



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS**

**For the year ended June 30, 2021**

**October 21, 2021**

## CHOOM HOLDINGS INC.

Management's Discussion and Analysis  
For the year ended June 30, 2021



The following Management's Discussion and Analysis ("MD&A") is intended to assist the reader to assess material changes in financial condition and results of operations of Choom Holding Inc. (the "Company" or "Choom") for the year ended June 30, 2021 and for the comparative year ended June 30, 2020. This MD&A should be read in conjunction with the audited consolidated financial statements of the Company for the year ended June 30, 2021 and the related notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. For further information on the Company, reference should be made to its public filings on SEDAR at [www.sedar.com](http://www.sedar.com).

This MD&A is prepared by management and approved by the Board of Directors as of October 21, 2021. This discussion covers the three months ("Q4 2021" or the "Quarter") and the year ended June 30, 2021 and the subsequent period up to the date of issuance of the MD&A. Certain prior period amounts have been reclassified to conform with the current period's presentation. Choom's financial information throughout this MD&A is presented in Canadian dollars, the functional currency of the Company, therefore all dollar amounts are in Canadian ("CAD") dollars, except where otherwise noted. Throughout the report we refer to Choom Holdings Inc. as the "Company", "we", "us", "our" or "its". All these terms are used in respect of Choom Holdings Inc.

### ***Cautionary Statement on Forward-Looking Information***

This report contains certain statements, which may constitute "forward-looking information" within the meaning of Canadian securities law requirements ("forward-looking statements"). These forward-looking statements are made as of the date of this MD&A and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation. Forward-looking statements relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "intends" and "estimates". By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Certain forward-looking statements in this MD&A may include, but are not limited to the following:

- the Company's retail strategies and objectives, both generally and in respect of its existing business and planned business operations,
- the competitive conditions of the cannabis industry,
- the expected growth of retail cannabis sales by the Company in the recreational market,
- conditions in the financial markets generally, and with respect to the prospects for Canadian retail cannabis companies specifically,
- the expected demand for the Company's services and products,
- whether the Company will have sufficient working capital and its ability to raise additional funding required in order to develop its retail business strategy and continue operations,
- future legislative and regulatory developments involving recreational cannabis,
- capital costs for the acquisition and development of its current and proposed retail opportunities, and
- the grant and the impact of any license or supplemental license to conduct activities with cannabis or any amendments thereto.

The above and other aspects of the Company's anticipated future operations are forward-looking in nature and, as a result, are subject to certain risks and uncertainties. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, undue reliance should not be placed on them as actual results may differ materially from the forward-looking statements. Such forward-looking statements are estimates reflecting the Company's best judgment based upon current information and involve a number of risks and uncertainties, and there can be no assurance that other factors will not affect the accuracy of such forward-looking statements. Such factors include but are not limited to the Company's ability to become a retail cannabis licensee in the jurisdictions it has made applications in, the Company's ability to obtain the necessary financing and the general impact of financial market conditions, the success of the Company's current and future development efforts, changes in prices of required commodities, competition, government regulations and other risks as set out under "Risk Factors" section as well as those detailed from time to time in the Company's interim and annual consolidated financial statements, management's discussion and analysis, and annual information form which are filed and available for review under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).



## Business Overview

### Operations description

Choom is a fast-expanding retail cannabis company with stores across Canada. The Choom brand is inspired by Hawaii’s “Choom Gang” — a group of buddies in Honolulu during the 1970’s who loved to smoke weed — or as the locals called it, “Choom”. Evoking the spirit of the original Choom Gang, our brand caters to the Canadian market with the ethos of “cultivating good times”. Choom is focused on delivering an elevated customer experience through our curated retail environments, offering a diversity of brands for Canadians across a national retail network.

Choom’s vision is to be the industry leader in cannabis retail, focusing on an elevated consumer experience. The Company’s business strategy is to build one of Canada’s premier retail cannabis chains, with locations across Canada in the provinces that allow for private retailers. The Company is operating and constructing retail locations to sell cannabis and cannabis related products under its recreational brand Choom™ with the following key strategies in mind:

- Finance: Drive profitable sales through responsible new store growth and optimization of the existing business.
- People: Enabling and rewarding a culture of high performance.
- Product: Ensuring the right product is in the right place, at the right time.
- Marketing: Propelling the Choom story and unifying the in-store and online experience.
- Operations: Investing and building best in class retail infrastructure.

Choom’s common shares trade under the symbol “CHOO” on the Canadian Stock Exchange (“CSE”) and under the symbol “CHOOF” on the OTC Markets in Canada.

At the date of this report, Choom had the following open store locations across Canada:

Province	Licenses	Stores in Operation	Licenses Pending
Alberta	15	12	-
British Columbia	2	2	2
Ontario	3	3	1
<b>Total</b>	<b>20</b>	<b>17</b>	<b>3</b>

## Highlights for the year ended June 30, 2021

### Finance:

#### Q4 2021 Financial Highlights:

- **Q4 2021 Revenue of \$4.88M**
  - Increase of \$0.9M and 23.59% over Q4 2020 revenue of \$3.95M
- **Q4 2021 Gross Margin of 38.35%**
  - Increase of 6.23% over Q4 2020 gross margin of 32.12%
- **Q4 2021 General and Administrative of \$1.17M or 24.01% of revenue**
  - Versus \$1.23M or 31.12% of revenue in Q4 2020
- **Q4 2021 Salary and Wages of \$1.12M or 22.94% of revenue**
  - Versus \$0.76M or 19.37% of revenue in Q4 2020
- **Q4 2021 Adjusted EBITDA of -\$0.42M or -8.61% of revenue**
  - Versus -\$0.73M or -18.37% of revenue in Q4 2020

**FY 2021 Financial Highlights:**

- **FY 2021 Revenue of \$22.05M**
  - Increase of \$14.7M and 200% over FY 2020 revenue of \$7.4M
- **FY 2021 Gross Margin of 36.90%**
  - Increase of 6.31% over FY 2020 gross margin of 30.59%
- **FY 2021 General and Administrative of \$4.04M or 18.33% of revenue**
  - Versus \$5.85M or 79.52% of revenue in FY 2020
- **FY 2021 Salary and Wages of \$4.22M or 19.13% of revenue**
  - Versus \$2.53M or 34.38% of revenue in FY 2020
- **FY 2021 Adjusted EBITDA of -\$0.12M or -0.56% of revenue**
  - Versus -\$6.13M or -83.31% of revenue in FY 2020

***People:***

- Choom's Retail and Store Support Center continued to attract, retain, and enable top talent, dedicated to the success of the Company, and strengthened its talent pool with key new hires in inventory management, central operations, and finance.
- Choom continued to expand its store performance bonus program, rewarding its store managers and educators for their efforts.

***Product:***

- Choom gained significant efficiencies in its inventory management, decreasing total inventory by 9%, and increasing inventory turns from 5 in 2020 to 15.3 in 2021. These efficiencies were the direct result of the centralization and optimization of its product operations.
- Gross margins for the year increased by 6.31% as a result of the Choom's pricing and assortment strategy, which proved resilient against new value priced players who recently entered the market. Margins continued to increase in Q4 ending at 38.35%.
- 2021 saw the launch of Choom's vendor portal, allowing for 152+ licensed producer requests for partnership in-store and online.

***Marketing:***

- Since the re-platforming of its website by Choom's internal digital team, Platform<sup>WD</sup>, ecommerce sales were approximately \$1 million at the date of this report and since its launch in March 2021. The SEO strategy employed has allowed for the realization of a 136% increase in clicks from Google, 508% increase in Google Search impressions, 70.7% engagement rate on the website, and over 80 thousand monthly product impressions.
- Choom Plus, the brand's new digital loyalty program was launched, and is now optimizing its current database, whilst exponentially growing it through the acquisition of new subscribers to the program.

