

**MEDIPHARM LABS CORP.
CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
FOR THE THREE MONTHS ENDED
MARCH 31, 2021 and 2020**

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STATEMENTS (Unaudited)
AT MARCH 31, 2021**

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MEDIPHARM LABS CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION As at March 31, 2021 and December 31, 2020

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C\$'000s) except per share and exercise price amounts.)

	Notes	March 31, 2021	December 31, 2020
ASSETS			
Current assets:			
Cash and cash equivalents		42,124	19,913
Trade and other receivables	5	27,773	29,645
Other assets		1,007	3,230
Inventories	6	24,153	22,139
Assets held for sale		2,075	2,102
Current tax receivable		4,492	4,492
Total current assets		101,624	81,521
Non-current assets:			
Property, plant and equipment	7	33,121	34,144
Intangibles	7.2	244	228
Non-current deposits		2,148	2,147
Other financial assets		191	191
Total non-current assets		35,704	36,710
Total assets		137,328	118,231

The above condensed interim consolidated financial statements should be read in conjunction with the accompanying notes.

MEDIPHARM LABS CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION As at March 31, 2021 and December 31, 2020

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C\$'000s) except per share and exercise price amounts.)

	Notes	March 31, 2021	December 31, 2020
LIABILITIES AND EQUITY			
Current liabilities:			
Trade and other payables	11	12,227	14,793
Current employee benefit obligations		1,406	1,455
Due to related party	4.2	300	300
Loans and borrowings	8	3,400	7,697
Conversion option derivative liability	9.1	573	-
Total current liabilities		17,906	24,245
Non-current liabilities:			
Due to related party	4.2	300	300
Loans and borrowings	8	148	10,761
Warrant derivative liability	9.2	218	357
Conversion option derivative liability	9.1	-	4,154
Total non-current liabilities		666	15,572
Total liabilities		18,572	39,817
Equity:			
Common shares	12	186,434	138,508
Reserves		20,826	14,851
Accumulated other comprehensive (loss)		(95)	(403)
Accumulated deficit		(88,409)	(74,542)
Total equity		118,756	78,414
Total liabilities and equity		137,328	118,231
Commitments and contingencies	10		
Subsequent events	18		
Approved on behalf of the Board of Directors of MediPharm Labs Corp.:			
<u>/s/ "Patrick McCutcheon"</u>		<u>/s/ "Keith Strachan"</u>	
Patrick McCutcheon		Keith Strachan	
Director		Director	

The above condensed interim consolidated financial statements should be read in conjunction with the accompanying notes.

MEDIPHARM LABS CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS

For the three months ended March 31, 2021 and 2020

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C\$'000s) except per share and exercise price amounts.)

	Notes	Three months ended March 31, 2021	March 31, 2020
Revenue	13	5,495	11,089
Cost of sales		(6,175)	(21,971)
Gross profit		(680)	(10,882)
General administrative expenses		(4,001)	(5,500)
Marketing and selling expenses		(1,278)	(799)
Research and development expenses		(352)	(1,044)
Share based compensation expense		(880)	(2,759)
Other operating expenses		(724)	(951)
Operating loss		(7,915)	(21,935)
Finance income		57	136
Finance expense	8.2	(9,729)	(230)
Unrealized gain in revaluation of derivative liabilities	9	3,720	-
Loss before taxation		(13,867)	(22,029)
Taxation recovery		-	4,666
Net loss for the period		(13,867)	(17,363)
Attributable to			
- Non-controlling interest		-	(275)
- Equity holders of the Parent		(13,867)	(17,088)
Basic and diluted loss per share		(0.07)	(0.13)

The above condensed interim consolidated financial statements should be read in conjunction with the accompanying notes.

MEDIPHARM LABS CORP.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS****For the three months ended March 31, 2021 and 2020**

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C\$'000s) except per share and exercise price amounts.)

	Three months ended	
	March 31, 2021	March 31, 2020
Net loss for the period	(13,867)	(17,363)
Other comprehensive income/(loss)		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	308	115
Total comprehensive loss for the period	(13,559)	(17,248)
Total comprehensive loss attributable to		
- Non-controlling interest	-	(252)
- Equity holders of the Parent	(13,559)	(16,996)

The above condensed interim consolidated financial statements should be read in conjunction with the accompanying notes.

