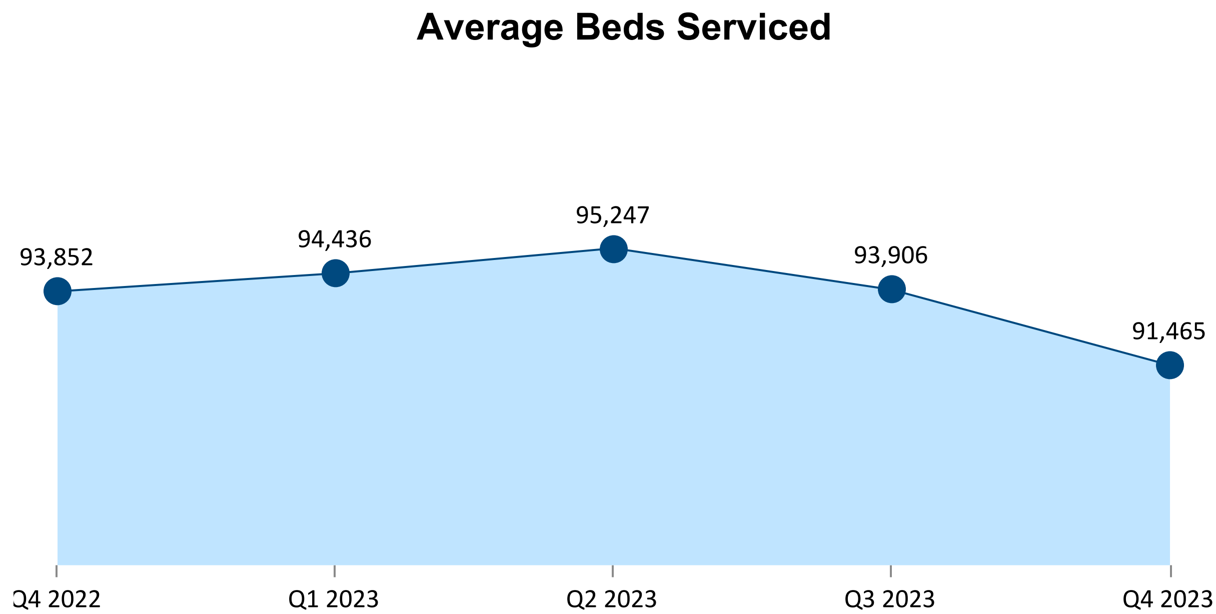
(All comparative figures are for the full year 2022)

- **Revenue decreased by 3% to $370.7 million from $381.7 million**
  - Decline was primarily the result of a change in the mix of branded and generic pharmaceuticals dispensed during the year ended December 31, 2023. This change did not negatively impact the Company's profitability during the year; and
  - Decline was also partially the result of a reduction in the average number of beds serviced, which included the previously disclosed offboarding of a customer contract in the prior year. The impact of this lost contract was significantly offset by the contribution of new beds onboarded.
- **Adjusted EBITDA[1] decreased by 11% to $28.7 million from $32.3 million**
  - Decline was primarily the result of incremental costs associated with continued challenges in the healthcare labour market. Scarcity and increased competition for pharmacists, registered pharmacy technicians, and pharmacy support staff has resulted in a higher number of open positions and a longer time to fill these vacancies. As a result, the Company incurred incremental costs totaling approximately $6.5 million throughout the year ended December 31, 2023, which consisted of $2.0 million related to wage adjustments and the creation of certain new positions and $4.5 million related to overtime, contract labour and recruitment costs;
  - Decline was also partially the result of a reduction in the average number of beds serviced which included the previously disclosed offboarding of a customer contract in the prior year. The impact of this lost contract was significantly offset by the contribution of new beds onboarded; and
  - These reductions to Adjusted EBITDA were partially offset by certain cost savings initiatives implemented during the second half of 2023.
- **Net loss decreased by 84% to $5.4 million from $34.4 million**
  - Decrease in net loss was driven primarily by non-cash adjustments related to impairment losses related to goodwill and intangible assets totaling $24.3 million and investment totaling $2.7 million recorded during the year ended December 31, 2022 as compared to $0.7 million of impairment losses related to intangible assets recorded during the year ended December 31, 2023; decreases in share-based compensation expense, loss on the change in fair value of contingent consideration liabilities, finance costs and transaction and restructuring costs; and an increase in income tax recovery; and
  - These decreases to net loss were partially offset by a lower gain on the change in fair value of derivative financial instruments, the impact of incremental costs incurred as a result of the current labour market and the reduction in the average number of beds serviced.
- **Closed public offering and private placement**
  - On January 11, 2023, the Company entered into an agreement with a syndicate of investment dealers (the “Underwriters”) pursuant to which the Underwriters agreed to purchase common shares of the Company for total gross proceeds of approximately $8.0 million (the "Offering"), which closed on January 18, 2023; and
  - Concurrent with the Offering, the Company entered into a binding agreement to sell common shares of the Company to an existing institutional investor under the same terms and conditions of the Offering, on a private placement basis (the "Private Placement"), for total gross proceeds of approximately $8.0 million, with the Private Placement closing in two equal tranches, on January 18, 2023 and February 24, 2023.
- **Pause in previously scheduled fee changes in Ontario**
  - In March 2023, the Ontario Ministry of Health issued an Executive Officer Notice announcing the postponement of the previously scheduled changes to long-term care pharmacy funding for a further year;
  - These changes, which were scheduled to go into effect on April 1, 2023, would have reduced the fixed professional fee under the fee-per-bed capitation model from an annual amount of $1,500 dollars per bed to $1,400 dollars per bed on April 1, 2023, further declining annually by $100 dollars per bed until it reached $1,200 dollars per bed; and
  - Absent any further postponements, the annual reductions in the per bed fee are now expected to commence on April 1, 2024.

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

- **Commenced operation of BD Rowa™ Dose medication packaging system**
  - During the first quarter of 2023, the Company commenced the packaging of medications dispensed from its high-volume fulfillment centre in Oakville, Ontario, using the BD Rowa™ packaging technology.
- **Announced CEO transition**
  - Effective May 31, 2023, Puneet Khanna assumed the role of President and Chief Executive Officer and joined the Company's Board of Directors on June 6, 2023, after previously serving as the Company's Chief Operating Officer; and
  - Puneet Khanna has over 20 years' experience in the pharmacy and senior care sectors. Prior to assuming the role of Chief Operating Officer, he served as the Company's Chief Commercial Officer, joining CareRx in November 2020 after serving as Chief Executive Officer of MED e-care Healthcare Solutions Inc., a global software-solution provider within the long-term and chronic care sectors. His prior experience includes more than ten years in executive leadership roles at Medical Pharmacies (part of which was acquired by CareRx in 2021) and MediSystem Pharmacy.
- **Appointed Jeff Watson as an independent member of the Company's Board of Directors**
  - On June 6, 2023, Jeff Watson joined the Company's Board of Directors. Mr. Watson most recently served as the President and Chief Executive Officer of Apotex Inc. from December 2018 to April 2023; and
  - Matthew Hills, a former independent member of the Board, did not stand for re-election at the Company's annual general meeting held on June 6, 2023.
- **Launched normal course issuer bid**
  - On September 7, 2023, the Company launched a normal course issuer bid (the "NCIB") to repurchase for cancellation up to 1,000,000 of the Company's common shares during the period from September 7, 2023 to September 6, 2024, subject to certain daily limitations; and
  - During the year ended December 31, 2023, the Company repurchased for cancellation 29,392 of its common shares.

Key Performance Indicators - Fourth Quarter of 2023



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

Strategic Priorities

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

Business Strategy and Outlook

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

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

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

In the short-term, it is expected that the Company's Adjusted EBITDA Margins may be negatively impacted by investments related to the above initiatives, reductions to the average number of beds serviced or increased labour costs related to staffing shortages, in addition to the factors set out under the heading "*Risks and Uncertainties*".

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

Reconciliation of Non-IFRS Measures

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

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

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

	For the three month periods ended December 31,		**For the years ended December 31,**	
	2023	2022	**2023**	2022
(thousands of Canadian Dollars)	**$**	$	**$**	$
Net loss	**(3,700)**	(4,680)	**(5,405)**	(34,353)
Depreciation and amortization	**4,946**	5,221	**19,976**	20,065
Finance costs, net	**4,413**	3,508	**14,316**	14,943
Income tax expense (recovery)	**(173)**	467	**(4,190)**	(1,543)
EBITDA	**5,486**	4,516	**24,697**	(888)
Transaction, restructuring and other costs	**633**	697	**1,445**	4,998
Change in fair value of contingent consideration liability	**18**	541	**230**	1,872
Goodwill and intangible assets impairment	**710**	—	**710**	24,330
Share-based compensation expense	**449**	1,602	**1,471**	4,569
Change in fair value of derivative financial instruments	**—**	(221)	**(281)**	(5,576)
Change in fair value of investment	**—**	—	**—**	2,713
Loss on disposal of assets	**209**	9	**401**	249
Adjusted EBITDA	**7,505**	7,144	**28,673**	32,267
Weighted average number of shares - basic and diluted (in thousands)	**58,636**	49,257	**57,350**	47,596
Adjusted EBITDA per share - basic	**$0.13**	$0.15	**$0.50**	$0.68

Selected Financial Information

The following selected financial information as at and for the year ended December 31, 2023, 2022, and 2021, have been derived from the consolidated financial statements and should be read in conjunction with those financial statements and related notes. The results of acquisitions are added from their respective dates of completion. Non-IFRS measures are defined and reconciled in the Reconciliation of Non-IFRS Measures section.