***Operations:***

- During the year there were increased COVID-19 related restrictions across all provinces, with Ontario being the most impacted, seeing closures for a significant part of the calendar 2021 year, reducing locations to curbside pick-up and delivery only. Throughout the continued time of uncertainty, Choom remained committed to ensuring safety in all its locations.
- Subsequent to year end, the Company opened 2 additional locations in Ontario: Toronto's Liberty Village and Hamilton. Both locations continue to see growth since both their opening.
- Building permits remain in review for both its Ottawa and Downtown Vancouver locations. Once the permits are secured, construction for the locations will go out for tender.

## **Operational Highlights**

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### *Prospectus Offering and Debt Restructuring*

Subsequent to year end, on July 8, 2021, Choom completed a restructuring (“Debt Restructuring”) of approximately \$25.9 million of outstanding debt, including approximately \$21.8 million owing to Aurora Cannabis Inc. (“Aurora”). As a result of the restructuring:

- the Company’s debt to Aurora has been reduced from \$20.0 to \$6.0 million and will mature on December 23, 2024, and
- the maturity date of the convertible debentures issued in December 2019 in the aggregate principal amount of \$4.1 million was extended to December 23, 2024.

Additionally, Choom completed a public offering (the “Offering”) and issued 43,750,000 units for gross proceeds of \$3.5 million.

Refer to “Financial Condition, Liquidity, and Capital Resources” section of this MD&A for a detailed discussion on both transactions.

### *Financing*

On February 4, 2021, the Company completed a non-brokered private placement for gross proceeds of \$1.95 million through the issuance of 27,857,143 units of the Company.

### *Phivida Transaction*

On September 16, 2020, Choom received the necessary regulatory, court and stock exchange approval to complete the acquisition of Phivida resulting in a total of 64,608,187 Choom Shares issued to the former holders of Phivida Shares, resulting in former Phivida shareholders holding approximately 28.6% of the total number of issued and outstanding Choom Shares.

Highlights of the Acquisition of Phivida include:

- Combined entity will benefit from an integrated omnichannel strategy, focusing on analytic driven decision making across client, people, product and operations,
- Will strategically leverage Choom’s current brick and mortar presence with Phivida’s digital assets to create an enhanced customer experience,
- Choom will leverage Phivida’s available cash to accelerate the build-out of additional stores, and
- Phivida’s strong e-commerce solutions and content-rich marketing platforms to drive traffic, awareness and build a brand authority online.

On March 14, 2021, the Choom launched its new proprietary ecommerce platform using the digital assets acquired through the Phivida Transaction. Key attributes of the fully customized ecommerce site include mobile optimization, increased speed, SEO, SMS notifications and in-store fulfilment, including delivery and pickup options. The newly developed proprietary ecommerce platform resulted in capitalized software development costs of \$0.2 million.

### *Medical Clinics and Coaching Centres*

During the year ended June 30, 2021, the Company divested the Medical Clinic and Coaching Centre assets which included patient lists, service agreements, and two medical and two coaching clinics in British Columbia, for a nominal amount to a former employee of the Company. The Company determined this was the most cost-effective way of disposing of the Medical Clinics, which has historically operated at a loss, to focus on cannabis retail. As a result of the divestiture, Goodwill of \$0.97 million and intangible assets of \$0.1 million were written off and impairment recognized in discontinued operations.

### *Settlement of Debt Obligations*

On August 11, 2021, the Company entered into a settlement agreement with a debtholder to settle debt obligations in the aggregate amount of \$0.55 million in consideration of: (i) the issuance of 3,174,603 common shares of the Company, and (ii) the extinguishment of an aggregate of up to \$0.9 million owed to the Company by the debtholder. As a result of this settlement, the

Company recorded impairment of \$0.8 million of the short- and long-term notes receivable and included it in loss on write-off of notes receivable on the consolidated statements of loss and comprehensive loss for the year ended June 30, 2021.

*Property*

During the year ended June 30, 2021, the Company entered into three new lease agreements for retail space in the province of Ontario, Canada, and in relation to these leases recognized \$3.6 million in right-of-use assets and lease liabilities. During the year, the also Company terminated nine lease agreements, two of which related to the divestiture of Medical Clinics, and derecognized \$1.1 million in lease assets, and \$1.2 million in lease liabilities. Additionally, the Company recorded \$1.2 million of impairment of right-of-use assets in connection to terminated leases and certain retail store locations.

During the year ended June 30, 2021, the Company sold two buildings for gross proceeds of \$0.5 million.

*Managing COVID-19*

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, retail store closures, self-imposed quarantine periods and physical distancing, have caused material disruptions to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

Choom continues to maintain business continuity during the COVID-19 pandemic and takes its cues from the government and public health officials to keep employees and customers safe and healthy. During the pandemic, enhanced store procedures including safety shields, more frequent cleaning, curbside pickup of product and delivery services, where permissible, were enacted.

Choom did not experience a decrease in sales for the year ended June 30, 2021 compared to the prior year. However, it is not possible to reliably measure or quantify the impact COVID-19 has had on the financial results of the Company. If the COVID-19 pandemic continues for an extended period, it may materially adversely impact business operations and, consequently, future financial results.

**Results of Operations**

At June 30, 2021, Choom had the following open store locations across Canada:

<b>Province</b>	<b>Licenses</b>	<b>Stores in Operation</b>	<b>Licenses Pending</b>
Alberta	15	12	-
British Columbia	2	2	2
Ontario	1	1	3
<b>Total</b>	<b>18</b>	<b>15</b>	<b>5</b>

***Fiscal 2021 Financial Performance Highlights***

The following table presents the consolidated financial information for the periods indicated. The summary financial information for the years ended June 30, 2021 and 2020 have been derived from the audited consolidated financial statements, prepared in accordance with IFRS.

Results of operations for the year ended June 30, 2019, were not presented below – Choom changed its focus from the cultivation aspect of the cannabis industry to the retail sector during 2019 and had no retail revenue to report for the year. The majority of expenses incurred in 2019 related to the cultivation aspect of the business. Management believes that results of the operations

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for the years ended June 30, 2021 and 2020 presented below, provide homogeneous information about the Company and its retail operations.

	2021	% of Sales	2020	% of Sales	\$ Change
Revenue	\$ 22,048,333		\$ 7,357,807		\$ 14,690,526
Cost of sales	(13,912,171)		(5,107,219)		(8,804,952)
<b>Gross profit</b>	<b>8,136,162</b>	<b>36.90%</b>	<b>2,250,588</b>	<b>30.59%</b>	<b>5,885,574</b>
<b>Expenses</b>					
General and administrative	\$ 4,040,713	18.33%	\$ 5,851,001	79.52%	\$ (1,810,289)
Salary, wages, benefits	4,218,495	19.13%	2,529,700	34.38%	1,688,795
Depreciation and amortization	3,912,230	17.74%	1,710,903	23.25%	2,201,327
Share-based payments	843,935	3.83%	1,320,603	17.95%	(476,668)
<b>Operating expenses</b>	<b>(13,015,373)</b>		<b>(11,412,207)</b>		<b>(1,603,165)</b>
<b>Loss from operations</b>	<b>(4,879,211)</b>		<b>(9,161,619)</b>		<b>4,282,408</b>
<b>Other items</b>					
Financing costs	(5,078,060)	-23.03%	(3,654,144)	-49.66%	(1,423,916)
Impairment	(7,082,220)	-32.12%	(5,942,600)	-80.77%	(1,139,620)
Other income and expenses	(3,089,534)	-14.01%	(1,428,859)	-19.42%	(1,660,675)
<b>Loss before income tax</b>	<b>(20,129,025)</b>		<b>(20,187,222)</b>		<b>58,197</b>
Current income tax expense	(86,431)		-		(86,431)
Deferred tax recovery	-		166,524		(166,524)
<b>Loss from continuing operations</b>	<b>(20,215,456)</b>		<b>(20,020,698)</b>		<b>(28,234)</b>
<b>Loss from discontinued operations</b>	<b>(1,407,389)</b>		<b>(325,728)</b>		<b>(1,081,661)</b>
<b>Net loss for the period</b>	<b>(21,622,845)</b>		<b>(20,346,426)</b>		<b>(1,109,895)</b>
Other comprehensive loss	(10,673)		-		(10,673)
<b>Net loss and comprehensive loss</b>	<b>\$ (21,633,518)</b>		<b>\$ (20,346,426)</b>		<b>\$ (1,120,568)</b>
<b>Net loss per share, basic and diluted</b>					
<b>Continuing operations</b>	\$ (0.07)		\$ (0.10)		\$ 0.03
<b>Discontinued operations</b>	\$ (0.00)		\$ (0.00)		\$ (0.00)