MEDIPHARM LABS CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three months ended March 31, 2021 and 2020

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C\$'000s) except per share and exercise price amounts.)

	<u>Common Shares</u>		<u>Reserves</u>		Warrant Reserve	Accumulated other comprehensive	Accumulated deficit	Non-controlling interest	Total
	Number (post stock split)	Share capital	Share-based payments	Non-controlling interest acquisition reserve					
Balance at January 1, 2020	131,525,068	122,807	16,960	-	-	(31)	(8,189)	(320)	131,227
Share issuance cost	-	(687)	-	-	-	-	-	-	(687)
Shares issued on exercise of stock options	1,800	6	(4)	-	-	-	-	-	2
Shares issued on exercise of warrants	3,196,429	2,040	-	-	-	-	-	-	2,040
Share based compensation	-	-	2,759	-	-	-	-	-	2,759
Foreign exchange translation	-	-	-	-	-	92	-	23	115
Net loss for the year	-	-	-	-	-	-	(17,088)	(275)	(17,363)
Balance at March 31, 2020	134,723,297	124,166	19,715	-	-	61	(25,277)	(572)	118,093
Balance at January 1, 2021	155,550,487	138,508	19,174	(4,323)	-	(403)	(74,542)	-	78,414
Share conversion of convertible loan (Note 9.2)	44,897,272	21,914	-	-	-	-	-	-	21,914
Shares issued under bought deal	57,500,000	27,888	-	-	5,462	-	-	-	33,350
Share issuance cost	-	(1,876)	-	-	(367)	-	-	-	(2,243)
Shares issued on exercise of stock options	-	-	-	-	-	-	-	-	-
Shares issued on exercise of warrants	-	-	-	-	-	-	-	-	-
Share based compensation	-	-	880	-	-	-	-	-	880
Foreign exchange translation	-	-	-	-	-	308	-	-	308
Net loss for the year	-	-	-	-	-	-	(13,867)	-	(13,867)
Balance at March 31, 2021	257,947,759	186,434	20,054	(4,323)	5,095	(95)	(88,409)	-	118,756

The above condensed interim consolidated financial statements should be read in conjunction with the accompanying notes.

MEDIPHARM LABS CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2021 and 2020

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C\$'000s) except per share and exercise price amounts.)

		Three months ended	
	Notes	March 31, 2021	March 31, 2020
Cash flows from operating activities:			
Net loss for the period		(13,867)	(17,363)
Adjustments for:			
Write down of inventory to net realizable value		-	12,811
Depreciation and Amortization	7	876	1,126
Loss on sale of fixed asset		60	
Finance income and finance expense		9,672	94
Unrealized gain in revaluation of derivative liabilities	9	(3,720)	
Unrealized foreign exchange difference		632	115
Taxation recovery		-	(4,666)
Share based compensation		880	2,759
Cash flows from operating activities before changes in working capital items			
		(5,467)	(5,124)
Change in trade and other receivables	5	1,872	2,704
Change in inventories	6	(2,014)	(6,418)
Change in other current assets		2,250	(9)
Change in trade and other payables	11	(2,567)	(6,757)
Change in other current liabilities		(49)	210
Net cash (used in)/provided by operating activities		(5,975)	(15,394)
Cash flows from investing activities:			
Capital expenditures	7	(278)	(3,490)
Acquisition of financial assets		-	(2)
Proceeds from sale of fixed assets		122	-
Net cash used in investing activities		(156)	(3,492)
Cash flows from financing activities:			
Repayment of loans and borrowings	8.2	(2,630)	(242)
Proceeds from issuance of shares and warrants, net of costs		31,107	-
Exercise of warrants		-	2,040
Exercise of stock options		-	2
Interest and finance fee paid		-	(212)
Interest received		57	136
Payment of lease liabilities		(95)	(99)
Net cash provided by financing activities		28,439	1,625
Effects of exchange rate changes on cash and cash equivalents		(97)	-
(Decrease)/increase in cash and cash equivalents		22,211	(17,261)
Cash and cash equivalents at the beginning of the period		19,913	38,627
Cash and cash equivalents at the end of the period		42,124	21,366

The above condensed interim consolidated financial statements should be read in conjunction with the accompanying notes.