	For the three month periods ended December 31,			**For the years ended December 31,**		
	2023	2022	2021	**2023**	2022	2021
(thousands of Canadian Dollars)	**$**	$	$	**$**	$	$
Revenue	**91,097**	94,319	96,850	**370,746**	381,727	262,630
EBITDA[3]	**5,486**	4,516	4,596	**24,697**	(888)	8,954
Adjusted EBITDA[3]	**7,505**	7,144	7,583	**28,673**	32,267	22,869
Per share - Basic	**$0.13**	$0.15	$0.17	**$0.50**	$0.68	$0.66
Adjusted EBITDA Margin[3]	**8.2%**	7.6%	7.8%	**7.7%**	8.5%	8.7%
Net loss	**(3,700)**	(4,680)	(4,447)	**(5,405)**	(34,353)	(22,730)
Per share - Basic and Diluted	**($0.06)**	($0.10)	($0.10)	**($0.09)**	($0.72)	($0.65)
Cash provided by operations	**8,762**	14,190	2,698	**27,375**	22,333	7,269
Total assets	**231,893**	264,535	282,816	**231,893**	264,535	282,816
Total liabilities	**150,367**	200,078	200,529	**150,367**	200,078	200,529
Weighted average number of shares - basic and diluted (in thousands)	**58,636**	49,257	44,771	**57,350**	47,596	34,858

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

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

Operating and Other Expenses as a Percentage of Revenue

	For the three month periods ended December 31,				For the years ended December 31,			
	2023		2022		**2023**		2022	
$ millions	**$**	**%**	$	%	**$**	**%**	$	%
Revenue	**91.1**	**100 %**	94.3	100 %	**370.7**	**100 %**	381.7	100 %
Operating expenses:								
Pharmacy services and supplies	**65.4**	**71.8 %**	68.5	72.6 %	**266.0**	**71.8 %**	271.8	71.2 %
Employee costs	**7.5**	**8.2 %**	7.1	7.5 %	**29.2**	**7.9 %**	29.9	7.8 %
Other operating expenses	**10.7**	**11.7 %**	11.6	12.3 %	**46.8**	**12.6 %**	47.8	12.5 %
Total operating expenses	**83.6**	**91.8 %**	87.2	92.5 %	**342.0**	**92.3 %**	349.5	91.6 %
Other expenses:								
Depreciation and amortization	**4.9**	**5.4 %**	5.2	5.5 %	**20.0**	**5.4 %**	20.1	5.3 %
Share-based compensation expense	**0.4**	**0.4 %**	1.6	1.7 %	**1.5**	**0.4 %**	4.6	1.2 %
Loss on disposal of assets	**0.2**	**0.2 %**	—	— %	**0.4**	**0.1 %**	0.2	0.1 %
Transaction, restructuring and other costs	**0.6**	**0.7 %**	0.7	0.7 %	**1.4**	**0.4 %**	5.0	1.3 %
Goodwill and intangible assets impairment	**0.7**	**0.8 %**	—	— %	**0.7**	**0.2 %**	24.3	6.4 %
Finance costs, net	**4.4**	**4.8 %**	3.5	3.7 %	**14.3**	**3.9 %**	14.9	3.9 %
Income tax expense (recovery)	**(0.2)**	**(0.2) %**	0.5	0.5 %	**(4.2)**	**(1.1) %**	(1.5)	(0.4) %
Total other expenses	**11.0**	**12.1 %**	11.5	12.2 %	**34.1**	**9.2 %**	67.6	17.7 %

- Revenue for the three month period and year ended December 31, 2023 decreased by 3% to $91.1 million as compared to $94.3 million and by 3% to $370.7 million as compared to $381.7 million, respectively, for the same periods in the prior year.
- Revenue for the three month period and year ended December 31, 2023 decreased primarily as a result of a change in the mix of branded and generic pharmaceuticals dispensed during the respective periods in 2023. Revenue also decreased as a result of a reduction in the average number of beds serviced, which included the previously disclosed offboarding of a customer contract which was substantially completed in the fourth quarter of 2022. The impact of this lost contract was significantly offset by the contribution of new beds onboarded.

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, 2023 decreased by 4% to $83.6 million as compared to $87.2 million and by 2% to $342.1 million as compared to $349.5 million, respectively, for the same periods in the prior year.
- Cost of pharmacy services and supplies for the three month period and year ended December 31, 2023 decreased by 4% to $65.4 million as compared to $68.5 million and by 2% to $266.0 million as compared to $271.8 million, respectively, for the same periods in the prior year, primarily due to the impact of a change in the mix of branded and generic pharmaceuticals dispensed, the lower

average number of beds serviced during the respective periods in 2023 and certain cost savings initiatives implemented during the second half of 2023; partially offset by an increase in labour costs resulting from incremental costs associated with continued challenges in the healthcare labour market.

- Employee costs for the three month period and year ended December 31, 2023 increased by 5% to $7.5 million as compared to $7.1 million and decreased by 2% to $29.2 million as compared to $29.9 million, respectively, for the same periods in the prior year. The increase in the three month period ended December 31, 2023 was primarily due to non-recurring true-up adjustments recorded in both the current and prior year periods, while the decrease for the year ended December 31, 2023 related to indirect labour cost savings initiatives completed during the year.
- Other operating expenses for the three month period and year ended December 31, 2023 decreased by 8% to $10.7 million as compared to $11.6 million and by 2% to $46.8 million as compared to $47.8 million, respectively, for the same periods in the prior year. Other operating expenses for the three month period and year ended December 31, 2023 decreased primarily due to the reduction in the average number of beds serviced as well as certain other non-recurring adjustments.

The loss on disposal of assets for the three month period and year ended December 31, 2023 increased to $0.2 million as compared to a nominal loss and by 61% to $0.4 million as compared to $0.2 million, respectively, for the same periods in the prior year, and related to the disposal of assets no longer in use.

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

- Transaction, restructuring and other costs for the three month period and year ended December 31, 2023 decreased by 9% to $0.6 million as compared to $0.7 million and by 71% to $1.4 million as compared to $5.0 million, respectively, for the same periods in the prior year.
- Transaction, restructuring and other costs incurred were non-recurring and primarily related to (i) transition and integration costs related to prior years acquisitions; and (ii) restructuring costs from labour savings and other initiatives.
- Comparatively, costs incurred during the same periods in the prior year related to: (i) transition and integration costs related to the prior years acquisitions; (ii) acquisition costs related to the acquisition of the long-term care pharmacy business of Hogan Pharmacy Partners Ltd. ("Hogan" or the "Hogan LTC Pharmacy Business"); and (iii) restructuring costs from labour savings and other initiatives.

Goodwill and intangible assets impairment for the three month period and year ended December 31, 2023 was $0.7 million as compared to nil and $24.3 million, respectively, for the same period in the prior year. The intangible assets impairment recorded during the fourth quarter of 2023 related to a portion of the customer relationships intangible asset that was acquired as part of historical acquisitions. Goodwill impairment recorded during the second quarter of 2022 was primarily attributable to the loss of a large customer contract and increases in the input costs of the business, in addition to the impact of rising interest rates on the discount rates used to determine the recoverable amount of the Company's cash generating units and the intangible assets impairment related to the loss of the customer contract.

Finance costs, net includes interest expense, accretion expense and loss on financial liability extinguishment relating to the Company's borrowings and interest expense relating to the Company's finance leases; partially offset by the interest income earned on the Company's savings accounts and guaranteed investment certificates.

- Finance costs, net for the three month period and year ended December 31, 2023 increased by 26% to $4.4 million as compared to $3.5 million and decreased by 4% to $14.3 million as compared to $14.9 million, respectively, for the same periods in the prior year.
- Finance costs, net excluding accretion expense and loss on financial liability extinguishment for the three month period and year ended December 31, 2023 decreased by 4% to $2.6 million as compared to $2.7 million and increased by 3% to $11.9 million as compared to $11.6 million, respectively, for the same periods in the prior year. Finance costs, net excluding accretion expense and loss on financial liability extinguishment for the three month period ended December 31, 2023 decreased primarily due to the reduction in outstanding indebtedness as a result of a partial conversion of the Convertible Debentures in November 2023 and higher interest

income earned. Finance costs, net excluding accretion expense and loss on financial liability extinguishment for the year ended December 31, 2023 increased primarily due to the increase in lease liabilities as compared to the prior year, which resulted in higher interest expense partially offset by a reduction in outstanding indebtedness as a result of a partial conversion of the Convertible Debentures in November 2023 and 2022, and higher interest income earned.

- Accretion expense for the three month period and year ended December 31, 2023 decreased by 36% to $0.5 million as compared to $0.8 million and by 34% to $2.4 million as compared to $3.6 million, respectively, for the same periods in the prior year. The decrease in accretion expense was largely due to the changes to the carrying values of indebtedness as a result of a partial conversion of the Convertible Debentures in November 2023 and 2022 and non-recurring costs incurred in the third quarter of 2022.
- Loss on financial liability extinguishment for the three month period and year ended December 31, 2023 was $1.3 million as compared to nil for the same periods in the prior year, primarily due to the refinancing of the Company's borrowings completed during the fourth quarter of 2023.
- Income tax expense/recovery for the three month period and year ended December 31, 2023 was a recovery of $0.2 million as compared to an expense of $0.5 million and a recovery of $4.2 million as compared to a recovery of $1.5 million, respectively, for the same periods in the prior year. Income tax recovery for the three month period ended December 31, 2023 and years ended December 31, 2023 and 2022 was primarily related to the recognition of previously unrecognized deferred tax assets, including the recognition of deferred tax assets related to tax losses incurred during 2023 and 2022. In addition, the income tax recovery for the year ended December 31, 2022 was also due to the recognition of deferred tax assets as a result of the impairment of goodwill and intangible assets. Income tax expense for the three month period ended December 31, 2022 was primarily related to the impact of deferred tax assets that were derecognized during the three month period ended December 31, 2022.

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, 2023, the Company had $67.1 million of borrowings outstanding.

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

Credit Facilities

On December 21, 2023, the Company entered into a comprehensive refinancing transaction with CPCP. Under the terms of the refinancing, CPCP provided the Credit Facilities, which were comprised of the Term Loan and Operating Loan. The Credit Facilities have a five-year term with quarterly repayments of the Term Loan starting in the first quarter of 2024. The Credit Facilities accrue interest at a floating annual interest rate of prime plus between 2.0% and 2.75%, based on the Company's performance against applicable financial covenants. Additionally, undrawn portions of the Operating Loan incur a standby fee at an annual rate ranging between 0.35% and 0.50% of the undrawn Operating Loan based on the Company's performance against applicable financial covenants. Accrued interest and standby fees are paid quarterly.

The Credit Facilities contain 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, 2023, the Company was in compliance with its Credit Facilities covenants.

The proceeds of the Credit Facilities, plus available cash on hand, were used to repay the Legacy Senior Facility, the Yorkville Facility and to redeem the Ewing Convertible Debentures.

Legacy Senior Facility

On August 23, 2021, concurrent with the closing of the acquisition of the Long-Term Care Pharmacy Division of Medical Pharmacies Group Limited ("MPGL LTC Pharmacy Business" and the "MPGL Acquisition"), the Company entered into an amended and restated credit agreement with CPCP under which new senior credit facilities of $60.0 million (the "Legacy Senior Facility") were advanced to the Company. The Legacy Senior Facility proceeds were used to repay the existing credit facility with Crown Capital and associated financing fees.

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

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

On December 21, 2023, the Company settled the outstanding principal and accrued and unpaid interest on the Legacy 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 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 ranked 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 Legacy Senior Facility.

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

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

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

On December 21, 2023, the Company settled the outstanding principal and accrued and unpaid interest on the Yorkville Facility.

Equity Financings

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

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

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

Normal Course Issuer Bid

On September 7, 2023, the company launched its NCIB.

During the year ended December 31, 2023, the Company repurchased for cancellation 29,392 of its common shares.

Cash Flow

Cash flow activities for the year ended December 31, 2023 were as follows:

Cash provided by operating activities

Cash provided by operating activities was $27.4 million compared to $22.3 million for the same period in the prior year:

- Cash provided by operating activities in the current year was positively impacted by the significant reduction in transaction and restructuring related expenditures compared to the prior year in addition to the completion of the amortization of certain deferred amounts received under the Company's supply agreement with its primary drug supplier, resulting in incremental cash receipts following the completion of the amortization.

- Cash provided by operating activities in the prior year was positively impacted by the incremental cash flows from operations generated by the acquisitions completed during the year ended December 31, 2021; partially offset by the timing of certain working capital payments and transaction and restructuring related expenditures.

Cash used in investing activities

Cash used in investing activities was $12.3 million compared to $16.6 million for the same period in the prior year:

- Cash used in investing activities in the current year related to the purchases of property and equipment and intangible assets and the payment of contingent consideration liabilities; partially offset by the net proceeds from the disposal of property and equipment and intangible assets.

