



# **Empower Clinics Inc.**

## **Management's Discussion & Analysis**

For the three and nine months ended September 30, 2021 and 2020

*Expressed in US dollars*

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## **Preface**

In this Management's Discussion & Analysis ("MD&A", "Empower", the "Company", or the words "we", "us", and "our" refer to Empower Clinics Inc. together with its subsidiaries.

This MD&A comments on our financial condition, financial performance, and results of operations for the three and nine months ended September 30, 2021 and 2020. All amounts are expressed in US dollars unless otherwise noted. Past performance may not be indicative of future performance. This MD&A is supplemental and should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2021 and 2020 (the "Financial Statements"), the audited consolidated financial statements and accompanying notes for the year ended December 31, 2020 (the "Annual Financial Statements") and the annual Management's Discussion & Analysis for the year ended December 31, 2020 (the "Annual MD&A").

All financial information contained in this MD&A and in the Financial Statements is prepared in accordance with International Financial Reporting Standards ("IFRS"), including IAS 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"), except for non-GAAP information as noted and where a reconciliation to IFRS is provided.

The first, second, third and fourth quarters of the Company's fiscal years are referred to as "Q1", "Q2", "Q3" and "Q4", respectively. The nine months ended September 30, 2021 and 2020 are referred to as "YTD 2021" and "YTD 2020", respectively. The years ended December 31, 2020, 2019 and 2018, are also referred to as "fiscal 2020", "fiscal 2019" and "fiscal 2018", respectively.

In preparing this MD&A, we have considered all information available to us up to May 5, 2022.

This MD&A contains forward-looking information within the meaning of Canadian securities laws. Refer to "Cautionary Note Regarding Forward-Looking Statements". All statements made by management are subject to the risks and uncertainties identified in the "Risks and Uncertainties" section of this document.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Additional information regarding the Company is available on our website at [www.empowerclinics.com](http://www.empowerclinics.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Nature of Operations**

Headquartered in Vancouver, British Columbia, Empower is a federally incorporated Canadian company that is publicly traded on the Canadian Securities Exchange ("Exchange") under the symbol CBDT, quoted on the OTCQB under the symbol "EPWCF" and quoted on the Frankfurt Stock Exchange under the symbol "8EC.F 8EC.MU, 8EC.SG".

Empower is a leader in integrated healthcare and diagnostic solutions in the United States and Canada and is reshaping the model for patient-first integrated healthcare and wellness by leveraging our experience with clinic management, technology, quality products, medical and paramedical expertise. Supported by an experienced leadership team and in partnership with renowned pharmacy brands, Empower is aggressively growing its clinical and digital presence across North America. Our Health & Wellness and Diagnostics & Technology business units are positioned to positively impact the integrated health of our patients, while simultaneously providing long term value for our shareholders.

## **The Medi-Collective**

On August 16, 2021, Empower launched The Medi-Collective ("TMC"), the evolution of Empower's network of integrated healthcare clinics in Canada providing body and mind wellness, and treating patients with primary care, paramedical services and specialty services. The Medi-Collective (TMC) is a multi-disciplinary group of medical practitioners dedicated to applying a collaborative working model with the goal of delivering effective community healthcare and positive wellness. TMC's practice starts and ends with the people who make up our community, from our top-quality practitioners striving for excellence every day, to the patients and clients we care for. Fueled by the belief that effective healthcare is as much a mental approach as a physical one and by bringing together the power of positive attitudes with the most advanced medical methodologies, we create the best possible opportunity to produce the best possible outcomes for everyone involved, physically and mentally.

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In partnership with renowned pharmacy brands, TMC is a channel for accessible and modern healthcare while providing communities with high-quality service through professionally trained medical practitioners. TMC's clinics provide patient accessibility through digital and telemedicine care offerings. TMC operates software platforms to manage patients through the medical consultation process that is a compliant Electronic Health Record system and patient management portal. It provides improved management of patients while improving the ability of our doctors, admins and staff to treat and serve patients needs. The tele-medicine platform allows patients to register and select an appointment time to conduct a private consultation with one of the physicians remotely through a secure video link, thereby extending the reach of our clinic operations beyond the physical clinic locations.

As of the date of this MD&A, The Medi-Collective has five operational clinic locations and seven clinics undergoing construction.

### **Kai Medical**

Through its subsidiaries Kai Medical Laboratory, LLC and Kai Medical Canada Corp. (together "Kai Medical"), Empower provides world-class medical diagnostics and testing services. Kai Medical provides large-scale testing capability to support specimen testing demand from enterprise level customers with a focus on key industries such as film & television production, tourism, hospitality, care homes, medical clinics and facilities in the United States.

Kai Medical operates its direct-to-consumer platform, Kai Care, at [www.kaitests.com](http://www.kaitests.com) serving the U.S. market with the Kai Care at-home Saliva RT-PCR test kit. The Company anticipates obtaining Health Canada approval to sell Kai Care specimen collection kits to support Canadian consumers. In Canada, Kai Medical's rapid antigen test for COVID-19 is available in stores at numerous pharmacies. Kai Medical has an aggressive research and development plan to launch more diagnostic solutions – including blood, hormone and vitamin testing.