*Non-IFRS Financial Measures*

Adjusted EBITDA is a non-IFRS metric used by management and does not have any standardized meaning prescribed by IFRS. The metric may not be comparable to similar measures presented by other companies. Management defines Adjusted EBITDA as the income (loss) for the period, as reported, before interest, tax, depreciation and amortization, share-based payments, interest income, rental income, gains and losses, fair value adjustments on marketable securities, impairment, termination costs, debt extinguishments, discontinued operations and other non-recurring income and expenses. Management believes Adjusted EBITDA is a useful financial metric to assess its operating performance.

<b>Non-IFRS Financial Measures</b>	<b>2021</b>	2020
Net loss for the year - as reported	<b>(21,622,845)</b>	(20,346,426)
Current income tax	<b>86,431</b>	-
Deferred tax recovery	-	(166,524)
Depreciation and amortization	<b>3,912,230</b>	1,710,903
Financing costs	<b>5,078,060</b>	3,654,144
Loss from discontinued operations	<b>1,407,389</b>	325,728
Share-based payments	<b>843,935</b>	1,320,603
Impairment	<b>7,082,220</b>	5,942,600
Other income and expenses	<b>3,089,534</b>	1,428,859
<b>Adjusted EBITDA</b>	<b>(123,046)</b>	(6,130,114)

*Retail Revenue*

Revenue for the year ended June 30, 2021 was \$22.0 million representing an increase of \$14.7 million or 199.66% over revenue in the comparative year. In 2020 Choom made strategic acquisitions, significantly increasing the number of its revenue-generating store locations, which contributed to revenue growth year over year.

*Gross Profit*

Gross profit for the year ended June 30, 2021, was \$8.1 million or 36.90%, compared to \$2.3 million or 30.59% in 2020. The increase of \$5.9 million or 6.31% over gross margin in 2020 aligns with the Company's initiative to grow its retail operations and curate its product offering to maximize margins.

*Salary, Wages and Benefits*

Salary, wages, and benefits for the year ended June 30, 2021, were \$4.2 million, a \$1.7 million or 66.76% increase from the prior year comparative. The increase was a result of the commencement of retail operations in Alberta, British Columbia, and Ontario, which resulted in a significant increase to the Company's headcount. Salary, wages, and benefits represent 19.13% of revenue for the year ended June 30, 2021, as opposed to 34.38% in the prior year. The Company has been focusing its efforts on right sizing expenditures and hiring and retaining top talent to support the business.

*General and Administrative Expenses*

	2021	% of Sales	2020	% of Sales
<b>Revenue</b>	<b>22,048,333</b>		7,357,807	
<b>General and Administrative Expenses:</b>				
Accounting and legal	857,528	3.89%	1,031,135	14.01%
Business licenses and permits	61,532	0.28%	181,262	2.46%
Conferences	1,894	0.01%	28,176	0.38%
Consulting	683,366	3.10%	1,720,781	23.39%
Insurance	677,007	3.07%	194,758	2.65%
Interest and service charges	334,478	1.52%	164,365	2.23%
Office and administration fees	438,213	1.99%	628,960	8.55%
Property taxes	19,586	0.09%	12,549	0.17%
Realtor commissions and fees	24,035	0.11%	242,556	3.30%
Regulatory fees	49,310	0.22%	54,438	0.74%
Rent, utilities & security, net of rent received	270,249	1.23%	260,924	3.55%
Shareholder communications	39,135	0.18%	97,200	1.32%
Transfer agent fees	28,991	0.13%	9,764	0.13%
Travel	86,145	0.39%	293,738	3.99%
Bad debt expense	9,239	0.04%	-	0.00%
Terminated lease agreements	166,924	0.76%	250,424	3.40%
Marketing	287,691	1.30%	675,732	9.18%
Foreign exchange loss	5,390	0.02%	4,239	0.06%
<b>Total general and administrative expenses</b>	<b>4,040,713</b>	<b>18.33%</b>	5,851,001	79.52%

In 2019, the Company made a major shift to focus on retail operations and right size Company's expenditures. As a result, for the year ended June 30, 2021, Choom's general and administrative expenses represent only 18.33% of the sales, compared to 79.52% as at June 30, 2020.

*Accounting and legal:* The Company had undergone a number of corporate transactions, including acquisitions and divestures in prior years, which resulted in increased accounting and legal fees in the comparative period. Additionally, Choom used external accounting consulting services in the prior years. During the year ended June 30, 2021, Choom hired in-house personnel to oversee the finance and accounting functions of the Company and completed a number of transactions to raise capital and restructure Choom's debt obligations, which resulted in high accounting and legal expenditures in the fiscal year.

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*Consulting:* The decrease in consulting can be explained by reduced number of consultants used during the year – majority of outsourced engagements were transitioned to and completed by the Company's employees.

*Insurance:* Insurance premiums increased with operational activity and the opening of cannabis retail stores.

*Interest and service charges:* A high volume of retail cannabis sales and transactions are carried out through debit and credit cards, resulting in the increased expense during the year.

*Office administration fees:* These costs are associated with corporate office and store expenses, courier and postage costs, and increased IT software licensing and maintenance fees, to support growing retail operations and the increased Company's headcount.

*Rent, utilities & security, net of rent received:* Lease related costs, utilities and security increased with operational activity and the opening of additional cannabis retail stores.

*Realtor commissions and fees:* These costs relate to securing prime leasehold opportunities in a very competitive retail cannabis market. In the year ended June 30, 2021, the Company spent less on the procurement of leasehold locations as Choom now has an optimal pipeline of future store locations.

*Travel:* The decrease was primarily associated with conscious effort to right size Company's expenses and as a result of COVID-19 restrictions.

*Terminated lease agreements:* These costs relate to lease agreement termination payments for seven retail locations in Alberta and Ontario. In 2020, termination costs were mainly a result of the Company not winning license applications in Ontario. The Company is likely to incur additional termination payments as it focuses on optimizing its portfolio of prime retail locations.

*Marketing:* In the prior year, additional expenses were incurred due to an aggressive marketing strategy as a result of the Company's refocus to the retail cannabis sector. During 2021, the Company continued to develop its design and marketing materials and participate in various marketing campaigns with media service providers to create awareness for the Company in a highly competitive market.