- Cash used in investing activities in the prior year related to the purchases of property and equipment and intangible assets, which included certain leasehold improvements incurred in the prior year, the payment of a contingent consideration liability and the closing consideration paid for the Hogan LTC Pharmacy Business.

Cash used in financing activities

Cash used in financing activities was $36.4 million compared $13.0 million for the same period in the prior year:

- Cash used in financing activities in the current year related to the repayment of Legacy Senior Facility, Yorkville Facility and Ewing Convertible Debentures, partial repayment of the vendor take-back note for the Hogan LTC Pharmacy Business acquisition and payments of interest and finance leases; partially offset by the net proceeds from the Offering and Private Placement, and the Credit Facilities.

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

Contractual Commitments

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

	Total	2024	2025-2026	2027-2028	Thereafter
	$	$	$	$	$
Trade payables and other liabilities	**52.0**	49.3	2.2	0.5	—
Term Loan	**47.0**	3.5	9.4	34.1	—
Operating Loan	**14.0**	—	—	14.0	—
Convertible Debentures	**6.3**	6.3	—	—	—
Hogan Vendor Take-Back Note	**0.4**	—	0.4	—	—
Interest payments on borrowings	**25.0**	6.7	10.1	8.2	—
Leases	**58.2**	5.7	9.9	7.8	34.8
Contingent consideration	**1.0**	0.2	—	0.8	—
Total	**203.9**	**71.7**	**32.0**	**65.4**	**34.8**

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, 2023, the Company had total shares outstanding of 59,831,092 (December 31, 2022 - 51,006,873). As at December 31, 2022, total shares outstanding included 2,880 shares which were restricted and held in escrow and only to be released to certain vendors of acquired businesses based on the achievement of certain performance targets. These escrowed and restricted shares are not reflected in the shares reported on the Company's financial statements. Accordingly, for financial reporting purposes, the Company reported 51,003,993 common shares outstanding as at December 31, 2022. On August 29, 2023, 2,880 escrowed and restricted shares were released.

For the period ended	**December 31, 2023**	December 31, 2022
Common shares		
Balance, beginning of year	**51,003,993**	46,289,983
Issuance of shares	**6,266,973**	146,143
Shares released from escrow or issued from treasury for contingent consideration	**—**	1,340,346
RSUs, DSUs and warrants exercised	**506,186**	653,789
Shares repurchased for cancellation	**(29,392)**	—
Shares issued for acquisitions	**—**	481,400
Conversion of Convertible Debentures	**2,083,332**	2,092,332
Balance, end of year	**59,831,092**	51,003,993

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

As at December 31, 2023, there were a total of 1,207,497 RSUs and DSUs outstanding to grant an equivalent number of common shares.

For the period ended	**December 31, 2023**	December 31, 2022
RSUs and DSUs		
Balance, beginning of year	**1,250,583**	1,010,248
RSUs and DSUs granted	**930,096**	711,652
RSUs and DSUs released	**(506,186)**	(425,542)
RSUs and DSUs forfeited	**(466,996)**	(45,775)
Balance, end of year	**1,207,497**	1,250,583

Issuance of Warrants

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

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

Issuance of Stock Options

As at December 31, 2023, there were 60,000 options exercisable to purchase an equivalent number of common shares.

For the period ended	**December 31, 2023**	December 31, 2022
Common share options		
Balance, beginning of year	**310,000**	—
Options granted	**343,805**	310,000
Options cancelled/forfeited	**(70,000)**	—
Balance, end of year	**583,805**	310,000
Exercisable, end of period	**60,000**	—

Should all outstanding warrants and options that were exercisable at December 31, 2023 be exercised, the Company would receive proceeds of $3.8 million.

As at the date of this report, March 6, 2024, the number of shares outstanding is 59,857,708; the number of RSUs and DSUs outstanding is 1,180,881; the number of stock options outstanding is 583,805; and the number of warrants outstanding is 12,600,000 (each warrant entitles the holder to acquire 0.05 common shares in the capital of the Company).

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 provided the Yorkville Facility[4] and own the Convertible Debentures and common shares of the Company.

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

Summary of Quarterly Results

(thousands of Canadian Dollars)	Q4 2023 $	Q3 2023 $	Q2 2023 $	Q1 2023 $
Revenue	91,097	93,760	94,485	91,404
Adjusted EBITDA	7,505	7,309	7,040	6,819
Adjusted EBITDA per share:				
Basic	$0.13	$0.13	$0.12	$0.12
Diluted	$0.13	$0.13	$0.11	$0.12
Net income (loss)	(3,700)	(1,437)	1,881	(2,149)
Income (loss) per share:				
Basic and diluted	($0.06)	($0.02)	$0.03	($0.04)
	Q4 2022 $	**Q3 2022 $**	**Q2 2022 $**	**Q1 2022 $**
Revenue	94,319	97,353	96,879	93,176
Adjusted EBITDA	7,144	7,710	8,797	8,616
Adjusted EBITDA per share:				
Basic	$0.15	$0.16	$0.19	$0.19
Diluted	$0.15	$0.16	$0.19	$0.19
Net loss	(4,680)	(1,782)	(25,129)	(2,762)
Loss per share:				
Basic and diluted	($0.10)	($0.04)	($0.53)	($0.06)

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

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

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

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

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

In the second quarter of 2023, the Company's revenue and Adjusted EBITDA increased primarily as a result of new beds onboarded during the first half of 2023. Net income was generated primarily due to an income tax recovery that was recorded during the quarter.

In the third quarter of 2023, the Company's revenue decreased slightly due to a small net reduction in the average number of beds serviced. Despite the reduction in revenue, Adjusted EBITDA increased compared to the second quarter of 2023 as a result of certain procurement and labour cost saving initiatives. The net loss in the quarter compared to the net income generated in the second quarter of 2023 was primarily due to a non-recurring income tax recovery that was recorded during the second quarter of 2023.

In the fourth quarter of 2023, the Company's revenue decreased due to a net reduction in the average number of beds serviced. Despite the reduction in revenue, Adjusted EBITDA increased compared to the third quarter of 2023 as a result of certain procurement and other cost savings initiatives. The net loss increased primarily due to higher transaction, restructuring and other costs, and certain non-cash items including share-based compensation expense, loss on disposal of assets, loss on financial liability extinguishment and intangibles assets impairment.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

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

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

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

The Certifying Officers have caused to be evaluated under its supervision the effectiveness of its DC&P as at December 31, 2023 and have concluded that the design and effectiveness of these controls and procedures provide reasonable assurance that material information relating to the Company was made known to the Certifying Officers on a timely basis to ensure adequate disclosure.

The Certifying Officers have caused to be evaluated under its supervision the effectiveness of its ICFR as at December 31, 2023 using the COSO framework. The Certifying Officers have concluded that the overall design and effectiveness of these controls provide reasonable assurance of the reliability of financial reporting and the preparation of the consolidated financial statements for external reporting purposes in accordance with IFRS.

There have been no significant changes to the Company's ICFR that occurred during the period beginning on October 1, 2023 and ended on December 31, 2023, which has materially affected, or is reasonably likely to materially affect the Company's ICFR.

Material Accounting Policies and Critical Accounting Estimates

Material 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, 2023.

The Company's material accounting policies are summarized in detail in note 2 of the consolidated financial statements for the years ended December 31, 2023 and 2022. No significant changes in accounting policies have occurred.

Critical Accounting Estimates and Judgments

The Company describes its critical accounting estimates and judgments as well as any changes in accounting estimates and judgment in note 2 of the consolidated financial statements for the years ended December 31, 2023 and 2022.

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.

Critical accounting estimates and judgements include the assessment of impairment of goodwill and intangible assets, the valuation of deferred tax assets and the accounting for business combinations.

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 ("FVLCD") 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 October 1, 2023 was determined based on FVLCD. The Company used a discounted cash flow projection model to determine the fair values of its CGUs. Costs of disposal, other than those that have been recognized as liabilities, are deducted in measuring FVLCD. Significant assumptions used in the FVLCD included revenue growth rates, operating margins and discount rates.

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 income 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, 2023, the Company had gross non-capital loss carry-forwards of $65.8 million (2022 - $69.8 million), of which $1.8 million have been recognized as at December 31, 2023 (2022 - nil). These losses can be carried forward against future taxable income and expire between 2034 to 2042.

As at December 31, 2023 and 2022, the Company had no gross capital loss carry-forwards.

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 contracts, 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 contracts and 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 contracts' and 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.

Risks and Uncertainties

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

General Business Risks

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

Government Regulation and Funding

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

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

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

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

On September 25, 2023, the pan-Canadian Pharmaceutical Alliance ("pCPA"), which represents participating federal, provincial, and territorial public drug plans, reached a new 3-year agreement with the Canadian Generic Pharmaceutical Association ("CGPA") with respect to the pricing of generic drugs in Canada, which became effective October 1, 2023. Under the new agreement, the price of new generics entering into the pan-Canadian Tiered Pricing Framework will drop automatically to 55% of brand reference price after three months where there is only one generic marketed in Canada, and between 25% and 50% where there are multiple manufacturers. The prior agreement between the pCPA and CGPA provided for a listing at 75% to 85% of brand reference price for new generics. The effect of this reduction, which lowers the price for certain generic drugs, will result in a lower mark-up that the Company receives on the price of new generic drugs that enter the market.

On January 1, 2020, certain amendments to O. Reg. 201/96 under the *Ontario Drug Benefit Act* ("ODBA" and the "ODBA Amendments") came into effect. Notably, the ODBA Amendments removed the payment of a dispensing fee for drug products supplied for a long-term care home resident in Ontario by a pharmacy service provider and instead imposed a capitation model where pharmacy service providers now receive a professional fee for all pharmacy services provided to the long-term care home that is based on the number of beds in the home. The original fee was set at $1,500 per bed per year for 2019-2020 and 2020-2021, and was supposed to decrease to $1,400 per bed per year in 2021-2022 (with all years above referring to the Government's fiscal year from April 1 to March 31). Following three one-year pauses that were announced in January 2021, February 2022 and March 2023, respectively, the capitation rate of $1,500 per bed per year was maintained for 2021-2022, 2022-2023 and 2023-2024, and is now expected to decrease to $1,400 in 2024-2025, $1,300 in 2025-2026 and $1,200 in 2026-2027 absent any further changes.

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

Employee Recruitment and Retention

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

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 Credit Facilities and the Convertible Debentures outstanding, 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 Credit Facilities 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.

Exposure to Epidemic or Pandemic

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.

In the event of epidemic or pandemic outbreaks, it is possible that medication supply could become disrupted or that pharmacies could be required to close if staff members become ill or there are otherwise staffing shortages.

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

Cash Flow to Service Debt

As at December 31, 2023, the Company had approximately $67.1 million of outstanding indebtedness. The Company currently estimates its debt service for the next 12 months under the Credit Facilities and Convertible Debentures will be approximately $10.2 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 Credit Facilities or Convertible Debentures; limiting its ability to obtain additional financing; reducing the Company's flexibility in planning for, or reacting to, changes in its operations or business; prohibiting the Company from making strategic acquisitions, introducing new technologies or exploiting business opportunities; placing the Company at a competitive disadvantage as compared to its less-highly-leveraged competitors; and negatively affecting the Company's ability to renew key care operator contracts. For additional information on the Company's outstanding long-term debt, see "Liquidity and Capital Resources".