### **MediSure**

On July 30, 2021, the Company acquired Medi+Sure Canada Inc. ("MediSure"). Founded in 2010, MediSure has been dedicated to producing affordable, quality diabetes products that bring economic value to the diabetes testing market while delivering world-class training and educational support to those living with the disease. MediSure has an established pharmacy footprint in Canada that aligns with the Empower growth strategy of working with and supporting pharmacies and the communities they serve. Management expects the acquisition to bolster Empower's direct-to-consumer testing products initiative. MediSure's existing products include diabetic glucose meters and blood sugar tests meeting all ISO standards.

### **Outlook**

The Company continues to be active and opportunistic with respect to mergers and acquisitions opportunities, with the goal of advancing its business plan and to increase shareholder value where possible. Additionally, the Company may seek to acquire third party channel partners to increase its patient base, profitability, and to increase shareholder value through the effective utilization of its existing operations. Outlook for the Company's existing operations is discussed below.

### **The Medi-Collective**

Since the launch of The Medi-Collective in August 2021, the Company has five operational clinics, seven clinics under development and construction, 21 clinics in the due diligence phase, and eight clinics in the acquisition stage, for a total expansion pipeline of 41 clinics.

On October 21, 2021, the Company announced the proposed acquisition of a practice operating four clinics in the Thornhill area of Ontario (the "Thornhill Clinics") and on October 27, 2021, the Company announced that it had entered into a non-binding term sheet to acquire all of the shares of a practice operating four clinics in the Sudbury area of Ontario (the "Sudbury Clinics"). If completed, the acquisition of each practice is expected to add an additional \$4 million in annual revenue per practice (or \$8 million in total) based on their 2020 results. The Company expects to incorporate the existing family medicine operations of both practices into the TMC brand of clinics which would result in approximately 50 physicians being added to the TMC staff offering full-service family medicine consultations and services. The Thornhill Clinics have a patient roster of approximately 200,000 while the Sudbury Clinics have a patient roster of approximately 400,000, the addition of which would greatly amplify the TMC patient database. Following the acquisitions of the Thornhill Clinics and the Sudbury Clinics, TMC will be able to offer its hallmark family telemedicine operation and other specialist services, including dermatology, internal medicine, cardiology and nephrology.

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Across all TMC clinics, the Company plans to market other Empower Clinics services and products such as Kai Care testing solutions and MediSure diabetic management solutions to existing and incoming clinic patients.

#### **Kai Medical**

On October 12, 2021, the Company announced that it entered into a service agreement with Fobi AI Inc. ("Fobi") to integrate Fobi's artificial intelligence data applications and wallet pass platform into Kai Medical's Kai Care COVID-19 testing product and back-end lab management system, which will create a much more secure and seamless next level of digital customer experience for not only COVID-19 but for all other future testing applications, receiving results and providing verification of a negative COVID-19 test. As part of the Kai Care testing process, all customers will now have the ability to download a Kai Care Wallet pass directly into the native wallet that lives in all Apple & Android mobile phones. The Kai Care Wallet pass will then be used for delivering test results direct to the mobile wallet in a safe and secure format. The new digital offering is very well timed given various international government mandates in regard to digital health passport requirements with proof of vaccinations and negative COVID-19 test requirements.

The Kai Care Wallet pass can also be used by Empower as a new customer engagement channel. User adoption and retention of Wallet passes is much higher than normal mobile phone Apps, and campaigns for additional Kai Labs tests or relevant 3rd party products or services can be pushed out to their customers through banner ads on the front of the Wallet pass, links on the back of the Wallet pass, or through push notifications to customer mobile phone lock screens. The new integrated solution also has a very high level of data security, with Fobi's Wallet pass powered by Hedera Hashgraph. This new engagement channel also opens up significant new advertising and data monetization options for both Empower and Fobi. In particular, Empower can now use the Wallet pass to promote and monetize products such as their own new testing products, as well as other 3rd party products such as travel insurance, etc. Under the terms of the agreement, Fobi will receive revenue for each Wallet pass downloaded and Fobi and Empower will split the proceeds of any new advertising or data monetization revenue opportunities realized from this service agreement.

On October 25, 2021, the Company announced that Kai Medical received approval from the Texas Department of State Health Services (DSHS) and the United States Department of Health and Human Services (HHS) to administer COVID-19 vaccinations in the US. Kai Medical can immediately begin placing orders for the Pfizer-BioNTech and Johnson & Johnson COVID-19 vaccines. Kai Medical has a team of trained and certified staff members able to catalogue and administer vaccinations. Kai Medical vaccinations can be coordinated through government COVID-19 vaccination portals, or businesses, schools, and other groups can directly connect with Kai Labs to coordinate vaccination clinics. The Company expects that the new vaccine administration program can increase revenue in Kai Medical for the remainder of fiscal 2021 and beyond.

#### **MediSure**

On October 14, 2021, the Company announced that, through a competitive bid process, MediSure was awarded a contract with the British Columbia First Nations Health Authority (the "FNHA") to provide diabetic testing products for communities supported by the FNHA. Under the contract, MediSure will supply the FNHA with its proprietary MediSure Multi-User Glucose Meter, Test Strips, and Control Solution for the FNHA effective immediately until August 31, 2023. Through collaboration with the FNHA's community delivery program, MediSure is fulfilling its mission of providing affordable, high-quality diabetic management products to all Canadians. In conjunction with other contracts, MediSure is forging ahead on its path to become the preferred Canadian supplier of diabetic management devices. The Company anticipates that this contract can increase revenue through the end of 2021 and beyond.

#### **Restatement**

The September 30, 2021 balances have been restated to adjust for select errors namely, the impairment of goodwill and intangibles assets, and the correction of its right-of-use assets and lease liabilities.