**Q4 2021 Financial Performance Highlights**

	Q4 2021	% of Sales	Q4 2020	% of Sales	\$ Change
Revenue	\$ 4,880,919		\$ 3,949,328		\$ 931,591
Gross profit	1,871,824	38.35%	1,268,713	32.12%	603,111
Operating expenses	(3,845,578)	-78.79%	(3,075,750)	-77.88%	(769,828)
Loss from operations	(1,973,754)	-40.44%	(1,807,037)	-45.76%	(166,717)
Adjusted EBITDA	(420,039)	-8.61%	(725,382)	-18.37%	305,343

**Retail Revenue**

Revenue for the Q4 2021 was \$4.9 million representing an increase of \$0.9 million or 23.59% over revenue in the comparative period. The increase in revenue was driven by the expansion of Choom's retail network and addition of new stores in Ontario, Alberta, and British Columbia.

**Gross Profit**

Gross profit in Q4 2021, was \$1.9 million or 38.35% of sales, compared to \$1.3 million or 32.12% of sales in Q4 2020. The increase in gross profit of \$0.6 million or 6.23% aligns with the increase in sales volumes and the optimization of product offering and sales costs.

**Operating Expenses**

The Company's operating expenses increased by 25.03% from \$3.1 million in Q4 2020 to \$3.8 million in Q4 2021, and by 0.91% as a percentage of revenue. The increase was predominantly due to \$0.4 million increase in salaries and wages and \$0.8 million

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increase in depreciation and amortization expense – these increases were driven by rapid growth of the retail operations, increase in staffing to sustain the growing operations, and additional depreciation charges on equipment and leasehold improvements added to the newly opened retail stores.

General and administrative expenses decreased by 4.64% from \$1.23 million in Q4 2020 to \$1.17 million in Q4 2021 primarily due to the consistent effort to right size and optimize Choom's operating expenditures.

*Selected Financial Position Information*

<b>Selected Financial Position Information</b>	<b>2021</b>	<b>2020</b>	<b>\$ Change</b>	<b>% Change</b>
Total assets	\$ <b>26,206,266</b>	\$ 32,621,271	(6,415,005)	-19.67%
Total non-current assets	<b>23,914,904</b>	29,689,603	(5,774,699)	-19.45%
Total liabilities	<b>(37,362,621)</b>	(32,037,923)	(5,324,698)	16.62%
Total non-current liabilities	<b>(24,975,743)</b>	(25,398,188)	422,445	-1.66%

As at June 30, 2021, the Company had total assets of \$26.2 million, a decrease of \$6.4 million compared to \$32.6 million as at June 30, 2020. The decrease in total assets was mainly due to the following:

- \$2.4 million of impairment of property and equipment recognized in connection with terminated leases and certain other retail store locations,
- \$1.8 million in impairment of Niagara store goodwill, recognized on acquisition of the Niagara store in 2020. The impairment was mainly a result of increased competition in the Ontario cannabis market as well as rapidly evolving COVID-19 pandemic.
- \$1.2 million of fair market value loss on the long-term investment,
- \$1.0 million write-off of notes receivable related to settlement of certain debt obligations subsequent to year end,
- \$1.0 million goodwill impairment related to the divestiture of Medical Clinics,
- \$0.7 million decrease in right-of-use assets predominantly due to terminated lease locations and amortization charges, and
- \$0.6 million decrease in assets held for sale as the Company completed the sale of two buildings,
- Offset by \$2.5 million increase in intangible assets assumed upon completion of the Phivida transaction, net of amortization expense for the year.

As at June 30, 2021, the Company had total liabilities of \$37.4 million, an increase of \$5.3 million compared to \$32.0 million at the end of June 30, 2020. The increase can be explained by:

- \$4.1 million of interest and accretion on the notes payable and convertible debentures, offset by \$1.4 million in principal and interest payments made in the period,
- \$1.8 million increase in trade and other payables due to the interest accrued on the debt and volume and timing of payments, and
- \$1.0 million increase in lease liabilities as the Company acquired three new retail lease locations in the year.

**CHOOM HOLDINGS INC.**

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*Summary of Quarterly Results*

	Fiscal Quarter Ended			
	June 30 2021	March 31 2021	December 31 2020	September 30 2020
Total revenue <sup>1</sup>	4,880,919	5,104,476	6,077,523	6,121,238
Loss from continuing operations <sup>1</sup>	(11,579,580)	(3,638,995)	(3,080,089)	(2,953,614)
Adjusted EBITDA	(420,039)	46,706	176,515	45,368
Loss per share - continuing operations, basic and diluted	(0.04)	(0.01)	(0.01)	(0.01)

	Fiscal Quarter Ended			
	June 30 2020	March 31 2020	December 31 2019	September 30 2019
Total revenue <sup>1</sup>	4,078,108	2,191,083	1,487,344	188,540
Loss from continuing operations <sup>1</sup>	(5,995,335)	(3,938,314)	(7,352,941)	(2,954,159)
Adjusted EBITDA	(725,382)	(1,587,652)	(1,833,724)	(1,966,197)
Loss per share - continuing operations, basic and diluted	(0.02)	(0.02)	(0.04)	(0.02)

<sup>1</sup>Total revenue and loss from continuing operations for the five quarters beginning September 30, 2019 through September 30, 2020 include Medical Clinics operations, which have been discontinued in the period ended December 31, 2020.

Choom has incurred losses over the last eight quarters as it continues to grow its operations and execute its long-term business strategy to build one of Canada's premier retail cannabis chains. Results have varied between these fiscal quarters principally because of the following:

- The evolution of the legalization of the adult-use cannabis market,
- Restructuring costs due to the Company's focus shift to retail operations,
- A number of strategic acquisitions,
- Increased salaries and wages explained by the Company's rapid growth,
- Increased financing cost as the Company entered into more lease agreements to secure prime retail locations,
- Impairment charges, and
- Increased debt and financing costs to provide for immediate cash flows and support the expansion of the Company's retail operations.

**Financial Condition, Liquidity, and Capital Resources**

	2021	2020	\$ Change	% Change
Current assets	\$ 2,291,362	\$ 2,931,668	(640,306)	-21.84%
Current liabilities	(12,386,878)	(6,639,735)	(5,747,143)	86.56%
Working capital	(10,095,516)	(3,708,067)	(6,387,449)	172.26%
Long-term notes payable	1,250,000	-	1,250,000	100.00%
Long-term convertible debentures	15,871,343	17,606,912	(1,735,569)	-9.86%

Key changes to the Company's financial condition during the year ended June 30, 2021, included a net decrease in working capital of \$6.4 million which was primarily a result of the following events:

- \$3.9 million of December 2019 Debentures, due December 2021, being classified as a current liability,
- \$0.9 million in additional short-term lease payments due to the Company's real estate portfolio growth in the year,
- \$0.6 million of assets held for sale disposition during the year, and
- \$0.2 million of lease deposits for secured retail locations being reclassified as long-term.

*Financing*

On February 4, 2021, the Company completed the non-brokered private placement for gross proceeds of \$1.95 million through the issuance of 27,857,143 units ("Units") at a price of \$0.07 per unit. Each Unit consists of one common share and one-half of one non-transferrable warrant. Each warrant entitles the holder to purchase an additional common share at an exercise price of \$0.12 per share until February 3, 2023. Proceeds will be used for general working capital purposes as well as future store growth.

## CHOOM HOLDINGS INC.

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Additionally, the Company has paid an aggregate finder's fees of \$0.1 million in cash and issued 249,900 common shares and 1,173,140 finder's warrants ("Finder Warrant"). Each Finder Warrant entitles the holder to acquire one additional common share at a price of \$0.12 per share on the same terms as the Warrants until February 3, 2023.