Reliance on Contracts with Key Care Operators

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

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

Acquisitions and Integration

The Company has and continues to expect to make acquisitions of various sizes as part of its stated growth strategy, and continues to integrate previously acquired businesses.

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

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

- i Management may not be able to manage acquired businesses successfully and the integration may place significant demands on management, thereby diverting its attention from existing operations;
- ii Operational, financial and management systems may be incompatible with or inadequate to integrate into CareRx's systems and management may not be able to utilize acquired systems effectively;
- iii Acquired businesses may require substantial financial resources that could otherwise be used in the development of other aspects of the Company's existing business;
- iv Expected synergies in support of the acquisition model may not be fully realized as anticipated or could take longer to realize than expected;
- v Despite the Company undertaking comprehensive due diligence of acquired businesses, such due diligence may not uncover all liabilities of acquired businesses, and the scope of any indemnification obligations of the vendors may not be sufficient to cover any such liabilities;
- vi Historical financial information for certain acquired businesses may be based on carve-out financial information given acquired businesses may have been consolidated into the larger operations of the applicable vendors;
- vii The customer contracts underlying acquired businesses may not be retained or renewed on similar terms;
- viii Acquired businesses may result in liabilities and contingencies which could be significant to the Company's operations;
- ix Integration activities may distract management and other employees from running the day-to-day business and result in unintended declines in service to existing customers; and
- x Personnel from acquired businesses and its existing businesses may not be integrated as efficiently or at the rate foreseen.

Supply Chain

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

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

Utilization of Prescription Drugs

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

Litigation

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

The Company makes acquisitions of various sizes that may involve consideration to vendors in the form of cash and securities of the Company, as well as adjustment for contingent consideration that may take the form of price protection, earn-outs or performance rewards over a period of time. Contestation through litigation by vendors at a future date of actual, or applicable, entitlements under the negotiated agreements can happen, and may result in liabilities and contingencies to the Company or strained working relationships with vendors turned key employees in connection with the acquisition. The Company also completes divestitures of various sizes and the Company may from time-to-time be a party to a dispute relating to the transaction, which could result in liabilities and/or contingencies to the Company. In addition, the Company is party to a number of customer, supply and other commercial agreements. From time to time, disputes may arise between the Company and the counterparty to such contracts over the interpretation of the contract or each party's obligations thereunder that cannot be resolved by the parties and may be contested through litigation.

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 Coverage

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

Due to the nature of the pharmacy services provided by the Company, general liability, error and omissions claims and malpractice claims, amongst other types of claims, may be commenced against the Company. Although the Company carries insurance in amounts that management believes to be customary, there can be no assurance that the Company will have coverage of sufficient scope to satisfy any particular liability claim.

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

Dilution

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

Medication Errors

The Company dispenses a significant volume of prescriptions per month, and as with any pharmacy, medication errors are an inevitability. Medication errors can arise from human error from the prescribing physician or nurse practitioner, from a pharmacist or pharmacy assistant in processing and dispensing a prescription, or from a failure in technology that the Company relies upon to package medication correctly. 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.

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.

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. In addition, the Company relies on a single-source vendor for the provision of its pharmacy management software. In the event of a failure of this software, the Company's operations could be significantly disrupted.

Information Technology Systems

CareRx's business depends on the continued and uninterrupted performance of its information technology systems and those of certain of its suppliers. 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.

Collections Risk

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

Confidentiality of Personal and Health Information

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

Labour Relations

The Company currently operates one pharmacy location that is partially unionized, with certain positions at this site governed by a collective bargaining agreement, which was recently renewed for a three-year term in February 2023. In the future, it is possible that other locations operated by the Company could unionize. While the relationship with the existing union is positive, there can be no assurance that the Company will not at any time, whether in connection with the renegotiation of the collective agreement, future collective agreements, or otherwise, experience strikes, labour stoppages or any other type of conflict with unionized employees, or that negotiations with any current or future union could result in higher labour costs to the Company, each of which could have a material adverse effect on the business, operating results and financial condition of the Company.

Failure of Business Continuity Plans

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

Accounting, Tax and Legal Rules and Laws

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

Third Party Audits

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

Internal Control over Financial Reporting and Disclosure Controls and Procedures

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

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

Capital Investment

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

Significant Shareholders

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

Ethical Business Conduct

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

Volatile Market Price for Securities of the Company

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

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

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

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

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

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

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

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

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

Directors and Officers May Have Conflicts of Interest

Certain of the directors and officers of the Company may also serve as directors and/or officers of other companies, while other directors serve as nominees of certain significant shareholders of the Company. 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.

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, 2023 and 2022

(in thousands of Canadian dollars)

Dated: March 6, 2024

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Notes to the Consolidated Financial Statements:

Independent auditor's report

To the Shareholders of
CareRx Corporation

Opinion

We have audited the consolidated financial statements of **CareRx Corporation** [the "Company"], which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of income and comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRSs"].

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 are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Goodwill impairments	
As at December 31, 2023 the Company's goodwill was $70 million. As disclosed in note 9 of the Company's consolidated financial statements, the Company tests at least annually whether the goodwill asset has suffered any impairment at the cash-generating units ["CGUs"] level. The Company has disclosed its valuation approach as well as the significant judgments, estimates and assumptions that were utilized and the result of its analysis in respect of impairment in note 9 to the consolidated financial statements. Auditing management's annual goodwill impairment analysis was complex, given the degree of judgment and subjectivity in evaluating management's estimates and assumptions in determining the recoverable amount of each of the respective CGUs. The recoverable amount is sensitive to significant assumptions included cash flow projections, revenue growth rate, earnings margins, terminal growth rate and after-tax discount rate, which are affected by expectations about future market and economic conditions.	To test the estimated recoverable amount of each CGU, we performed the following procedures, among others: • We evaluated the appropriateness of management's use of the discounted cash flow model and tested the mathematical accuracy thereof; • With the assistance of our valuation specialists, we assessed the appropriateness of the Company's impairment model, valuation methodology applied, the various inputs used to estimate the recoverable amount of the CGUs as well as certain significant assumptions, including the discount rate and terminal growth rate; • We assessed the selection and application of the discount rate by comparing the risk-free rate and risk premiums to comparable market data; • We assessed the selection and application of the terminal growth rate by comparing management's estimate to anticipated long-term business performance and Canadian inflation targets; • We evaluated the reasonableness of management's cash flow projections, revenue growth rate and earnings margins by comparing management's past projections to actual results. We also compared management's estimated revenue growth rate and earnings margins to internal approved budgets and externally available market and economic trends. In addition, we assessed the historical accuracy of management's estimates on cash flow projections by comparing management's past projections to actual results; • With the assistance of our valuation specialists, we performed sensitivity analysis on significant assumptions, including the discount rate and revenue growth rate, to evaluate changes in the recoverable amount of each of the identified CGUs that would result from changes in the assumptions; and • We assessed the adequacy of the Company's disclosures in relation to this matter.

Other information

Management is responsible for the other information. The other information comprises:

- 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, 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.

We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. 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 in this auditor’s report. 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 IFRSs, 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.

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 Sonya Fraser.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 6, 2024

Consolidated Statements of Financial Position
(in thousands of Canadian dollars)

	December 31, 2023	December 31, 2022
	$	$
Assets		
Current assets		
Cash and cash equivalents (note 5)	**7,029**	28,371
Restricted cash	**680**	680
Trade and other receivables (note 6)	**35,843**	37,205
Income taxes receivable (note 10)	**248**	56
Inventories (note 7)	**19,655**	20,303
Prepaid expenses and other current assets (note 14)	**1,958**	2,561
	65,413	89,176
Non-current assets		
Property and equipment (note 8)	**52,137**	52,393
Goodwill and intangible assets (note 9)	**114,343**	122,966
Total assets	**231,893**	264,535
Liabilities		
Current liabilities		
Trade payables and other liabilities (note 11)	**49,524**	50,245
Current portion of borrowings (note 12)	**9,921**	7,408
Current portion of contingent consideration (note 4)	**205**	3,636
Current portion of lease liabilities (note 15)	**2,799**	2,598
	62,449	63,887
Non-current liabilities		
Borrowings (note 12)	**57,149**	99,372
Other deferred amounts (note 13)	**18**	3,233
Contingent consideration (note 4)	**719**	716
Other liabilities (note 11)	**2,037**	3,011
Deferred income tax liabilities (note 10)	**—**	4,013
Lease liabilities (note 15)	**27,995**	25,846
Total liabilities	**150,367**	200,078
Equity		
Share capital (note 14)	**323,297**	299,784
Warrants (note 14)	**892**	892
Contributed surplus	**33,620**	34,498
Equity component of Convertible Debentures (note 12)	**6,405**	6,566
Deficit	**(282,688)**	(277,283)
Total equity	**81,526**	64,457
Total liabilities and equity	**231,893**	264,535

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

Approved by the Board

"Kevin Dalton"
Kevin Dalton, Director

"Maria Perrella"
Maria Perrella, Director

Consolidated Statements of Income and Comprehensive Income

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

	For the years ended December 31,	
	2023	2022
	$	$
Revenue (note 2)	**370,746**	381,727
Cost of pharmacy services and supplies	**266,048**	271,793
General and administrative expenses (note 17)	**97,873**	102,550
Transaction, restructuring and other costs (note 18)	**1,445**	4,998
Goodwill and intangible assets impairment (note 9)	**710**	24,330
Income (loss) from operations	**4,670**	(21,944)
Finance costs, net (note 19)	**14,316**	14,943
Change in fair value of derivative financial instruments (note 15)	**(281)**	(5,576)
Change in fair value of contingent consideration liability (note 4)	**230**	1,872
Change in fair value of investment (note 15)	**—**	2,713
Loss before income taxes	**(9,595)**	(35,896)
Income tax recovery (note 10)	**(4,190)**	(1,543)
Net loss and total comprehensive loss for the year	**(5,405)**	(34,353)
Basic and diluted loss per common share:	**($0.09)**	($0.72)
Weighted average number of common shares outstanding (in thousands) (note 14):		
Basic and Diluted	**57,350**	47,596

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

Consolidated Statements of Changes in Equity

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

	Number of common shares[1]	Share capital $	Warrants $	Contributed surplus $	Equity component of Convertible Debentures $	Deficit $	Total $
Balance at December 31, 2021	**46,289,983**	**283,458**	**2,301**	**32,333**	**7,125**	**(242,930)**	**82,287**
Issuance of shares, net of share issuance costs (note 14)	146,143	757	—	—	—	—	757
RSUs, DSUs and warrants exercised (note 14)	653,789	3,390	(298)	(2,050)	—	—	1,042
Shares released from escrow or issued from treasury related to contingent consideration, net of share issuance costs (notes 4, 14)	1,340,346	3,693	—	—	—	—	3,693
Shares issued for acquisition, net of share issuance costs (notes 3, 14)	481,400	2,209	—	—	—	—	2,209
Shares issued on conversion of Convertible Debentures, net of share issuance costs (note 14)	2,092,332	6,277	—	—	(559)	—	5,718
Warrants expired (note 14)	—	—	(1,111)	1,111	—	—	—
Share-based compensation expense	—	—	—	3,104	—	—	3,104
Net loss for the year	—	—	—	—	—	(34,353)	(34,353)
Balance at December 31, 2022	**51,003,993**	**299,784**	**892**	**34,498**	**6,566**	**(277,283)**	**64,457**