The effects of the restatement on the Statement of Financial Position as at September 31, 2021, are summarized as follows:

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	Previously reported	Change	Restated
	\$	\$	\$
Prepaid expenses	169,612	(52,561)	<b>117,051</b>
Property, plant and equipment	3,496,860	(1,037,145)	<b>2,459,715</b>
Intangible assets	258,629	(208,250)	<b>50,379</b>
Goodwill	4,607,907	(2,836,498)	<b>1,771,409</b>
Accounts payable and accrued liabilities	3,446,662	(364,270)	<b>3,082,392</b>
Current portion of lease liability	218,342	116,229	<b>334,571</b>
Lease liability	855,737	155,428	<b>1,011,165</b>
Accumulated other comprehensive loss	(3,223)	60	<b>(3,163)</b>
Deficit	(53,601,791)	(4,041,901)	<b>(57,643,692)</b>

- The decrease in prepaid expenses is the result of identification of further amortization on the balance.
- The net decrease in property and equipment is the result of the following:
  - An increase in right-of-use assets resulting from the recognition of an extended lease term in the Health & Wellness segment in the amount of \$165,160;
  - The correction of the lease term used to calculate the right-of-use asset and lease liability acquired in the Medi + Sure Canada Inc. acquisition resulting in an increase of \$59,094;
  - The correction of the lease term used to calculate the right-of-use asset and lease liability in Brown's line resulting in an increase of \$113,217;
  - The derecognition of a right-of-use asset on a contract that did not meet the definition of a lease in accordance with IFRS 16 resulting in a decrease of \$76,992;
  - The impairment of leasehold improvements and right-of-use assets in the amount of \$534,643 and \$762,981, respectively.
- The decrease in intangible assets is due to the recognition of an intangible asset, customer relationships, with a fair value of \$146,300 which was then impaired, as well as the impairment of a laboratory certification license held in Kai Medical with a carrying value of \$208,250.
- The decrease in goodwill is the result of a lower goodwill amount as a result of identifying the customer relationship intangible asset of \$146,300 and subsequent impairment of goodwill in the Diagnostics & Technology CGU in the amount of \$2,690,198.
- The decrease in accounts payable and accrued liabilities of \$364,270 is the result of the reversal and recovery of an accrued liability.
- The increase in lease liability resulted from the correction of the lease term used to calculate the lease liability resulting from the acquisition of Medi + Sure Canada Inc. and in Brown's Line in the amount of \$59,368 and \$97,337, respectively, and the recognition of an extension on a lease term resulting in \$132,532 of additional lease liability, offset by the derecognition of a lease liability on a contract that did not meet the definition of a lease in accordance with IFRS 16 in the amount of \$133,809.
- The decrease in accumulated other comprehensive loss of \$60 is the result of the revaluation of changes in the right-of-use asset and lease liabilities from Canadian dollars to US dollars.

The effects of the restatement on the statements of loss and comprehensive loss for the three months ended September 30, 2021, are summarized as follows:

	Previously reported	Change	Restated
	\$	\$	\$
Clinic operating expenses	666,572	28,433	<b>695,005</b>
Legal and Professional fees	233,388	(337,388)	<b>(104,000)</b>
Depreciation expense	154,575	7,528	<b>162,103</b>
Interest expense	51,319	3,786	<b>55,105</b>
Gain on lease termination	-	(2,831)	<b>(2,831)</b>
Impairment of property and equipment	-	1,297,625	<b>1,297,625</b>
Impairment of intangible assets	-	354,550	<b>354,550</b>
Impairment of goodwill	-	2,690,198	<b>2,690,198</b>
Foreign currency translation adjustment	(3,311)	60	<b>(3,251)</b>

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The effects of the restatement on the Statement of Loss and Comprehensive Loss for the nine months ended September 30, 2021, are summarized as follows:

	Previously reported	Change	Restated
	\$	\$	\$
Clinic operating expenses	2,293,524	28,433	<b>2,321,957</b>
Legal and Professional fees	1,471,706	(337,388)	<b>1,134,318</b>
Depreciation expense	408,801	7,528	<b>416,329</b>
Interest expense	97,569	3,786	<b>101,355</b>
Gain on lease termination	(1,152)	(2,831)	<b>(3,983)</b>
Impairment of property and equipment	-	1,297,625	<b>1,297,625</b>
Impairment of intangible assets	-	354,550	<b>354,550</b>
Impairment of goodwill	-	2,690,198	<b>2,690,198</b>
Foreign currency translation adjustment	(3,223)	60	<b>(3,163)</b>

- Clinic operating expenses increased by \$28,433 as a result of previously unidentified accruals related to clinic operations.
- There was a recovery in legal and professional fees of \$337,388 resulting from the reversal of an accrued liability.
- Depreciation expense had a net increase of \$7,528 resulting from the extension of a lease term resulting in a higher right-of-use asset balance and higher straight-line monthly amortization, offset by the derecognition of a right-of-use asset that did not meet the IFRS 16 definition of a lease.
- The increase in interest expense of \$3,786 is a result of the additional lease liabilities recognized, net of the derecognition of the contract that did not meet the definition of a lease.
- The impairment of property and equipment, intangible assets, and goodwill totalling \$4,432,373 resulted from management's assessment that the Diagnostics & Technology CGU was impaired and needed to be written down to its net recoverable amount.
- The decrease in foreign currency translation adjustment is the result of the revaluation of the additional right-of-use asset and liability from Canadian dollars to United States dollars.