### *Prospectus Offering*

On July 8, 2021, in accordance with the terms of an agency agreement dated June 28, 2021, among the Company, Canaccord Genuity Corp. (the "Lead Agent") and Leede Jones Gable Inc. (together with the Lead Agent, the "Agents"), the Company issued 43,750,000 Units at a price of \$0.08 per Unit ("Offering Price"), for gross proceeds of \$3.5 million. Each Unit consists of one common share in the capital of the Company (a "Common Share") and one-half of one Common Share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one additional Common Share at a price of \$0.12 per Common Share until July 8, 2024.

In connection with the Offering, the Company has paid the Agents a cash fee of \$0.2 million and issued the Agents compensation options (the "Compensation Options") exercisable at any time until July 8, 2024 to purchase up to 2,406,250 compensation option units (the "Compensation Option Units") of the Company at the Offering Price. Each Compensation Option Unit will be comprised of one Common Share and one-half of one Common Share purchase warrant ("Compensation Option Warrant"). Each Compensation Option Warrant will entitle the holder to acquire one Common Share at a price of \$0.12 per Common Share until July 8, 2024, subject to acceleration on the same terms as the Warrants. In addition, the Company has issued the Lead Agent an aggregate of 1,312,500 Units in satisfaction of a corporate finance fee.

The net proceeds of the Offering will be used by the Company to operate and construct retail locations to sell cannabis and cannabis related products and for other general corporate and working capital purposes.

### *Debt Restructuring*

Immediately following the closing of the Offering (the "Effective Date"), Choom completed the Debt Restructuring whereby:

- Aurora converted indebtedness owed to it into 79,754,843 Common Shares, such that following closing of the Debt Restructuring, Aurora owned approximately 19.9% of the Company's issued and outstanding Common Shares on a post-offering basis,
- the Company issued to Aurora a convertible debenture in the aggregate principal amount of \$6.0 million (the "2021 Debentures") maturing on December 23, 2024,
- the Company and Aurora entered into a debt restructuring fee agreement dated the Effective Date,
- the Company and Aurora entered into an amended and restated investor rights agreement dated the Effective Date (the "Investor Rights Agreement") and pursuant to which (among other things) Aurora has the right to nominate up to two nominees to serve as directors of the Company and to participate in future of securities offerings undertaken by the Company in order to maintain its pro-rata ownership of the Company, all in accordance with the terms of the Investor Rights Agreement, and
- amended the terms of the Company's convertible debentures issued in December 2019 in the aggregate principal amount of \$4.1 million to provide, among other things, that the maturity date of the 2019 Debentures be extended to December 23, 2024. The Company has also extended the expiry date of the Common Share purchase warrants issued in connection with the 2019 Debentures from December 23, 2023, to December 23, 2024.

The proceeds from recent financings have been allocated for general corporate purposes, acquisitions and costs incurred to secure retail sites and leasehold improvements and equipment.

Additional funds will be required for the further development of the Company's retail cannabis buildout strategy and to meet its debt obligations as outlined in this MD&A. The Company's future financing efforts may be affected by the volatility in market conditions and the current COVID-19 pandemic. The ability to expand the Company's operations will be reliant on, but not limited to, securing the necessary retail real estate locations, securing the necessary capital to build out its target retail spaces, and the ability to generate positive operating cash flow to meet its growth objectives and general working capital requirements. The Company will continue to have to rely on equity and/or debt financings until such time as it has achieved profitability to meet its development objectives over the next six to twelve months as well as meet its working capital requirements. The Company, upon approval from its Board of Directors, intends to balance its overall capital structure through new share issues or by

undertaking other activities as deemed appropriate under the specific circumstances. To maintain its capital structure the Company may, from time to time, issue equity or debt, repay debt or sell assets.

## Cash Flow Statement

Sources and Uses of Cash	2021	2020	\$ Change	% Change
Cash used in operations prior to changes in working capital	\$ (2,625,563)	\$ (5,369,914)	2,744,351	-51.11%
Changes in non-cash working capital	3,145,008	632,591	2,512,417	397.16%
Net cash used in discontinued operations	(47,924)	(45,350)	(2,574)	5.68%
Cash provided by/(used in) operating activities	471,521	(4,782,673)	5,254,194	-109.86%
Cash provided by/(used in) investing activities	923,837	(3,893,914)	4,817,787	-123.73%
Cash provided by/(used in) financing activities	(1,587,987)	4,321,523	(5,909,510)	-136.75%
<b>Decrease in cash and cash equivalents</b>	<b>\$ (192,593)</b>	<b>\$ (4,355,064)</b>	<b>4,162,471</b>	<b>-95.58%</b>

For the year ended June 30, 2021, cash provided by operating activities was \$0.5 million (2020 – cash used \$4.8 million) representing 109.86% improvement compared to the prior year, and cash used in operating activities before changes in non-cash working capital was \$2.6 million (2020 - \$5.4 million).

### Operating Activities

For the year ended June 30, 2021, operating activities were affected by the net change in non-cash working capital of \$3.1 million due to:

- A decrease in trade and other receivables of \$0.2 million due to the timing of sales deposit receipts,
- An increase in trade and other payables of \$2.6 million due to the timing of trade and interest payments and rapid growth of the Company, and
- A decrease in inventory of \$0.2 million due to optimization of inventory levels at Company's retail locations,
- A decrease in prepaid expenses of \$0.2 million due to amortization of prepaids during the year.

### Investing Activities

For the year ended June 30, 2021, cash provided by investing activities was \$0.9 million. The Company received \$1.5 million of cashflow upon completion of the Phivida Transaction. In 2021, Choom sold certain buildings which were classified as assets held for sale as at June 30, 2020, for the total proceeds of \$0.5 million.

\$1.0 million in cash was used to acquire property and equipment, intangible assets, and deposits for right-of-use leased assets. Of these funds, \$0.2 million in software development costs were spent on the development of the proprietary technology during the year and capitalized as internally generated intangible assets.

### Financing Activities

For the year ended June 30, 2021, cash used in financing activities was \$1.6 million. During the year, the company received \$1.95 million in proceeds from the non-brokered private placement and additional \$0.4 million as a result of the amended promissory note agreement.

The Company used \$2.5 million to make capital lease payments for its various retail store locations across Canada, \$1.2 million to pay interest accrued on notes payable and convertible debentures, \$0.2 million to repay short-term notes, and incurred \$0.1 million in share issue costs related to the non-brokered private placement and other share transactions during the year ended June 30, 2021.

## Commitments and Contractual Obligations

### Leases

To support the Company's business growth strategy, Choom has entered into arrangements for office and retail spaces. Minimum lease payments in relation to these commitments are payable as follows:

	2021	2020
Not later than 1 year	\$ 2,242,435	\$ 2,178,097
Later than 1 year and not later than 5 years	6,251,330	6,351,983
Later than 5 years and not later than 10 years	3,996,975	2,767,459
<b>Total lease commitments</b>	<b>\$ 12,490,740</b>	<b>\$ 11,297,539</b>

### Coastal Green

On July 23, 2019, a \$300,000 convertible debenture was issued to Choom by Coastal Green Holdings Ltd. (the "Coastal Green Note"). The Coastal Green Note carried interest at 6% per annum. On conversion of the debenture, the Company would acquire a 19.9% equity interest in Coastal Green. Coastal Green must complete certain expenditures prior to Choom advancing any funds under the Coastal Green Note. Since July 23, 2019, no advances have been made.

On July 10, 2020, the parties terminated the Coastal Green Note for consideration of a \$50,000 cash payment. This has been included in loss on write-off of notes receivable in the statement of loss and comprehensive loss for the year ended June 30, 2021.