	Number of common shares[1]	Share capital $	Warrants $	Contributed surplus $	Equity component of Convertible Debentures $	Deficit $	Total $
Balance at December 31, 2022	**51,003,993**	**299,784**	**892**	**34,498**	**6,566**	**(277,283)**	**64,457**
Issuance of shares, net of share issuance costs (note 14)	6,266,973	14,940	—	—	—	—	14,940
RSUs and DSUs exercised (note 14)	506,186	2,379	—	(2,379)	—	—	—
Shares issued on conversion of Convertible Debentures, net of share issuance costs (note 14)	2,083,332	6,250	—	—	(161)	—	6,089
Share-based compensation expense	—	—	—	1,501	—	—	1,501
Shares repurchased for cancellation[2] (note 14)	(29,392)	(56)	—	—	—	—	(56)
Net loss for the year	—	—	—	—	—	(5,405)	(5,405)
Balance at December 31, 2023	**59,831,092**	**323,297**	**892**	**33,620**	**6,405**	**(282,688)**	**81,526**

[1] *Excludes 2,880 common shares held in escrow and restricted shares as at December 31, 2022 (note 14).*

[2] *Reflects the repurchase and cancellation of common shares under the Company's normal course issuer bid (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,	
	2023	2022
Cash provided by (used in):	**$**	$
Operating activities		
Net loss for the year	**(5,405)**	(34,353)
Adjustments for:		
Finance costs, net (note 19)	**14,316**	14,943
Change in fair value of derivative financial instruments (note 15)	**(281)**	(5,576)
Change in fair value of investment (note 15)	**—**	2,713
Loss on disposal of assets (note 17)	**401**	249
Depreciation of property and equipment (note 8)	**9,725**	9,428
Amortization of finite-life intangible assets (note 9)	**10,251**	10,637
Income taxes received/(paid)	**(15)**	495
Income tax recovery (note 10)	**(4,190)**	(1,543)
Share-based compensation expense (note 17)	**1,471**	4,569
Goodwill and intangible assets impairment (note 9)	**710**	24,330
Change in the fair value of contingent consideration liability (note 4)	**230**	1,872
Supply agreement arrangements, net of amortization (note 13)	**(2,292)**	(4,691)
Cannabis agreement, net of amortization (note 13)	**(924)**	(1,378)
Interest received	**1,257**	278
Net change in non-cash working capital items (note 21)	**2,121**	360
Cash provided by operating activities	**27,375**	22,333
Investing activities		
Proceeds on disposal of property, equipment and intangible assets	**39**	3
Acquisition of business, net of cash acquired (note 3)	**—**	(179)
Purchase of property and equipment (note 8)	**(4,728)**	(10,042)
Purchase of intangible assets (note 9)	**(3,967)**	(3,571)
Payment of contingent consideration (note 4)	**(3,658)**	(2,809)
Cash used in investing activities	**(12,314)**	(16,598)
Financing activities		
Net proceeds from Credit Facilities (note 12)	**60,300**	—
Repayment of Senior Facility, Yorkville Facility and Ewing Convertible Debentures (note 12)	**(93,182)**	—
Interest paid	**(11,202)**	(8,707)
Repayment of vendor take-back note (notes 12, 16)	**(1,000)**	—
Repayment of finance loans	**—**	(36)
Repayment of leases	**(5,942)**	(5,253)
Repurchase of shares for cancellation (note 14)	**(56)**	—
Net proceeds from common shares issued (note 14)	**14,679**	1,007
Cash used in financing activities	**(36,403)**	(12,989)
Net decrease in cash and cash equivalents	**(21,342)**	(7,254)
Cash and cash equivalents, beginning of year	**28,371**	35,625
Cash and cash equivalents, end of year	**7,029**	28,371

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

1. Corporate Information

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

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

2. Material 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 as at and for the year ended December 31, 2023. 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, investment 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 6, 2024.

New and amended standards adopted by the Company

The Company applied the following standards and amendments for the first time for the year ended December 31, 2023:

- Disclosure of Accounting Policies – Amendments to IAS 1, *Presentation of financial statements* and IFRS Practice Statement 2 effective for years beginning on/after January 1, 2023.
- 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

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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, 2023 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:

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

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

2. Material 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 statements 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 as at the date of acquisition taking into consideration the quoted market prices of the Company’s common shares as 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.

2. Material 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. This segment comprises 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.

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 comprise 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").

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 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.

2. Material Accounting Policies - continued

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 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. 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.

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.

2. Material Accounting Policies - continued

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.

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
Packaging equipment	10 - 15 years straight-line
Vehicles	5 years or 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 or 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.

2. Material Accounting Policies - continued

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 rate 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.

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.

2. Material Accounting Policies - continued

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 as at the date of acquisition. The Company's finite life intangible assets include licences, computer software, contracts, customer relationships, trademarks, brands 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

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 ("VIU") 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, 2023 and 2022, 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 as 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 ("FVLCD"), and VIU. 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.

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.

2. Material Accounting Policies - continued

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.

When the Company repurchases its own shares, the consideration paid, including any directly attributable incremental costs, net of the related income tax effects, is deducted from equity attributable to the Company's shareholders. Where such common shares are not cancelled and subsequently reissued, any consideration received, net of any directly attributable incremental share issuance costs and the related income tax effects, is included in equity attributable to the Company's shareholders.

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 are 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 as 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.

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.

(in thousands of Canadian dollars, unless otherwise noted)

2. Material Accounting Policies - continued

The Company's revenue was derived as follows:

	For the years ended December 31,	
	2023	2022
Sale of goods	**79%**	79%
Capitated pharmacy service fees	**19%**	19%
Rendering of other pharmacy services	**2%**	2%
Total	**100%**	100%

During the year ended December 31, 2023, geographically, 62% and 38% of the Company's revenue was derived from Ontario and Western Canada, respectively (2022 - 66% and 34%).

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 share units ("RSUs").

2. Material 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.

2. Material Accounting Policies - continued

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, RSUs, convertible debentures and warrants.

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:

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 FVLCD and VIU. These calculations require the use of estimates.

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 income 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 contracts, 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 contracts and 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 contracts' and 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.

(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 comprising: (i) $2,200 payable in common shares of the Company at closing of the Hogan acquisition (note 14), 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 12). 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, Business Combination ("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 2022, the Company finalized the purchase price allocation for the Hogan acquisition and completed the valuation of the assets and liabilities of Hogan as at the date of acquisition.

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

	As initially reported	**Measurement period adjustments**	**Revised**
Purchase price	**$**	**$**	**$**
Common shares of the Company issued (note 14)	2,219	—	2,219
Contingent consideration (notes 4, 12)	988	—	988
Hogan Vendor Take-Back Note (note 12)	1,296	—	1,296
Cash consideration	—	179	179
	4,503	**179**	**4,682**
Provisional fair values of net assets acquired	**$**	**$**	**$**
Trade and other receivables	590	(62)	528
Inventories	314	—	314
Prepaid expenses and other current assets	29	—	29
Property and equipment (note 8)	1,117	34	1,151
Trade payables and other liabilities	(202)	(34)	(236)
Intangible assets (note 9)	22	2,460	2,482
Goodwill (note 9)	2,633	(2,219)	414
	4,503	**179**	**4,682**

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.

The amount of cash consideration paid on closing was nil and was subject to further customary post-closing adjustments based upon the finalization of the working capital of Hogan at the closing date. During the fourth quarter of 2022, the Hogan working capital as at the closing date was finalized and resulted in a revision to the closing cash consideration of $179.

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

(in thousands of Canadian dollars, unless otherwise noted)

3. Business Combinations - continued

The fair value of acquired trade receivables was $528 representing the gross contractual amount for trade receivables due.

Acquisition related costs of $138 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, 2022, Hogan contributed revenue of $2,603 and net income of $21 to the Company's financial results. If the acquisition had occurred on January 1, 2022, management estimates that the Company's consolidated revenue and net loss would have been $383,052 and $34,267, respectively, for the year ended December 31, 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 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 performance metrics, the amount to be paid under each scenario and the probability of each scenario. The fair value is dependent on certain inputs such as forecast earnings, non-financial metrics, risk-adjusted discount rates and the Company's share price.

The continuity of the contingent consideration liability to be settled in cash and common shares 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 year	334	236	256	1,046	**1,872**
Contingent consideration settled in shares	(606)	—	—	(3,113)	**(3,719)**
Contingent consideration settled in cash	—	—	(2,809)	—	**(2,809)**
Balance at December 31, 2022	**716**	**2,862**	**—**	**774**	**4,352**
Change in fair value during the year	63	63	—	104	**230**
Contingent consideration settled in cash	(60)	(2,925)	—	(673)	**(3,658)**
Balance at December 31, 2023	**719**	**—**	**—**	**205**	**924**
Less: Current portion	**—**	**—**	**—**	**205**	**205**
Non-current portion at December 31, 2023	**719**	**—**	**—**	**—**	**719**

On May 7, 2020, the Company recorded a contingent consideration liability as part of the consideration for the acquisition of the Remedy'sRx Specialty Pharmacy business ("Remedy's") 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, which adjusted the scheduled fee changes positively.

(in thousands of Canadian dollars, unless otherwise noted)

4. Contingent Consideration - continued

During the year ended December 31, 2022, the Company paid $362 and $2,447 to settle the remaining portion of the contingent consideration liability owing to the vendor of iPharm and the remaining portion of the contingent consideration liability for the acquisition of Remedy's, respectively.

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 December 31, 2022, the Company estimated the probability of meeting the operational targets to be 100%. As at December 31, 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%. On May 30, 2023, the Company paid $2,925 to settle the contingent consideration liability owing to the vendors of SmartMeds.

On May 30, 2022, the Company recorded a contingent consideration liability related to a portion of the vendor take-back note that was issued as part of the consideration for the acquisition of the long-term care pharmacy business of Hogan (note 12). 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 December 31, 2023 and 2022, the Company estimated the probability of meeting the growth targets to be 100%. As at December 31, 2023 and 2022, the fair value of the contingent consideration liability was estimated based on a risk-adjusted discount rate of 9%. As at December 31, 2023, the expected range of potential undiscounted amounts payable remaining is between nil and $800.

On November 30, 2023, the Company paid $61 to settle a portion of the contingent consideration related to the vendor take-back note.

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

5. Cash and Cash Equivalents

Cash and cash equivalents as at December 31, 2023 and 2022 are comprised of the following:

	December 31, 2023	December 31, 2022
	$	$
Cash	**6,967**	14,554
Savings accounts	**62**	13,817
Total	**7,029**	28,371

(in thousands of Canadian dollars, unless otherwise noted)

6. Trade and Other Receivables

Trade and other receivables as at December 31, 2023 and 2022 are comprised of the following:

	December 31, 2023	December 31, 2022
	$	$
Trade receivables, net of provision (note 15)	**34,940**	36,400
Indirect taxes receivable	**903**	805
Total	**35,843**	37,205

7. Inventories

The Company's December 31, 2023 inventories balance of $19,655 (2022 - $20,303) 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. During the year ended December 31, 2023 inventories expensed to cost of pharmacy services and supplies were $178,754 (2022 - $190,478).