**Financial Highlights**

The following table presents select financial highlights from the results of operations for three and nine months ended September 30, 2021 compared to September 30, 2020.

	Three months ended		Nine months ended	
	September 30, 2021 Restated	September 30, 2020	September 30, 2021 Restated	September 30, 2020
	\$	\$	\$	\$
Total revenue	<b>405,707</b>	85,960	<b>3,226,335</b>	222,690
Net clinic revenues	<b>387,330</b>	46,758	<b>1,633,997</b>	115,790
Income (loss) from continuing operations	<b>(1,711,659)</b>	(313,622)	<b>(27,052,131)</b>	(1,407,094)
Loss from discontinued operations	<b>(60,527)</b>	(146,413)	<b>(512,931)</b>	26,778
Net income (loss) for the period	<b>(1,772,186)</b>	(460,035)	<b>(27,565,062)</b>	(1,380,316)
Adjusted EBITDA <sup>(1)</sup>	<b>(1,326,357)</b>	(668,449)	<b>(2,907,372)</b>	(1,275,231)

<sup>(1)</sup> Adjusted EBITDA is a non-GAAP financial measure that is calculated as income (loss) from continuing operations before depreciation and amortization, interest, accretion, share-based compensation, gain or loss from changes in fair value of warrant liability, impairment of intangible assets, and impairment of goodwill.

The following table presents select financial highlights of the Company's financial condition as at September 30, 2021 and December 31, 2020:

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	<b>September 30, 2021 Restated</b>	December 31, 2020
	\$	\$
Cash	<b>2,160,587</b>	4,889,824
Working capital (deficiency)	<b>(1,589,254)</b>	(1,746,818)
Current liabilities	<b>5,293,800</b>	7,000,937
Non-current liabilities	<b>3,821,101</b>	7,719,683

**Third Quarter Financial Review**

The following table summarizes the results of operations for the three months ended September 30, 2021 and 2020:

	<b>Q3 2021 Restated</b>	Q3 2020
	\$	\$
Revenue	<b>405,707</b>	85,960
Gross margin	<b>387,330</b>	46,758
Operating expenses	<b>695,005</b>	631,308
Legal and professional fees	<b>(104,000)</b>	127,776
Depreciation and amortization expense	<b>162,103</b>	29,525
Share-based payments	<b>236,201</b>	1,738
Loss from operations	<b>(601,979)</b>	(743,589)
Gain on change in fair value of warrant liability	<b>(3,121,006)</b>	(435,607)
Other expenses (income)	<b>4,230,686</b>	5,640
Net income (loss) from continuing operations	<b>(1,711,659)</b>	(313,622)
Net loss from discontinued operations	<b>(60,527)</b>	(146,413)
Foreign currency translation adjustment	<b>(3,251)</b>	-
Comprehensive income (loss) for the period	<b>(1,775,437)</b>	(460,035)

**Revenue**

Revenue in Q3 2021 was \$405,707, compared to \$85,960 in Q3 2020. The Company's revenue was earned from patient visits to existing clinics throughout the Medi-Collective network and from COVID-19 testing performed by Kai Medical. Of total revenue in Q3 2021, \$206,639 related to COVID-19 testing. Q3 2020 revenue resulted only from clinic services.

**Gross margin**

Gross margin in Q3 2021 was \$387,330, compared to \$46,758 in Q3 2020 and is calculated as revenue less the direct expenses of clinic services and product sales offset by the reversal of a provision previously recorded against certain inventory that had not yet met regulatory approval.

**Operating expenses**

Operating expenses were \$695,005, which increased from \$631,308 during Q3 2020. The increase is primarily related to increase salaries and benefits and additional advertising and promotion costs, which are a direct result of the Company launching capital markets and investor relations marketing programs in order to increase visibility and awareness to the investment community and prospective shareholders and to more effectively communicate developments of the Company.

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### Legal and professional fees

Legal and professional fees had a recovery of \$103,947, compared to an expense of \$127,774 during Q3 2020. The recovery is primarily related to the correction of accrued balances related to legal and professional fees from prior periods. The recovery is offset by the increase in fees primarily related to the acquisition of MediSure Q3 2021, and business advisory and consulting expenses.

### Depreciation and amortization expense

Depreciation and amortization expense was \$162,103, compared to \$29,525 during Q3 2020 as a result of the depreciation of acquired property and equipment from Kai Medical, LP&A, and Medi-Collective. Kai Medical completed the expansion of its testing facility in Dallas, TX in Q3, resulting in incremental depreciation on the new assets available for use.

### Share-based payments

Share-based payments were \$236,201, compared to \$1,738 during Q3 2020. The share-based payments expense is the fair value of share options recognized as an expense during the period based on the fair value determined by the Black-Scholes option pricing model.

### Gain on change in fair value of warrant liability

The Company recorded a gain on the change in the fair value of its warrant liability of \$3,121,006 compared to a gain of \$435,607 during Q3 2020 due to the requirement to revalue the share purchase warrants upon exercise or at every quarter end. The gain resulted from the decrease in the Company's share price during Q3 2021, which is a key variable in determining the fair value of the warrant liability per the Black-Scholes option pricing model.