## Related Party Transactions

Compensation for key management and personnel, including Company officers, directors, and private companies controlled by officers and directors, was as follows:

	2021	2020
Consulting fees	\$ 312,715	\$ 672,949
Administration	54,606	198,415
Wages	388,750	246,902
Share-based payments	741,256	732,516
<b>Total compensation</b>	<b>\$ 1,497,327</b>	<b>\$ 1,850,782</b>

Included in trade and other payables are amounts due to officers, directors, and related parties for fees and expenses of \$0.1 million (2020 – \$0.1 million). Additionally, included in amounts due to related parties as at June 30, 2021, was \$0.25 million in short-term borrowings. Subsequent to the year end, on July 13, 2021, the amount was paid in full.

On September 4, 2020, the Company granted an aggregate of 4,000,000 RSUs to officers and directors of the Company in accordance with the RSU Plan. The RSUs were measured at \$0.10, the share price at the time of the grant.

On February 4, 2021, a total of 1,000,000 stock options (2020 – 12,480,000) were issued to an officer of the Company with an exercise price of \$0.10 (2020 - \$0.26) per share and maturity date of February 4, 2026.

Subsequent to the year end, on August 9, 2021, the Company granted 8,125,000 stock options and 750,000 RSUs to related parties of the Company. The stock options have an exercise price of \$0.065 per share, are exercisable until August 9, 2026.

## Off Balance-Sheet Arrangements

The Company has no off balance-sheet arrangements.

## Outstanding Share Data

The Company's authorized capital is unlimited common shares without par value. At the date of this report, 456,573,142 common shares were issued and outstanding.

As at June 30, 2021, and as at the date of this report, the Company had the following options, warrants, RSU's and convertible securities outstanding which are exercisable for Common Shares:

June 30, 2021		
<b>Securities Outstanding</b>	<b>Number of Securities</b>	<b>Weighted Average Exercise/Conversion Price</b>
December 2019 Debenture	\$4.1 M principal amount	\$0.15
Aurora Debenture	\$20.0 M principal amount	\$0.65
Stock Options	11,464,400	\$0.18
Warrants	42,585,041	\$0.17
Restricted Share Units	4,000,000	N/A

  

October 21, 2021		
<b>Securities Outstanding</b>	<b>Number of Securities</b>	<b>Weighted Average Exercise/Conversion Price</b>
December 2021 Debenture	\$4.1 M principal amount	\$0.15
Aurora Debenture	\$6.0 M principal amount	\$0.10
Stock Options	26,589,400	\$0.12
Warrants	66,319,416	\$0.15
Restricted Share Units	4,750,000	N/A

## **Critical Accounting Estimates**

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The preparation of the consolidated financial statements in accordance with IFRS requires the Company to make judgments in applying its accounting policies, estimates and assumptions about the future. These judgments, estimates and assumptions affect the reported amounts of assets, liabilities, revenues and other items in net operating earnings or loss and the related disclosure of contingent assets and liabilities included in the consolidated financial statements. The Company evaluates its estimates on an ongoing basis. The estimates are based on historical experience and on various other assumptions that the Company believes are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. A summary of the more significant judgments and estimates made by management in the preparation of its financial information is provided in Note 4 of the Annual Financial Statements for the fiscal year ended June 30, 2021.

## **Risk and Uncertainties**

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The following are the specific and general risks that could affect the Company and its business. Additional risks and uncertainties not presently known to the Company or that the Company does not currently anticipate will be material, may impair the Company's business operations and its operating results and as a result could materially impact its business, results of operations, prospects and financial condition. Readers should additionally refer to the risk factors set out in the Company's most recent Annual Information Form, which, together with the risk factors below, do not necessarily constitute an exhaustive list.

### *Significant Accounting Judgments, Estimates and Assumptions*

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in loss/income in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Information about critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below:

### *Asset Acquisitions Versus Business Combinations*

Management had to apply judgment with respect to whether the acquisitions of Phivida, Niagara, and Clarity, were asset acquisitions or business combinations. The assessments required management to assess the inputs, processes, and outputs of the companies acquired at the time of acquisition. Acquisitions that do not meet the definition of a business combination are accounted for as asset acquisitions. Pursuant to the assessment, the Phivida Transaction and the Clarity Retail Acquisition were considered to be asset acquisitions and the Niagara Acquisition was considered to be a business combination.

### *Determination of Purchase Price Allocations*

Estimates are made in determining the fair value of assets and liabilities, including the valuation of separately identifiable intangibles acquired as part of an acquisition. Management exercises judgment in estimating the probability and timing of when cash flows are expected to be achieved, which is used as the basis for estimating fair value. Future performance results that differ from management's estimates could result in changes to liabilities recorded, which are recorded as they arise through profit or loss. The fair value of identified intangible assets is determined using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows of the acquiree. Valuations are highly dependent on the inputs used and assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Asset acquisitions do not give rise to goodwill.

### *Income Taxes*

Deferred tax assets, including those arising from tax loss carry-forwards, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realise the net deferred tax assets recorded at the reporting date could be impacted.

#### *Going Concern*

The assumption that the Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding the short and long-term operating budget, expected profitability, investment and financing activities and management's strategic planning. Should those judgments prove to be inaccurate, management's continued use of the going concern assumptions will be inappropriate.

#### *Convertible Debentures*

The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount factors, and the presence of any derivative financial instruments.

#### *Interest Rates*

The Company estimates a market interest rate in determining the fair value of the liability component of its convertible debentures, the fair value of the notes receivable and the fair value of the right-of-use assets and lease liabilities, fair value of assets acquired, and recoverable value of cash-generating units. The determination of the market interest rate is subjective and could materially affect these fair value estimates.

#### *Assets Held for Sale and Discontinued Operations*

The Company uses its judgment to determine whether an asset or disposal group is available for immediate sale in its present condition and whether its sale is highly probable and therefore should be classified as held for sale at the consolidated statements of financial position date. The Company also uses its judgment to determine whether a component of the Company that either has been disposed of or is classified as held for sale meets the criteria of a discontinued operation. The key area that involves management judgment in this determination is whether the component represents a separate major line of business or geographical area of operation.

#### *Valuation of Share-based Payments*

The Company uses the Black-Scholes option pricing model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

#### *Impairment of Property and Equipment, Intangible Assets and Goodwill*

At the end of each reporting period, the Company reviews the carrying amounts of its long-lived assets to determine whether there is any indication that the carrying amount is not recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When an individual asset does not generate independent cash flows, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Judgement is required in assessing whether certain factors would be considered an indicator of impairment. The Company considers both external and internal sources of information in assessing whether there are any indications that CGUs are impaired, or reversal of impairment is needed. Factors considered include current and forecast economic conditions, internal projections and the Company's market capitalization relative to its net asset carrying amount.

#### *Estimated Useful Lives and Depreciation/Amortization of Property and Equipment and Intangible Assets*

Depreciation/amortization of property and equipment and intangible assets is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

#### *Fair Value Measurements*

Certain of the Company's assets such as share purchase options, share purchase warrants, marketable securities, short-term investments, notes receivable, investment, and assets held for sale are measured at fair value. The estimated fair value of financial assets, by their very nature, are subject to measurement uncertainty. The Company estimates fair value using valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. Such valuation techniques include the market approach and the cost approach.

#### *Recoverability of Trade and Accounts Receivable, Deposits, Notes Receivable and Loan Receivable*

Estimates and judgments are inherent in the on-going assessment of the recoverability of trade and accounts receivable, deposits, notes receivable and loan receivable. The Company maintains an allowance for doubtful accounts to reflect expected credit losses. The Company is not able to predict changes in financial conditions of its customers and note holders and the Company's judgment related to the recoverability of trade and accounts receivable, notes and loan receivable may be material.