(in thousands of Canadian dollars, unless otherwise noted)

8. Property and Equipment

	Office furniture, fixtures and equipment $	Computer 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, 2022									
Cost									
Balance at December 31, 2021	11,210	11,970	6,955	401	2,821	21,653	865	757	56,632
Acquisition of business (note 3)	864	21	266	—	—	—	—	—	1,151
Transfers	(2,217)	—	2,217	—	—	—	—	—	—
Additions	3,029	3,043	60	—	6,942	11,727	96	129	25,026
Disposals	(880)	(1,722)	(8)	(71)	(497)	(5,086)	(270)	(287)	(8,821)
Balance at December 31, 2022	**12,006**	**13,312**	**9,490**	**330**	**9,266**	**28,294**	**691**	**599**	**73,988**
Accumulated depreciation and impairment losses									
Balance at December 31, 2021	(4,330)	(4,571)	(3,036)	(180)	(893)	(4,628)	(419)	(404)	(18,461)
Depreciation	(1,462)	(2,299)	(844)	(112)	(838)	(3,474)	(222)	(177)	(9,428)
Disposals	740	1,525	7	56	363	3,074	264	265	6,294
Transfers	955	—	(955)	—	—	—	—	—	—
Balance at December 31, 2022	**(4,097)**	**(5,345)**	**(4,828)**	**(236)**	**(1,368)**	**(5,028)**	**(377)**	**(316)**	**(21,595)**
Year ended December 31, 2023									
Cost									
Balance at December 31, 2022	12,006	13,312	9,490	330	9,266	28,294	691	599	73,988
Additions	1,497	2,403	476	—	143	4,123	2,021	748	11,411
Disposals	(1,151)	(1,103)	(339)	(16)	(167)	(3,040)	(345)	(352)	(6,513)
Balance at December 31, 2023	**12,352**	**14,612**	**9,627**	**314**	**9,242**	**29,377**	**2,367**	**995**	**78,886**
Accumulated depreciation and impairment losses									
Balance at December 31, 2022	(4,097)	(5,345)	(4,828)	(236)	(1,368)	(5,028)	(377)	(316)	(21,595)
Depreciation	(1,646)	(2,329)	(796)	(57)	(1,174)	(2,968)	(533)	(222)	(9,725)
Disposals	864	951	285	10	134	1,827	344	156	4,571
Balance at December 31, 2023	**(4,879)**	**(6,723)**	**(5,339)**	**(283)**	**(2,408)**	**(6,169)**	**(566)**	**(382)**	**(26,749)**
Net carrying value									
As at December 31, 2022	7,909	7,967	4,662	94	7,898	23,266	314	283	52,393
As at December 31, 2023	**7,473**	**7,889**	**4,288**	**31**	**6,834**	**23,208**	**1,801**	**613**	**52,137**

(in thousands of Canadian dollars, unless otherwise noted)

9. Goodwill and Intangible Assets

	Goodwill $	Licences $	Contracts $	Non-compete Arrange-ments $	Computer software $	Customer Relation-ships $	Trade-marks and Brands $	Total Intangible Assets $	Total $
Year ended December 31, 2022									
Cost									
Balance at December 31, 2021	117,894	1,820	22,985	380	3,605	74,323	4,295	107,408	225,302
Additions	—	—	8,399	—	47	—	—	8,446	8,446
Acquisition of business (note 3)	414	—	1,790	—	22	670	—	2,482	2,896
Disposals	—	—	(348)	(380)	(1,298)	(24,888)	—	(26,914)	(26,914)
Balance at December 31, 2022	**118,308**	**1,820**	**32,826**	**—**	**2,376**	**50,105**	**4,295**	**91,422**	**209,730**
Accumulated amortization and impairment losses									
Balance at December 31, 2021	(25,779)	—	(14,764)	(380)	(2,591)	(34,910)	(191)	(52,836)	(78,615)
Amortization	—	—	(4,793)	—	(263)	(5,045)	(536)	(10,637)	(10,637)
Impairment	(22,518)	—	—	—	—	(1,812)	—	(1,812)	(24,330)
Disposals	—	—	344	380	1,206	24,888	—	26,818	26,818
Balance at December 31, 2022	**(48,297)**	**—**	**(19,213)**	**—**	**(1,648)**	**(16,879)**	**(727)**	**(38,467)**	**(86,764)**
Year ended December 31, 2023									
Cost									
Balance at December 31, 2022	118,308	1,820	32,826	—	2,376	50,105	4,295	91,422	209,730
Additions	—	—	3,285	—	96	—	—	3,381	3,381
Disposals	—	—	(1,003)	—	(363)	—	—	(1,366)	(1,366)
Balance at December 31, 2023	**118,308**	**1,820**	**35,108**	**—**	**2,109**	**50,105**	**4,295**	**93,437**	**211,745**
Accumulated amortization and impairment losses									
Balance at December 31, 2022	(48,297)	—	(19,213)	—	(1,648)	(16,879)	(727)	(38,467)	(86,764)
Amortization	—	—	(4,954)	—	(187)	(4,575)	(535)	(10,251)	(10,251)
Impairment	—	—	—	—	—	(710)	—	(710)	(710)
Disposals	—	—	—	—	323	—	—	323	323
Balance at December 31, 2023	**(48,297)**	**—**	**(24,167)**	**—**	**(1,512)**	**(22,164)**	**(1,262)**	**(49,105)**	**(97,402)**
Net carrying value									
As at December 31, 2022	70,011	1,820	13,613	—	728	33,226	3,568	52,955	122,966
As at December 31, 2023	**70,011**	**1,820**	**10,941**	**—**	**597**	**27,941**	**3,033**	**44,332**	**114,343**

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

During the year ended December 31, 2023, an impairment loss of $710 was recognized with respect to a portion of the customer relationships intangible asset that was acquired as part of historical acquisitions.

(in thousands of Canadian dollars, unless otherwise noted)

9. Goodwill and Intangible Assets - continued

Annual impairment testing of goodwill

During 2023, the Company had the following CGUs: Pharmacy - Ontario and Pharmacy - Western Canada.

As at October 1, 2023, the Company performed its annual impairment testing of goodwill and indefinite life intangible assets. The recoverable amount of the two CGUs was determined based on FVLCD. The Company used a discounted cash flow projection model for these CGUs. Significant inputs and assumptions used in FVLCD included post-tax cash flows from operations based on the Company's approved budget for the year ended December 31, 2024, revenue growth rates, operating margins and discount rates. 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 15. The significant assumptions used by the Company in its goodwill impairment testing as at October 1, 2023 were as follows:

CGU	Terminal growth rate	Post-tax discount rate
Pharmacy - Ontario	2.0%	12.0%
Pharmacy - Western Canada	2.0%	12.0%

For each of these CGUs, the recoverable amount calculated was in excess of the carrying value as at October 1, 2023. 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 Company's CGUs.

10. Income Taxes

The major components of income tax recovery for the years ended December 31, 2023 and 2022 are:

	December 31, 2023	December 31, 2022
	$	$
Current income tax recovery	**(177)**	(93)
Deferred income tax recovery	**(4,013)**	(1,450)
Total	**(4,190)**	(1,543)

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 23.79% (2022 - 23.82%). Permanent differences for the years ended December 31, 2023 and 2022 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.

(in thousands of Canadian dollars, unless otherwise noted)

10. Income Taxes - continued

	December 31, 2023	December 31, 2022
	$	$
Loss before income taxes	**(9,595)**	(35,896)
Expected income tax recovery based on statutory tax rate	**(2,283)**	(8,550)
Impact from non-deductible items	**466**	2,073
Change in unrecognized deferred tax assets	**(2,090)**	5,853
Provision to return and other adjustments	**(63)**	144
Change in the applicable Canadian federal and provincial statutory income tax rates	**(240)**	(734)
Other	**20**	(329)
Income tax recovery	**(4,190)**	(1,543)

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, 2023	December 31, 2022
	$	$
Property and equipment	**123**	639
Goodwill and intangible assets	**—**	141
Financing costs[1]	**—**	10
Other deferred amounts[2]	**7,374**	6,957
Deferred income tax assets	**7,497**	7,747
Property and equipment	**516**	952
Goodwill and intangible assets	**712**	4,177
Other	**6,269**	6,631
Deferred income tax liabilities	**7,497**	11,760
Net deferred income tax liabilities recognized[3]	**—**	(4,013)

[1]As at December 31, 2023, the Company had gross financing costs of $3,996 (December 31, 2022 - $6,391).
[2]As at December 31, 2023, the Company had gross undeducted reserves of $5,464 (December 31, 2022 - $7,790).
[3]As at December 31, 2023, in addition to non- and net-capital losses, the Company did not recognize deferred tax assets of $8,893 (December 31, 2022 - $11,322) arising from financing costs and other deductible temporary differences.

	December 31, 2023	31 December 2022
	$	$
Net deferred tax liabilities, beginning of year	**(4,013)**	(5,463)
Recognized in consolidated statement of income and comprehensive income	**4,013**	1,450
Net deferred tax liabilities, end of year	**—**	(4,013)

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, 2023, the Company had gross non-capital loss carry-forwards of $70,002 (December 31, 2022 - $69,765), of which nil have been recognized as at December 31, 2023 (December 31, 2022 - nil). These losses can be carried forward against future taxable income and expire between 2034 to 2042.

As at December 31, 2023, the Company had gross capital loss carry-forwards of $2,713 (December 31, 2022 - nil).

(in thousands of Canadian dollars, unless otherwise noted)

11. Trade Payables and Other Liabilities

Trade payables and other liabilities are comprised of the following:

	December 31, 2023	December 31, 2022
	$	$
Trade payables	**29,108**	30,481
Salaries, wages and employee benefits payable	**4,592**	5,603
Other liabilities	**1,986**	2,202
Other accrued liabilities	**13,713**	11,346
Severance costs (note 18)	**125**	613
Total	**49,524**	50,245

Other liabilities are related to multi-year agreements with national customers in the aggregate amount of $9,307 (December 31, 2022 - $8,685). During the year ended December 31, 2023, $4,606 of other liabilities was paid (2022 - $2,524) and $1,986 is due within the next 12 months (December 31, 2022 - $2,202). The liabilities were initially recognized at their aggregate fair values of $8,241 (December 31, 2022 - $7,404) and subsequently measured at amortized cost using the effective interest rate method. As at December 31, 2023, the aggregate carrying value of the liabilities was $4,023 (December 31, 2022 - $5,213).