### Other expenses

Other expenses were \$4,230,686, compared to \$5,640 during Q3 2020. The increase is primarily the result of impairment charges resulting from impairment of the Diagnostics & Technology CGU. The Company performed an impairment assessment of the CGU for the period ended September 30, 2021 after noting material indications that the CGU's carrying amount exceeded its recoverable amount. Impairment is comprised of impairment of property and equipment of \$1,297,625, impairment of intangible assets of \$354,550 and impairment of goodwill of \$2,690,198, all of which were \$nil in Q3 2020. Also included in other expenses is accretion and interest expense of \$8,151 and \$55,105, respectively, compared to accretion and interest expense of \$15,828 and \$33,689 in Q3 2020. Offsetting other expenses is other income of \$174,943, compared to other income of \$43,877 in Q3 2020.

### Third Quarter Cash Flows

	Q3 2021 Restated	Q3 2020
Net cash used in operating activities from continuing operations	<b>(1,247,009)</b>	(441,533)
Net cash used in operating activities from discontinued operations	<b>(55,415)</b>	(92,607)
Net cash used in investing activities	<b>(1,660,269)</b>	(127,446)
Net cash (used in) provided by financing activities	<b>(65,413)</b>	468,191
Effects of foreign exchange on cash	<b>(3,251)</b>	-
Decrease in cash	<b>(3,031,357)</b>	(193,395)



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**Review of cash flow from continuing operations for Q3 2021 compared to Q3 2020:**

Cash used in operating activities was \$1,247,009 compared to \$441,553 during Q3 2020. Significant drivers of the change relate to additional operating expenses resulting from ramping up operations, partially offset by increased service revenues generated from the acquisition of Kai Medical and LP&A as well as additional legal and professional fees incurred.

Cash used in investing activities was \$1,660,269, compared to \$127,446 during Q3 2020. The drivers of the increase are the cash consideration in the acquisition of MediSure in the amount of \$794,803 and capital expenditures related to the build out of the Kai Medical laboratory expansion.

Cash used in financing activities in Q3 2021 was \$65,413, compared to cash provided by financing activities of \$468,191 in Q3 2020. Cash used in financing activities during Q3 2021 related primarily to scheduled lease payments. The Company made loan payments of \$55,367 and received cash from a small business loan in the amount of \$49,942. Cash provided in financing activities during Q3 2020 related to issuance of common shares offset by scheduled lease payments.

**Year-to-date Financial Review**

The following table summarizes the results of operations for the nine months ended September 30, 2021 and 2020

	<b>YTD 2021</b>	YTD 2020
	<b>Restated</b>	
	<b>\$</b>	<b>\$</b>
Revenue	<b>3,226,335</b>	222,690
Gross margin	<b>1,633,997</b>	115,790
Operating expenses	<b>2,321,957</b>	1,180,072
Legal and professional fees	<b>1,134,318</b>	349,972
Depreciation and amortization expense	<b>416,329</b>	88,578
Share-based payments	<b>841,759</b>	31,592
Loss from operations	<b>(3,080,366)</b>	(1,534,424)
Loss (gain) on change in fair value of warrant liability	<b>19,721,807</b>	(475,539)
Gain on fair value change of conversion option	-	(2,795)
Other expenses (income)	<b>4,249,958</b>	351,004
Net loss from continuing operations	<b>(27,052,131)</b>	(1,407,094)
Net (loss) income from discontinued operations	<b>(512,931)</b>	26,778
Foreign currency translation adjustment	<b>(3,163)</b>	-
Comprehensive loss for the period	<b>(27,568,225)</b>	(1,380,316)

**Total revenues**

Revenue was \$3,226,335, compared to \$222,690 in YTD 2020. The Company's revenue was earned from patient visits to existing clinics throughout the Medi-Collective network and from COVID-19 testing performed by Kai Medical. Of total revenue in YTD 2021, \$2,298,417 related to COVID-19 testing and \$177,220 related to the sale of diabetes testing equipment. The remaining revenue of \$750,698 resulted from patient visits at clinics.

**Gross margin**

Gross margin was \$1,633,997 (YTD 2020 - \$115,790) and is calculated as revenue less the direct expenses of clinic services and product sales of \$1,592,338 (YTD 2020 - \$106,900). These costs represent physician and clinic support staff expenses that are required to operate the clinics and provide patient consulting services. The costs also include laboratory testing supplies and labour provided through Kai Medical and cost of diabetes testing equipment sold through MediSure. The Company continues to monitor and improve its operational controls to align labor cost with direct patient consultations.

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#### Operating expenses

Operating expenses totaled \$2,321,957, which increased from \$1,180,072 for the nine months ended September 30, 2020. The increase is primarily related to additional salaries and benefits and advertising and promotion costs, which are a direct result of the Company launching capital markets and investor relations marketing programs in order to increase visibility and awareness to the investment community and prospective shareholders and to more effectively communicate developments of the Company.

#### Legal and professional fees

Legal and professional fees totaled \$1,134,318, compared to \$349,972 during YTD 2020. The increase is primarily related to the acquisition of MediSure Q3 2021, the Company's planning and efforts to structure the sale of Sun Valley, and business advisory and consulting expenses. The increase is offset by recovery primarily related to the correction of payable balances related to legal and professional fees from prior periods.

#### Depreciation and amortization expense

Depreciation and amortization expense was \$416,329, compared to \$88,578 during YTD 2020 as a result of the depreciation of acquired property and equipment from Kai Medical and LP&A and the Company's continued investment into state-of-the-art testing equipment and the build out of Kai Medical's laboratory expansion.