#### *Application of IFRS 16*

The Company applies judgment in determining whether a contract contains an identified asset, whether the Company has the right to control the asset, and the lease term. Lease term reflects the period over which the lease payments are reasonably certain including renewal options that the Company is reasonably certain to exercise. The determination of lease terms involves significant judgment with respect to assumptions of whether lease extensions will be utilized. Management makes assumptions about long-term industry outlook and store operating performances and growth which relate to future events and circumstances. Actual results could vary from these assumptions, and the differences could be material to the carrying value of the lease liabilities and right-of-use assets, for which the lease term is the basis for determining useful life.

#### *Provisions*

Provisions are recognized when the Company has a present obligation, legal or constructive as a result of a previous event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the obligation. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligations. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate of the expected future cash flows.

#### *Modification versus Extinguishment of Financial Liability*

Judgment is required in applying IAS 32 Financial Instruments: Presentation and IFRS 9 Financial Instruments: Recognition and Measurement to determine whether the amended terms of the convertible debentures are a substantial modification of an existing financial liability and whether it should be accounted for as an extinguishment of the original convertible debenture.

### **General Objectives, Policies and Processes**

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The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's management. The effectiveness of the

**CHOOM HOLDINGS INC.**

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processes put in place and the appropriateness of the objectives and policies it sets out are reviewed periodically by the Board of Directors if and when there are any changes or updates required. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

*Market Risk*

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market prices comprise two types of risk: interest rate risk and currency risk. Financial instruments affected by market risk include cash and cash equivalents, accounts receivable, marketable securities, investments, deposits, debt and lease obligations.

*Interest Rate Risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has cash and cash equivalent balances that bear interest at market rates. The Company's financial liabilities consist primarily of fixed rate debt. The Company's current policy is to invest excess cash in GICs or interest-bearing accounts of major Canadian chartered banks. The Company regularly monitors compliance to its cash management policy. Cash and GICs are subject to floating interest rates.

*Foreign Currency Risk*

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the Company's functional currency. The Company is exposed to minimal currency risk.

*Credit Risk*

Credit risk is the risk of financial loss to the Company if a customer or a counter party to a financial instrument fails to meet its contractual obligations.

The Company is primarily exposed to credit risk on its cash and cash equivalents, short-term investments, trade and accounts receivable, notes receivable, and refundable deposits. Exposure to credit risk related to financial institutions and cash deposits is limited through maintaining cash and equivalents and short-term investments with high-credit quality financial institutions and instruments.

The Company's notes receivables are subject to the expected credit loss model. Cash and cash equivalents and trade and accounts receivable are also subject to the impairment requirements of IFRS 9. Subsequent to the year ended June 30, 2021, the notes receivable were settled. The carrying value of these financial assets represents the maximum exposure to credit risk.

*Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company ensures that there is sufficient capital in order to meet short term business requirements after taking into account the Company's holdings of cash and cash equivalents.

The Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days. To achieve this objective, the Company would prepare annual capital expenditure budgets, which are regularly monitored and updated.

The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other payable, lease liabilities and option payment commitments. The Company's trade and other payables are predominantly due within 90 days. As at June 30, 2021, the amount of the Company's remaining contractual maturities for the convertible debentures, government assistance, and lease liabilities is approximately \$6,351,401 due within 12 months, and \$24,014,003 beyond 12 months. Subsequent to June 30, 2021, the Company completed a series of agreements with the existing debenture holders to restructure the debt.

### *Fair Value Hierarchy*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels in which to classify the inputs of valuation techniques used to measure fair values:

- Level 1 – quoted market prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly, such as prices, or indirectly (derived from prices).
- Level 3 – inputs are unobservable (supported by little or no market activity) such as non-corroborative indicative prices for a particular instrument provided by a third party.

The carrying values of cash and cash equivalents, short-term investments, trade and accounts receivable, notes receivable, trade and other payables, and notes payable approximate fair value due to their short-term nature. The fair value of long-term note receivables and convertible debentures are determined using Level 2 inputs.

The fair value of long-term note receivables and convertible debentures is determined using discounted cash flows based on the expected amounts and timing of the cash flows discounted using a market rate of interest adjusted for appropriate credit risk.

There were no transfers between fair value levels during the year.

### *Other Requirements*

Additional disclosure of the Company's material change reports, news release and other information can be obtained on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Risk Factors**

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The following are certain factors relating to Choom's business which prospective investors should carefully consider before deciding whether to invest in Choom. For the purpose of this section, any reference to Choom's business and operations includes that of Choom and its subsidiaries.

The following information is a summary only of certain risk factors and must be read in conjunction with the detailed information appearing elsewhere in this MD&A. These risks and uncertainties are not the only ones Choom is facing. Additional risk and uncertainties not presently known to Choom, or that Choom currently deems immaterial, may also impair Choom's operations. If any such risks actually occur, the business, financial condition, liquidity and results of Choom's operations could be materially adversely affected. Readers should additionally refer to the risk factors set out in the Company's most recent Annual Information Form, which, together with the risk factors below, do not necessarily constitute an exhaustive list.

### *Risks of Retail Store Operations*

Growth of the Company's retail network depends, among other things, on the Company's ability to secure desirable locations on terms acceptable to the Company. The Company faces competition for retail locations from its competitors and from operators of other businesses. The success of many retail locations is significantly influenced by location. There can be no assurance that the Company's retail locations will continue to be attractive, or that additional retail storefronts can be located and secured as demographic and traffic patterns change. Also, there is no guarantee that the property leases in respect of prospective retail locations can be established on terms acceptable to the Company, or at all, and that property leases in respect of existing retail locations will be renewed or that suitable alternative locations can be obtained. It is possible that the locations or economic conditions where retail locations are located could decline in the future, resulting in reduced sales in those locations. There is no assurance that future sites will produce the same results as past sites.

#### *Additional Financing*

Choom requires additional financing to meet its business objectives. Choom's ability to obtain additional financing, if and when required, will depend on investor demand, operating performance, the condition of the capital markets and other factors. If Choom raises additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences, or privileges senior to the rights of holders of the Common Shares, and existing holders of such shares may experience dilution.

#### *Tax Consequences*

The Clarity and Niagara acquisitions described herein, including but not limited to the acquisition, ownership and disposition of the Common Shares may have tax consequences in Canada, or elsewhere, depending on each particular existing or prospective shareholder's specific circumstances. Such tax consequences are not described herein, and disclosure is not intended to be, nor should it be construed to be, legal or tax advice to any particular shareholder. Existing and prospective shareholders should consult their own tax advisors with respect to any such tax considerations.

#### *Lease Risks*

The retail store locations are primarily located on property that is not owned by Choom or its subsidiaries. Such property is subject to a long-term lease and similar arrangements in which the underlying land is owned by a third party and leased to Choom's subsidiaries. Under the terms of a typical lease, the lessee must pay rent for the use of the land and is generally responsible for all costs and expenses associated with the building and improvements. Unless the lease term is extended, the land, together with all improvements made, will revert to the owner of the land upon the expiration of the lease term. In addition, an event of default by Choom's subsidiaries under the terms of the lease could also result in a loss of the property should the default not be rectified in a reasonable period of time. The reversion or loss of such properties could have a material adverse effect on Choom and its subsidiaries' operations and results.

#### *Holding Company Status*

Choom is largely a holding company and essentially all of its operating assets are the capital stock of its subsidiaries. As a result, investors in Choom are subject to the risks attributable to its subsidiaries. As a holding company, Choom conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenues. Consequently, Choom's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to Choom. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of Choom's subsidiaries, holders of indebtedness and trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to Choom.

#### *Limited Operating History*

Choom is subject to many of the risks common to early-stage enterprises, including limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that Choom will be successful in achieving a return on its shareholders' investments and the likelihood of success must be considered in light of its early stage of operations.