12. Borrowings

Borrowings consist of the following:

	December 31, 2023	December 31, 2022
	$	$
Term Loan	**46,641**	—
Operating Loan	**13,843**	—
Liability component of Convertible Debentures	**6,211**	11,666
Hogan Vendor Take-Back Note (note 3)	**375**	1,363
Senior Facility	**—**	60,171
Yorkville Facility	**—**	20,545
Ewing Convertible Debentures	**—**	12,754
Ewing Convertible Debentures embedded derivatives (note 15)	**—**	281
Total borrowings	**67,070**	106,780
Less current portion of borrowings:		
Term Loan	**3,666**	—
Operating Loan	**42**	—
Hogan Vendor Take-Back Note	**2**	1,041
Liability component of Convertible Debentures	**6,211**	271
Senior Facility	**—**	5,249
Yorkville Facility	**—**	530
Ewing Convertible Debentures	**—**	317
Total current portion of borrowings	**9,921**	7,408
Total non-current portion of borrowings	**57,149**	99,372

As at December 31, 2023, the current portion of borrowings includes $347 of interest accrued and payable within twelve months following the consolidated statement of financial position date (December 31, 2022 - $2,305).

12. Borrowings - continued

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

Term Loan and Operating Loan

On December 21, 2023, the Company entered into a comprehensive refinancing transaction led by a Canadian Schedule I chartered bank and arranged and managed by Crown Private Credit Partners Inc. ("CPCP"). Under the terms of the refinancing, CPCP provided a senior secured revolving operating loan of up to $20,000 (the "Operating Loan") and a $50,000 senior secured term loan (the "Term Loan", and together with the Operating Loan, the "Credit Facilities"), of which $14,000 and $47,000 were advanced, respectively, on December 21, 2023 with future draws on the Term Loan available to fund certain capital expenditures.

The Credit Facilities have a five-year term with quarterly repayments of the Term Loan starting in the first quarter of 2024. The Credit Facilities accrue interest at a floating annual interest rate of prime plus between 2.0% and 2.75% based on the Company's performance against applicable financial covenants. Additionally, undrawn portions of the Operating Loan incur a standby fee at an annual rate ranging between 0.35% and 0.50% of the undrawn Operating Loan based on the Company's performance against applicable financial covenants. Accrued interest and standby fees are paid quarterly. The Company recognizes standby fees as an accretion expense (note 19).

The Credit Facilities contain 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, 2023, the Company was in compliance with its Credit Facilities' covenants.

The proceeds of the Credit Facilities, plus available cash on hand, were used to repay the Senior Facility, the Yorkville Facility and to redeem the Ewing Convertible Debentures.

The repayment of the Senior Facility, the Yorkville Facility and the redemption of the Ewing Convertible Debentures and the advance of the Credit Facilities was accounted for as an extinguishment of the original financial liabilities as required under IFRS, and a loss on financial liability extinguishment of $1,303 was recognized (note 19). The loss on extinguishment included financing costs of $179 and a prepayment fee of $352 related to the Senior Facility. The Company incurred $700 in incremental transaction costs which were allocated towards the Credit Facilities.

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 (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.

12. Borrowings - continued

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.

During the year ended December 31, 2021, $6,575 of Convertible Debentures were converted to common shares resulting in $5,359, representing the carrying value of the liability component of the Convertible Debentures, being transferred to share capital. 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.

During the year ended December 31, 2022, $6,250 of Convertible Debentures were converted to common shares resulting in $5,691, representing the carrying value of the liability component of the Convertible Debentures, being transferred to share capital (note 14).

During the year ended December 31, 2023, $6,250 of Convertible Debentures were converted to common shares resulting in $6,089, representing the carrying value of the liability component of the Convertible Debentures, being transferred to share capital (note 14).

Senior Facility

On August 23, 2021, the Company entered into an amended and restated credit agreement with CPCP under which senior credit facilities of $60,000 were advanced to the Company by CPCP and certain participants (the "Senior Facility").

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

During the year ended December 31, 2022, the Company amended the credit agreement for the Senior Facility with respect to its financial covenants, to amend the calculations of certain financial covenants as well as the thresholds for one of the financial covenants for the year ended December 31, 2023. The amended credit agreement also provided a waiver for one of the financial covenants for the year ended December 31, 2023.

On December 21, 2023, the Company settled the outstanding principal and accrued and unpaid interest on 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. The Yorkville Facility ranked in priority to the Company’s existing Convertible Debentures and Ewing Convertible Debentures, but subordinate to the Senior Facility.

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

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 August 21, 2026, (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.

On December 21, 2023, the Company settled the outstanding principal and accrued and unpaid interest on the Yorkville Facility.

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"). During the year ended December 31, 2020, the Company added $627 to the principal of the Ewing Convertible Debentures. The Ewing Convertible Debentures was set to mature on March 12, 2024.

The Ewing Convertible Debentures were convertible into common shares of the Company at the holder’s option at a conversion price of $0.25 per 0.05 common share 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 and was exercisable from the Ewing Convertible Debentures issuance date. Additionally, the Ewing Convertible Debentures 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 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 continued to accrue interest at a rate of 8% per annum until such accrued interest is paid.

The Ewing Convertible Debentures were 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 $13,167 on maturity; and (ii) a derivative liability component representing the fair value of the conversion and redemption features. The derivative liability component was fair valued at each reporting date (note 15).

On December 21, 2023, the Company redeemed the aggregate principal of the Ewing Convertible Debentures and accrued and unpaid interest.

13. Other Deferred Amounts

Preferred drug supplier agreement

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.

(in thousands of Canadian dollars, unless otherwise noted)

13. Other Deferred Amounts - continued

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.

As at December 31, 2022, the remaining unamortized balance of other deferred amounts under the Enterprise Agreement was $2,310. Other deferred amounts under the Enterprise Agreement were fully amortized during the year ended December 31, 2023.

Preferred cannabis partner agreement

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, 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.

As at December 31, 2022, the remaining unamortized balance of deferred revenue was $923. The deferred revenue under the Cannabis Agreements was fully amortized during the year ended December 31, 2023.

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, 2023**		December 31, 2022	
Common shares	**Common shares**	**Stated value $**	Common shares	Stated value $
Balance, beginning of year	**51,003,993**	**299,784**	46,289,983	283,458
Issuance of shares, net of share issuance costs	6,266,973	14,940	146,143	757
Shares released from escrow or issued from treasury for contingent consideration (note 4)	—	—	1,340,346	3,693
RSUs, DSUs and warrants exercised	506,186	2,379	653,789	3,390
Shares repurchased for cancellation	(29,392)	(56)	—	—
Shares issued for acquisition, net of share issuance costs (note 3)	—	—	481,400	2,209
Conversion of Convertible Debentures, net of share issuance costs (note 12)	2,083,332	6,250	2,092,332	6,277
Balance, end of year	**59,831,092**	**323,297**	51,003,993	299,784

The number of common shares considered to be issued for financial reporting purposes is exclusive of restricted shares issued and common shares issued in trust or held in escrow pending the achievement of certain stated milestones or performance targets. As at December 31, 2022, there were 2,880 escrowed and restricted common shares outstanding. On August 29, 2023, 2,880 escrowed and restricted common shares were released.

14. Shareholders’ Equity and Earnings per Share - continued

Normal Course Issuer Bid

On September 7, 2023, the Company launched its normal course issuer bid (the "NCIB") to repurchase for cancellation up to 1,000,000 of the Company's common shares during the period from September 7, 2023 to September 6, 2024, subject to certain daily limitations.

During the year ended December 31, 2023, the Company repurchased and cancelled 29,392 of its common shares at an average price of $1.92 per common share for a total cost of $56.

Issuance of common shares

During the year ended December 31, 2022, the Company issued 228,247 common shares related to warrants that were exercised.

During the years ended December 31, 2023 and 2022, the Company issued 506,186 and 425,542 common shares, respectively, related to RSUs and DSUs issued to management, employees and directors that vested.

During the years ended December 31, 2023 and 2022, $6,250 of the Convertible Debentures were converted to 2,083,332 common shares, respectively (note 12).

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).

On October 11, 2022, the Company issued an additional 220,423 common shares to the vendors of Hogan to settle the portion of the contingent consideration liability related to the initial common shares issued as part of the purchase consideration (note 4).

On November 10, 2022, the Company issued 1,119,923 common shares to settle a portion of the other contingent consideration liabilities.

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

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

(in thousands of Canadian dollars, unless otherwise noted)

14. Shareholders' Equity and Earnings per Share - continued

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

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

Issuance of RSUs and DSUs

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, 2023**	December 31, 2022
RSUs and DSUs	**Units**	Units
Balance, beginning of year	**1,250,583**	1,010,248
RSUs and DSUs granted	930,096	711,652
RSUs and DSUs released	(506,186)	(425,542)
RSUs and DSUs forfeited	(466,996)	(45,775)
Balance, end of year	**1,207,497**	1,250,583

The weighted-average remaining term to vest for RSUs and DSUs outstanding as at December 31, 2023 is 1.55 years.

During the year ended December 31, 2023, the Company had the following RSU and DSU grants:

Grant date	**Units granted**	**Granted to**	**Vesting conditions**	**Fair valued based on the quoted market price of issuance per common share**
March 30, 2023	780,487 RSUs	Management and employees of the Company	Vest over three years	$2.20
March 31, 2023	18,959 RSUs	Directors of the Company	Vest immediately	$2.35
June 6, 2023	89,089 RSUs	Directors of the Company	Vest over three years	$2.28
June 27, 2023	7,025 RSUs	Directors of the Company	Vest immediately	$2.23
June 30, 2023	14,143 RSUs	Directors of the Company	Vest immediately	$2.25
September 30, 2023	9,090 RSUs	Directors of the Company	Vest immediately	$1.76
December 31, 2023	11,303 RSUs	Directors of the Company	Vest immediately	$1.61

(in thousands of Canadian dollars, unless otherwise noted)

14. Shareholders' Equity and Earnings per Share - continued

During the year ended December 31, 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
September 30, 2022	15,530 RSUs	Directors of the Company	Vest immediately	$3.01
November 14, 2022	30,000 RSUs	Directors of the Company	Vest over three years	$2.85
December 31, 2022	18,703 RSUs	Directors of the Company	Vest immediately	$2.56

Issuance of warrants

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

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

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

(in thousands of Canadian dollars, unless otherwise noted)

14. Shareholders' Equity and Earnings per Share - continued

On December 1, 2022, following the renewal of a long-term contract with a customer, 1,000,000 warrants vested, with each warrant entitling the holder to purchase 0.05 common shares of the Company at an exercise price of $12.91 per common share over a two-year term. The fair value of the warrants issued was calculated using the Black-Scholes pricing model with the following assumptions:

Grant date	December 1, 2022
Number of warrants issued	1,000,000
Dividend yield	Nil
Expected volatility	48.09%
Risk-free interest rate	3.79%
Expected life in years	2
Strike price per common share	$12.91
Share price at date of issue per common share	$2.50
Fair value per warrant	$0.00

The weighted average remaining contractual life and weighted average exercise price of warrants outstanding as at December 31, 2023 are as follows:

Warrants outstanding				Warrants exercisable	
Range of exercise prices	**Number outstanding**	**Weighted average exercise price per common share**	**Weighted average remaining contractual life (years)**	**Number exercisable**	**Weighted average exercise price per common share**
$5.00 - $8.96	11,600,000	$5.00	1.11	11,600,000	$5.00
$8.97 - $12.91	1,000,000	$12.91	0.92	1,000,000	$12.91
Balance, end of year	**12,600,000**	**$5.63**	**1.10**	**12,600,000**	**$5.63**

(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, 2023		December 31, 2022	
Common share options	**Options**	**Weighted average exercise price**	Options	Weighted average exercise price
Balance, beginning of year	310,000	$4.95	—	$—
Options granted	343,805	$2.26	310,000	$4.95
Options forfeited	(70,000)	$5.18	—	$—
Balance, end of year	**583,805**	**$3.34**	310,000	$4.95
Exercisable, end of year	**60,000**	**$4.88**	—	$—

During the year ended December 31, 2023, the Company issued stock options to key management and directors of the Company. The fair values of the options issued were calculated using the Black-Scholes pricing model with the following assumptions:

Grant date	May 19, 2023	June 6, 2023
Number of options issued	225,000	118,805
Dividend yield	Nil	Nil
Expected volatility	65.58%	65.43%
Risk-free interest rate	3.29%	3.55%
Expected life in years	5	5
Strike price	$2.25	$2.27
Share price at valuation date	$2.27	$2.28
Forfeiture rate	Nil	Nil
Fair value per option	$1.31	$1.32

The weighted average remaining term to vest for stock options outstanding as at December 31, 2023 was 1.59 years.