#### Share-based payments

Share-based payments totaled \$841,759, compared to \$31,592 during YTD 2020. The share-based payments expense is the fair value of share options recognized as an expense during the period based on the fair value determined by the Black-Scholes option pricing model.

#### Gain on change in fair value of warrant liability

The Company recorded a loss on the change in the fair value of the warrant liability of \$19,721,807 compared to a gain of \$475,539 during YTD 2020 due to the requirement to re-value the share purchase warrants upon exercise or at every quarter end. The loss resulted from the significant increase in the Company's share price during the first half of fiscal 2021, which is a key variable in determining the fair value of the warrant liability per the Black-Scholes option pricing model.

#### Other expenses

Other expenses were \$4,249,958, compared to \$351,004 during Q3 2020. The increase is primarily the result of impairment charges resulting from impairment of the Diagnostics & Technology CGU. The Company performed an impairment assessment of the CGU for the period ended September 30, 2021 after noting material indications that the CGU's carrying amount exceeded its recoverable amount. Impairment is comprised of impairment of property and equipment of \$1,297,625, impairment of intangible assets of \$354,550 and impairment of goodwill of \$2,690,198, all of which were \$nil in Q3 2020. Also included in other expenses is accretion and interest expense of \$18,761 and \$101,355, respectively, compared to accretion and interest expense of \$360,924 and \$126,308 in Q3 2020. Offsetting other expenses is other income of \$212,531, compared to other income of \$136,228 in Q3 2020.

#### Year-to-date Cash Flows

	YTD 2021 Restated	YTD 2020
	\$	\$
Net cash used in operating activities from continuing operations	(2,858,281)	(722,780)
Net cash (used in) provided by operating activities from discontinued operations	(427,632)	191,286
Net cash used in investing activities	(2,406,182)	(127,446)
Net cash provided by financing activities	2,966,021	592,326
Effects of foreign exchange on cash	(3,163)	-
Decrease in cash	(2,729,237)	(66,614)

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Cash used in operating activities in YTD 2021 was \$2,858,281 compared \$722,780 in the nine months ended September 30, 2020. Significant drivers of the change relate to additional operating expenses resulting from ramping up operations, partially offset by increased service revenues generated from the acquisition of Kai Medical and LP&A as well as additional legal and professional fees incurred resulting from efforts to structure the sale of Sun Valley and for the acquisition of MediSure.

Cash used in investing activities in YTD 2021 was \$2,406,182, compared to \$127,446 in the nine months ended September 30, 2020. The drivers of the increase are the cash consideration in the acquisition of MediSure in the amount of \$799,620 and capital expenditures related to the build out of the Kai Medical laboratory expansion and equipment as well as leasehold improvements under construction related to unopened Medi-Collective clinics.

Cash provided by financing activities in YTD 2021 was \$2,966,021, compared to \$592,326 in the nine months ended September 30, 2020. The major components of cash provided by financing activities in YTD 2021 were \$4,315,587 of cash received from warrants exercises offset by the repayment of loans payable of \$965,971, repayment of notes payable of \$553,324, and scheduled lease payments of \$209,604. Cash provided by financing activities in YTD 2020 consisted of \$751,579 from the issue of shares, and \$29,987 from the advance of a loan, offset by scheduled lease payments of \$185,242.

### Summary Of Quarterly Results

The following summarizes the quarterly results of the Company for the last eight most recently completed quarters, expressed in thousands of US dollars:

	Q3 2021 Restated	Q2 2021	Q1 2021	Q4 2020
	\$	\$	\$	\$
Total revenue	406	862	1,958	853
Income (loss) from continuing operations <sup>(1)</sup>	(1,712)	(412)	(24,929)	(15,685)
Income (loss) per share:				
Basic and diluted	0.01	(0.00)	(0.08)	(0.06)
Cash dividends declared	-	-	-	-
Total assets	7,986	10,771	11,139	9,230

	Q3 2020	Q2 2020	Q1 2020	Q4 2019
	\$	\$	\$	\$
Total revenue	643	924	789	625
Loss from continuing operations <sup>(1)</sup>	(460)	(401)	(521)	(1942)
Loss per share:				
Basic and diluted	(0.00)	(0.00)	(0.00)	(0.02)
Cash dividends declared	-	-	-	-
Total assets	1,447	1,800	1,392	1,556

<sup>(1)</sup> Results for prior periods have not been reclassified to discontinued operations.

The Company is expected to remain subject to many of the risks common to early-stage enterprises for the foreseeable future, including challenges related to laws, regulations, licensing, integrating and retaining qualified employees; making effective use of limited resources; achieving market acceptance of existing and future solutions; competing against companies with greater financial and technical resources; acquiring and retaining customers; and developing new solutions.

### Non-GAAP Financial Measures

Earnings before interest, taxes, depreciation, and amortization ("EBITDA") and Adjusted EBITDA are non-GAAP financial measures and accordingly they are not earnings measures recognized by IFRS and do not carry standard prescribed significance. Moreover, the Company's method for calculating Adjusted EBITDA may differ from that used by other companies using the same designation.

Accordingly, we caution readers that Adjusted EBITDA should not be substituted for determining net income (loss) as an indicator of operating results or as a substitute for cash flows from operating and investing activities. Management believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors use this information to evaluate the Company's performance and ability to generate cash flow.