#### *Management of Growth*

Choom may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of Choom to manage growth effectively will require continued implementation and improvement of its operational and financial systems and to expand, train and manage its employee base. The inability of Choom to deal with growth may have a material adverse effect on its business, financial condition, results of operations and prospects.

#### *Reliance on Management*

The success of Choom is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements and incentive programs are customarily used as primary methods of retaining the services of key

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employees, these agreements and incentive programs cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on Choom's business, operating results or financial condition.

### *Litigation*

Choom may become party to litigation from time to time in the ordinary course of its business which could adversely affect its operations. Should any litigation in which Choom becomes involved be determined against it, such a decision may adversely affect Choom's ability to continue operating, adversely affect the market price of Common Shares and use significant resources. Even if Choom is involved in litigation and succeeds, litigation can redirect significant company resources. Litigation may also create a negative perception of Choom's brand.

Choom received a statement of claim in February 2020 brought by CFPM Management Services Ltd. The claim alleges a breach of contract by Choom pursuant to an agreement with CFPM. The claim was initiated in Alberta, which is the wrong forum under the CFPM agreement and Choom is seeking to have this claim stayed on that basis. Choom believes the claim is without merit.

Choom received a statement of claim on April 8, 2020 brought by Nissman Holdings Limited. The claim alleges Choom's wholly owned subsidiary 2660837 Ontario Ltd. ("2660837") did not enter into a lease agreement pursuant to an offer to lease regarding a commercial property located in Ottawa. Choom believes the claim is without merit and on September 23, 2020 Choom has filed its statement of defense.

### *Dividends*

Choom's policy is to retain earnings to finance the development and enhancement of its products and to otherwise reinvest in Choom's businesses. Therefore, Choom does not anticipate paying cash dividends on Common Shares in the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of the Board of Choom and will depend on, among other things, financial results, cash requirements, contractual restrictions and other factors that the Board of Choom may deem relevant. As a result, investors may not receive any return on investment in the Common Shares unless they sell them for a share price that is greater than that at which such investors purchased them.

### *Limited Market for Securities*

There can be no assurance that an active and liquid market for the Common Shares will be maintained and an investor may find it difficult to resell any securities of Choom.

The size of Choom's target market is difficult to quantify, and investors will be reliant on their own estimates on the accuracy of market data.

Because the cannabis industry is in a nascent stage with uncertain boundaries, there is a lack of information about comparable companies available for potential investors to review in deciding about whether to invest in Choom and, few, if any, established companies whose business model Choom can follow or upon whose success Choom can build. Accordingly, investors will have to rely on their own estimates in deciding about whether to invest in Choom. There can be no assurance that Choom's estimates are accurate or that the market size is sufficiently large for its business to grow as projected, which may negatively impact its financial results. Choom regularly purchases and follows market research.

### *Liquidity Risk*

Choom's ability to remain liquid over the long term depends on its ability to obtain additional financing. Choom has in place planning and budgeting processes to help determine the funds required to support normal operating requirements on an ongoing basis as well as its planned development and capital expenditures. Choom's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due.

### *Conflicts of Interest*

Choom may be subject to various potential conflicts of interest because some of their officers and directors may be engaged in a range of business activities. In addition, Choom's executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to either company. In some cases, Choom's executive officers and directors may have fiduciary obligations associated with these business interests that interfere

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with their ability to devote time to Choom's business and affairs and that could adversely affect Choom's operations. These business interests could require significant time and attention of Choom's executive officers and directors.

In addition, Choom may also become involved in other transactions which conflict with the interests of its directors and the officers who may from time-to-time deal with persons, firms, institutions or Companies with which Choom may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of Choom. In addition, from time to time, these persons may be competing with Choom for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, if such a conflict of interest arises at a meeting of Choom's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of Choom are required to act honestly, in good faith and in the best interests of their respective companies.

### *Regulatory Risks*

The Company's business is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the operation of its business. The cannabis industry is a new industry, and the Company cannot predict the impact of the changes to the compliance regime. Similarly, the Company cannot predict the time required to secure all appropriate regulatory approvals for its business, or the extent of documentation that may be required by governmental authorities. The impact of cannabis regulatory compliance regime, any delays in obtaining, or failure to obtain regulatory approvals may significantly delay or impact the development of markets, products, and sales initiatives and could have a material adverse effect on the business, financial condition, and operating results of the Company.

The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties, or in restrictions on the Company's operations. In addition, changes in regulations, more vigorous enforcement thereof, or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs, or give rise to material liabilities, which could have a material adverse effect on the business, financial condition, and operating results of the Company.

Changes in government levies, including taxes, could reduce Choom's earnings and could make future capital investments or Choom's operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

### *Government Regulations*

The Company's operations are subject to governmental laws or regulations promulgated by various legislatures or governmental agencies from time to time. A breach of such legislation may result in imposition of fines and penalties. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations. The Company intends to fully comply with all governmental laws and regulations. There can be no assurance, however, that all permits which the Company may require for its operations and activities will be obtainable on reasonable terms or on a timely basis or such laws and regulations would not have an adverse effect on the Company's business.

### *Competition*

The impact of any developments in cannabis legislation and regulation may be negative for Choom and could result in increased levels of competition in its existing medical market and/or the entry of new competitors in the retail cannabis market in which Choom will operate.

There is potential that Choom will face intense competition from other companies, some of which can be expected to have more financial resources, industry, manufacturing and marketing experience than Choom. Additionally, there is potential that the industry will undergo consolidation, creating larger companies that may have increased geographic scope and other economies of scale. Increased competition by larger, better-financed competitors with geographic or other structural advantages could materially and adversely affect the business, financial condition and results of operations of Choom.

Because of the early stage of the industry in which Choom operates, Choom expects to face additional competition from new entrants. To remain competitive, Choom will require a continued level of investment in research and development, marketing, sales and client support. Choom may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of Choom.

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### *Operating Risk and Insurance Coverage*

Choom has insurance to protect its assets, operations and employees. While Choom believes its insurance coverage addresses all material risks to which they are exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which Choom is exposed. However, Choom may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Losses from these events may cause Choom to incur significant costs that could have a material adverse effect upon Choom's financial performance and results of operations.

Choom could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims against Choom. Choom is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to Choom that violates: (i) government regulations; or (ii) laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for Choom to identify and deter misconduct by its employees and other third parties, and the precautions taken by Choom to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting Choom from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against Choom, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on Choom's business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of Choom's operations, any of which could have a material adverse effect on Choom's business, financial condition and results of operations.

Choom will be reliant on information technology systems and may be subject to damaging cyber-attacks. Choom has entered into agreements with third parties for hardware, software, telecommunications and other information technology ("IT") services in connection with its operations. Choom's operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. Choom's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact Choom's reputation and results of operations.

Choom has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that Choom will not incur such losses in the future. Choom's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, Choom may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

### *Forecast Uncertainties*

The Company will need to rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the retail cannabis industry in Canada. A failure in the demand for its business to materialize as a result of competition, technological change or other factors could have a material adverse effect on the proposed investments, business, results of operations, and financial condition of the Company.

### *Reputational Risk*

Damage to the Company's reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. The increased usage of social media and other web-based tools used to generate, publish, and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views in regard to the Company and its activities, whether true or not. Although the Company believes that it operates in a manner that is respectful to all shareholders and that it takes care in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others.

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Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations, and an impediment to the Company's overall ability to advance its projects, thereby having a material adverse impact on financial performance, financial condition, cash flows, and growth prospects.

*Cannabis Prices*

The price of Choom's shares and its financial results may be significantly and adversely affected by a decline in the price of cannabis. The Company's profitability may be directly related to the price of cannabis. Choom's operating income may be sensitive to changes in the price of cannabis and the overall condition of the cannabis industry as its operating income will be derived from the sale of cannabis.