During the year ended December 31, 2022, the Company issued stock options to key management of the Company. The fair values of the options issued were calculated using the Black-Scholes pricing model with the following assumptions:

Grant date	March 30, 2022	November 14, 2022
Number of options issued	280,000	30,000
Dividend yield	Nil	Nil
Expected volatility	69.25%	68.83%
Risk-free interest rate	2.42%	3.33%
Expected life in years	5	5
Strike price	$5.18	$2.78
Share price at valuation date	$5.42	$2.85
Forfeiture rate	Year 1 and 2: nil, 12.5% thereafter	Nil
Fair value per option	$3.24	$1.71

(in thousands of Canadian dollars, unless otherwise noted)

14. Shareholders’ Equity and Earnings per Share - continued

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, 2023 and 2022.

The following table illustrates the basic and diluted weighted average number of common shares outstanding for the years ended December 31, 2023 and 2022:

	For the years ended December 31,	
	2023	2022
Weighted average number of common shares outstanding - basic and diluted	**57,349,800**	47,595,782

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

As at December 31, 2023 and December 31, 2022, the Company's financial instruments consisted of cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables, contingent consideration, lease liabilities, borrowings and derivative financial instruments.

Fair value hierarchy

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

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

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

	December 31, 2023	December 31, 2022
	$	$
Contingent consideration	**924**	4,352
Derivative financial instruments	**—**	281
Total	**924**	4,633

(in thousands of Canadian dollars, unless otherwise noted)

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

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

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, 2023.

The continuity of the embedded derivatives liability is as follows:

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

The Ewing Convertible Debentures, redeemed on December 21, 2023, contained an embedded derivative liability component (note 12). The fair value of the Ewing Morris conversion option embedded derivative was calculated using the Black-Scholes pricing model using the following assumptions:

	December 31, 2022
Estimated number of common shares	2,697,756
Dividend yield	Nil
Expected volatility	48.16%
Risk-free interest rate	4.06%
Expected life in years	1.19
Strike price	$5.00
Share price at valuation date	$2.56
Fair value	$0.10

(in thousands of Canadian dollars, unless otherwise noted)

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

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, 2023 **$**	December 31, 2022 $
Financial assets measured at amortized cost:		
Cash and cash equivalents	**7,029**	28,371
Restricted cash	**680**	680
Trade receivables, net of provision	**34,940**	36,400
Financial liabilities measured at amortized cost:		
Trade payables and other liabilities	**51,436**	52,643
Lease liabilities	**30,794**	28,444
Term Loan	**46,641**	—
Operating Loan	**13,843**	—
Senior Facility	**—**	60,171
Liability component of Convertible Debentures	**6,211**	11,666
Ewing Convertible Debentures	**—**	12,754
Yorkville Facility	**—**	20,545
Hogan Vendor Take-Back Note (note 3)	**375**	1,363

Investment in AceAge

During the year ended December 31, 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 the 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 year ended December 31, 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.

(in thousands of Canadian dollars, unless otherwise noted)

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

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

	December 31, 2023	December 31, 2022
	$	$
Current	**26,262**	27,790
More than 30 days past due	**3,216**	2,648
More than 60 days past due	**2,239**	1,274
More than 90 days past due	**3,223**	4,688
	34,940	36,400

Included in trade and other receivables as at December 31, 2023 are $13,262 (December 31, 2022 - $13,875) of amounts receivable from government funding related to product sales and services rendered.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, historical credit losses and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

For the year ended	**December 31, 2023**	December 31, 2022
	$	$
Provision, beginning of year	**3,655**	2,228
Provision for receivables impairment	**2,523**	2,350
Write-offs charged against the provision for receivables impairment	**(1,758)**	(923)
Provision, end of year	**4,420**	3,655

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

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.

(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 owed by the Company as at December 31, 2023:

	Total	2024	2025-2026	2027-2028	Thereafter
	$	$	$	$	$
Trade payables and other liabilities	**52,000**	49,323	2,207	470	—
Term Loan	**47,000**	3,525	9,400	34,075	—
Operating Loan	**14,000**	—	—	14,000	—
Convertible Debentures	**6,250**	6,250	—	—	—
Hogan Vendor Take-Back Note	**400**	—	400	—	—
Interest payments on borrowings	**25,006**	6,690	10,118	8,198	—
Leases	**58,150**	5,664	9,853	7,790	34,843
Contingent consideration	**1,005**	205	—	800	—
Total	**203,811**	**71,657**	**31,978**	**65,333**	**34,843**

The following table presents the contractual terms to maturity of the financial liabilities owed by the Company as at December 31, 2022:

	Total	2023	2024-2025	2026-2027	Thereafter
	$	$	$	$	$
Trade payables and other liabilities	**53,591**	49,632	2,417	1,542	—
Convertible Debentures	**12,500**	6,250	6,250	—	—
Senior Facility	**60,000**	4,050	16,200	39,750	—
Ewing Convertible Debentures	**13,167**	—	13,167	—	—
Yorkville Facility	**20,015**	—	—	20,015	—
Hogan Vendor Take-Back Note	**1,400**	1,000	400	—	—
Interest payments on borrowings	**29,528**	11,293	14,624	3,611	—
Leases	**56,968**	5,395	9,092	6,929	35,552
Contingent consideration	**4,352**	3,552	—	800	—
Total	**251,521**	**81,172**	**62,150**	**72,647**	**35,552**

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. The Company is exposed to interest rate risk through its Credit Facilities.

As at December 31, 2023, a 0.5% change in the variable interest rate on the Company's Credit Facilities would have resulted in an annualized change in finance costs of $299.

As at December 31, 2022, the Company was not exposed to interest rate risk as all of the Company's borrowings had fixed interest rates.

(in thousands of Canadian dollars, unless otherwise noted)

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

Currency risk

Virtually all of the Company's transactions are denominated in Canadian dollars. As at December 31, 2023 and 2022, the Company held no significant financial instruments that were denominated in a currency other than Canadian currency.

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 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 provided the Yorkville Facility (note 12) and own the Convertible Debentures (note 12) and common shares of the Company.

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,	
	2023	2022
	$	$
Salaries and benefits	**2,722**	3,122
Share-based payments	**1,177**	2,112
Directors' fees	**541**	460
Total	**4,440**	5,694

17. General and Administrative Expenses

The components of general and administrative expenses are as follows:

	For the years ended December 31,	
	2023	2022
	$	$
Employee costs	**29,191**	29,863
Other operating expenses	**46,834**	47,804
Depreciation and amortization	**19,976**	20,065
Share-based compensation expense	**1,471**	4,569
Loss on disposal of assets	**401**	249
Total	**97,873**	102,550

Other operating expenses for the year ended December 31, 2023 include expenses of $1,151 (2022 - $1,024), relating to short-term leases, low-value asset leases and variable lease payments.

(in thousands of Canadian dollars, unless otherwise noted)

18. Transaction, Restructuring and Other Costs

Transaction, 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. 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, 2023 and 2022 consist of the following:

	For the years ended December 31,	
	2023	2022
	$	$
Transaction costs	**124**	1,018
Restructuring and other costs	**1,321**	3,980
Total	**1,445**	4,998

As at December 31, 2023, the Company had accrued liabilities related to severance of $125 (December 31, 2022 - 613) included in trade payables and other liabilities consisting of the following:

	Severance
	$
Balance at December 31, 2022	613
Accruals	633
Payments	(1,121)
Balance at December 31, 2023	**125**

(in thousands of Canadian dollars, unless otherwise noted)

19. Finance Costs, Net

Finance costs, net for the years ended December 31, 2023 and 2022 are comprised of the following:

	For the years ended December 31,	
	2023	2022
	$	$
Interest on Term Loan	**141**	—
Interest on Operating Loan	**42**	—
Accretion on Operating Loan	**1**	—
Interest on Senior Facility	**4,702**	4,796
Accretion on Senior Facility	**598**	1,142
Interest on Yorkville Facility	**2,039**	2,102
Interest on Convertible Debentures	**975**	1,490
Accretion on Convertible Debentures	**743**	1,562
Interest on Ewing Convertible Debentures	**1,025**	1,054
Accretion on Ewing Convertible Debentures	**590**	580
Interest on leases	**2,883**	2,093
Interest on Hogan Vendor Take-Back Note	**66**	42
Accretion on Hogan Vendor Take-Back Note	**52**	27
Accretion on other liabilities	**413**	333
Interest income, net	**(1,257)**	(278)
Loss on financial liability extinguishment (note 12)	**1,303**	—
Total	**14,316**	14,943

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.

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.

(in thousands of Canadian dollars, unless otherwise noted)

21. Supplementary Disclosure to the Consolidated Statements of Cash Flows

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

	For the years ended December 31,	
	2023	2022
	$	$
Trade and other receivables	**1,468**	1,234
Inventories	**648**	(1,997)
Prepaid expenses	**186**	307
Trade payables and other liabilities	**(181)**	816
Total	**2,121**	360

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

	Leases	Borrowings	Total
	$	**$**	**$**
Balance at December 31, 2021	**18,732**	**112,699**	**131,431**
Additions	15,250	—	15,250
Additions from acquisition of business (note 3)	—	1,296	1,296
Changes in fair value (note 15)	—	(5,576)	(5,576)
Payments	(5,253)	(8,743)	(13,996)
Modifications of leases	(2,378)	—	(2,378)
Debt to equity conversion (note 12)	—	(5,691)	(5,691)
Interest expense (note 19)	2,093	9,484	11,577
Accretion expense (note 19)	—	3,311	3,311
Balance at December 31, 2022	**28,444**	**106,780**	**135,224**
Additions	6,892	60,300	67,192
Changes in fair value (note 15)	—	(281)	(281)
Payments	(5,939)	(105,384)	(111,323)
Modifications of leases	(1,486)	—	(1,486)
Debt to equity conversion (note 12)	—	(6,089)	(6,089)
Interest expense (note 19)	2,883	8,990	11,873
Accretion expense (note 19)	—	1,933	1,933
Loss on financial liability extinguishment (note 12)	—	821	821
Balance at December 31, 2023	**30,794**	**67,070**	**97,864**

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.