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Accordingly, presentation of these measures is to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

The following table provides a reconciliation of Adjusted EBITDA to the consolidated financial statements:

	<b>Q3 2021 Restated</b>	<b>Q3 2020</b>	<b>YTD 2021 Restated</b>	<b>YTD 2020</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Net income (loss) from continuing operations	<b>(1,711,659)</b>	(313,622)	<b>(27,052,131)</b>	(1,407,094)
Add (subtract):				
Depreciation and amortization expense	<b>162,103</b>	29,525	<b>416,329</b>	88,578
Interest expense	<b>55,105</b>	33,689	<b>101,355</b>	126,308
Accretion expense	<b>8,151</b>	15,828	<b>18,761</b>	360,924
<b>EBITDA (loss)</b>	<b>(1,486,300)</b>	(234,580)	<b>(26,515,686)</b>	(831,284)
Share-based payments	<b>236,201</b>	1,738	<b>841,759</b>	31,592
Loss (gain) on fair value change of warrant liability	<b>(3,121,006)</b>	(435,607)	<b>19,721,807</b>	(475,539)
Impairment of property and equipment	<b>1,297,625</b>	-	<b>1,297,625</b>	-
Impairment of intangible assets	<b>354,550</b>	-	<b>354,550</b>	-
Impairment of goodwill	<b>2,690,198</b>	-	<b>2,690,198</b>	-
<b>Adjusted EBITDA loss</b>	<b>(28,732)</b>	(668,449)	<b>(1,609,747)</b>	(1,275,231)

## Liquidity And Capital Resources

### Liquidity and going concern

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with its financial liabilities and other contractual obligations. The Company's strategy for managing liquidity is based on achieving positive cash flows from operations to internally fund operating and capital requirements.

Factors that may affect the Company's liquidity are continuously monitored. These factors include the number of patient visits, average patient spend per visit, number of COVID-19 tests performed, operating costs, capital costs, income tax refunds, foreign currency fluctuations, seasonality, market immaturity and a highly fluid environment related to state and federal law passage and regulations.

In the event that the Company is adversely affected by any of these factors and, as a result, the operating cash flows are not sufficient to meet the Company's working capital requirements there is no guarantee that the Company would be able to raise additional capital on acceptable terms to fund a potential cash shortfall. Consequently, the Company is subject to liquidity risk.

As at September 30, 2021, the Company has an accumulated deficit of \$57,643,692 (December 31, 2020 - \$30,078,630). The Company's operations are mainly funded with equity and debt financing, which is dependent upon many external factors, and thus funds may be difficult to raise when required. Management continues to evaluate the need for additional financing and is of the opinion that additional financing will be available to continue its planned activities in the normal course. Nonetheless, there is no assurance that the Company will be able to raise sufficient funds in the future to complete its planned activities. The foregoing indicates the existence of a material uncertainty that may cast substantial doubt as to whether the Company would continue as a going concern and realize its assets and settle its liabilities and commitments in the normal course of business.

The Company's consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume the realization of assets and discharge of liabilities in the normal course of business. The consolidated financial statements do not give effect to any adjustments that would be necessary should the Company not be able to continue as a going concern. Such adjustments could be material.

The Company will need to procure additional financing in order to fund its ongoing operation. The Company intends to obtain such financing through equity financing, and there can be no assurance that the Company can raise the required capital it needs to build and expand as expected, nor that the capital markets will fund the business of the Company. Without this additional financing, the Company may be unable to achieve positive cash flow and earnings as quickly as anticipated, these uncertainties cast a significant doubt about the Company's ability to continue as a going concern.

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**Contractual obligations**

<b>At September 30, 2021 Restated</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1 - 3 years</b>	<b>4 - 5 years</b>	<b>After 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Accounts payable and accrued liabilities	3,082,392	3,082,392	-	-	-
Loans payable	1,628,191	178,822	451,430	188,223	809,716
Notes payable	169,271	169,271	-	-	-
Lease payments on right-of-use assets	2,308,130	503,711	967,320	468,609	368,490
Purchase obligations <sup>(1)</sup>	259,270	259,270	-	-	-
<b>Total</b>	<b>7,447,254</b>	<b>4,193,466</b>	<b>1,418,750</b>	<b>656,832</b>	<b>1,178,206</b>

<sup>(1)</sup> Consideration payable of \$58,907 to the sellers of LP&A, and \$200,363 to the seller of MediSure

The board of directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management policies on an annual basis. The Company's board of directors identifies and evaluates the Company's financial risks and is charged with the responsibility of establishing controls and procedures to ensure financial risks are mitigated.

The Company's objectives when managing capital are to pursue and complete the identification and evaluation of assets, properties, or businesses with a view to acquisition. The Company does not have any externally imposed capital requirements to which it is subject.

The Company manages the capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new common shares or adjust the amount of cash.

The Company's investment policy is to invest excess cash in investment instruments at high credit, quality financial institutions with terms to maturity selected with regards to the expected time of expenditures from continuing operations.

**Off-Balance Sheet Arrangements**

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations or arrangements with respect to any obligations under a variable interest equity arrangement.

**Related Party Transactions**

The Company's related parties include key management personnel and any transactions with such parties for goods and/or services that are made on regular commercial terms. During Q3 2021 and Q3 2020, the Company did not enter into any transactions with related parties outside of compensation to key management personnel as disclosed below.

Key management are those personnel having the authority and responsibility for planning, directing, and controlling the Company. Salaries and benefits, bonuses, and termination benefits are included in operating expenses and share-based payments are recorded as share-based payment expense or share capital. Key management compensation includes:

	<b>Q3 2021 Restated</b>	<b>Q3 2020</b>	<b>YTD 2021 Restated</b>	<b>YTD 2020</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Salaries and benefits	<b>75,565</b>	174,617	<b>504,839</b>	516,218
Share-based payments	-	1,738	<b>346,375</b>	12,156
Director's fees	<b>7,500</b>	3,750	<b>20,000</b>	11,250
	<b>83,065</b>	180,105	<b>871,214</b>	539,624

Included in salaries and benefits for Q3 2021 and YTD 2021 is \$nil and \$nil, respectively (2020 - \$61,846 and \$129,902, respectively) related to common shares awarded to the CEO during 2019 which vested YTD 2021.

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As at September 30, 2021, \$156,344 (December 31, 2020 - \$157,055) is due to the CEO for salaries and benefits. The amounts are unsecured and due on demand.

As at September 30, 2021, share subscriptions receivable consists of \$745,531 (C\$980,000) due from the CEO for the exercise of 7,000,000 options at an exercise price of \$0.11 (C\$0.14). Share subscriptions receivable reduces shareholders' equity. The share subscriptions receivable has no specified interest or terms of repayment.

## **International Financial Reporting Standards**

The condensed interim consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB, effective as of September 30, 2021. The Company's significant accounting policies are described in note 3 of the Company's annual consolidated financial statements for the years ended December 31, 2020, 2019 and 2018 and note 3 to the September 30, 2021 unaudited condensed interim consolidated financial statements.

## **Critical Accounting Policies and Estimates**

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make estimates based on assumptions about future events that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively in the period in which the estimate is revised. Management has made the following critical judgements and estimates:

Management considers the policies described in note 3 of the annual consolidated financial statements for the years ended December 31, 2020, 2019 and 2018, and note 3 to the September 30, 2021 unaudited condensed interim consolidated financial statements to be the most critical in understanding the judgements that are involved in the preparation of the Company's consolidated financial statements and the uncertainties that could impact its results of operations, financial condition, and cash flows.

## **Changes in Accounting Standards**

The accounting policies applied in the preparation of the Company's consolidated financial statements for the three and nine months ended September 30, 2021 and 2020, are consistent with those applied and disclosed in note 3 to the Company's annual consolidated financial statements for the years ended December 31, 2020, 2019 and 2018.

## **Outstanding Share Data**

The authorized capital of the Company consists of an unlimited number of common shares without par value. The Company had the following securities outstanding as at the date of this MD&A:

<b>Type of Security</b>	<b>Number Outstanding</b>
Common Shares	348,208,658
Stock Options	8,324,459
Warrants	39,283,580

## **Risks And Uncertainties**

For a detailed listing of the risk factors faced by the Company, please refer to the Company's MD&A for the year ended December 31, 2020, 2019 and 2018 and the Company's most recently available Annual Information Filing on SEDAR ([www.sedar.com](http://www.sedar.com)).

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## **Financial Instruments and Other Instruments**

The Company's financial instruments consist of cash, accounts payable and accrued liabilities and due to related parties, convertible debt and loans payable. Cash is classified as fair value through profit or loss and recorded at fair value. Accounts payable and accrued liabilities, due to related parties and shareholder's loan are classified as other current liabilities. The fair value of cash, accounts payable and accrued liabilities, and due to related parties are equal to their carrying value due to their short-term maturity. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of arms-length financial instruments approximates their carrying value due to the relatively short term to maturity.

## **Cautionary Note Regarding Forward Looking Statements**

This MD&A contains certain information that may constitute "forward-looking information" and "forward-looking statements" (collectively, "forward-looking statements") which are based upon the Company's current internal expectations, estimates, projections, assumptions and beliefs. Such statements can be identified by the use of forward-looking terminology such as "expect," "likely", "may," "will," "should," "intend," or "anticipate", "potential", "proposed", "estimate" and other similar words, including negative and grammatical variations thereof, or statements that certain events or conditions "may" or "will" happen, or by discussions of strategy. Forward-looking statements include estimates, plans, expectations, opinions, forecasts, projections, targets, guidance, or other statements that are not statements of fact. The forward-looking statements included in this MD&A are made only as of the date of this MD&A.

Forward-looking statements in this MD&A include, but are not limited to, statements with respect to:

- licensing risks;
- regulatory risks;
- change in laws, regulations and guidelines;
- market risks;
- expansion of facilities;
- history of net losses; and
- competition.

Certain of the forward-looking statements and forward-looking information and other information contained herein concerning the medical cannabis industry and the general expectations of the Company concerning the medical cannabis industry and concerning the Company are based on estimates prepared by the Company using data from publicly available governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which the Company believe to be reasonable. While the Company is not aware of any misstatement regarding any industry or government data presented herein, the medical cannabis industry involves risks and uncertainties that are subject to change based on various factors and the Company has not independently verified such third-party information. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement. In particular, but without limiting the foregoing, disclosure in this MD&A under "*Business Overview*" as well as statements regarding the Company's objectives, plans and goals, including future operating results, economic performance and patient acquisition efforts may make reference to or involve forward- looking statements. A number of factors could cause actual events, performance or results to differ materially from what is projected in the forward-looking statements. See "Risk Factors" for further details. The purpose of forward- looking statements is to provide the reader with a description of management's expectations, and such forward-looking statements may not be appropriate for any other purpose. You should not place undue reliance on forward- looking statements contained in this MD&A. The Company undertakes no obligation to update or revise any forward- looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.