MEDIPHARM LABS CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2021

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C\$'000s) except per share and exercise price amounts.)

NOTE 1 - NATURE OF OPERATIONS

MediPharm Labs Corp. (the “Company”) was incorporated under the Business Corporations Act (Ontario) on January 23, 2017 as “POCML 4 Inc.” pursuant to the policies of the TSX Venture Exchange. Subsequent to a reverse takeover transaction, the common shares in the capital of the Company (the “Common Shares”) began trading on the TSX Venture Exchange on October 4, 2018 under the trading symbol “LABS”. On July 29, 2019, the Common Shares were voluntarily delisted from the TSX Venture Exchange and began trading on the Toronto Stock Exchange under the symbol “LABS”.

The Group produces purified, pharmaceutical-like cannabis extracts and related derivative products and its operating subsidiaries are the holders of a standard processing licence and a research licence under the *Cannabis Act* (Canada) (the “**Canadian Licences**”), and a manufacturing licence under the *Australian Narcotics Drug Act 1967* authorizing the manufacture and supply of certain limited cannabis products (the “**Australian Licence**”). The Canadian Licences allow for the sale and distribution of cannabis oil, cannabis extracts, cannabis edibles, cannabis topicals, and derivatives to authorized classes of purchasers, as well as controlled human administration trials for sensory testing of cannabis extracts and derivative products. The Australian Licence allows for the manufacturing of extracts and tinctures of cannabis and cannabis resin only for the purpose of a clinical trial or prescribed as medical cannabis products.

The head office and the registered and records office of the Company is located at 151 John St. Barrie, Ontario, L4N 2L1.

These condensed interim consolidated financial statements of the Company as at and for the three months ended March 31, 2021 (“Condensed Interim Consolidated Financial Statements”), include the financial statement of the Company and its subsidiaries (together referred to as the “Group”).

NOTE 2 - BASIS OF PREPARATION OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation

(i) Statement of compliance

These Condensed Interim Consolidated Financial Statements for the three-month period ended March 31, 2021 have been prepared in accordance with International Accounting Standards IAS 34, *Interim Financial Reporting* following the same accounting policies and methods of application as those disclosed in the Group’s annual consolidated financial statements for the year ended 31 December 2020 with the exception of new accounting policies that were adopted in January 1, 2021 as described in Note 2.2.

The Condensed Interim Consolidated Financial Statements do not include all the notes of the type normally included in an annual financial statement. Accordingly, these Condensed Interim Consolidated Financial Statements are to be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2020, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

On May 17, 2021, the Board of Directors of the Company approved these Condensed Interim Consolidated Financial Statements.

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2021

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C\$'000s) except per share and exercise price amounts.)

NOTE 2 - BASIS OF PREPARATION OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.2 New accounting pronouncements adopted in 2021

The Group adopted the following new standards and amendments to standards that were effective January 1, 2021. These changes did not have a material impact on the Company's Condensed Interim Consolidated Financial Statements and are not expected to have a material effect on the Group's financial statements in the future.

- Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
- COVID - 19 Related Rent Concessions (Amendment to IFRS 16)

2.3 Impact of standards, amendments and interpretations issued but not yet effective

The following new accounting standards and amendments will become effective in a future year and are not expected to have a significant impact on these Consolidated Financial Statements.

Standards and amendments effective from January 1, 2022

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Property, Plant and Equipment “Proceeds before Intended US – Amendments to IAS 16
- Annual Improvements to IFRS Standards 2018 -2020

Standards and amendments effective from January 1, 2023

- Classification of Liabilities as Current or Non – Current – Amendments to IAS 1
- Definition of Accounting Estimate – Amendments to IAS 8
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

2.4 Use of estimates and judgements

The preparation of these Condensed Interim Consolidated Financial Statements requires the use of accounting estimates and exercise of judgement in applying the Group's accounting policies. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation, uncertainty, and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in these Condensed Interim Consolidated Financial Statements are described below:

(i) Expected loss rate

The expected credit loss for trade receivables and contract assets are based on assumptions about risk of default. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Group's past history and existing market conditions at the end of each reporting period.

MEDIPHARM LABS CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2021

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C\$'000s) except per share and exercise price amounts.)

NOTE 2 - BASIS OF PREPARATION OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(ii) Fair value of share-based warrants and stock options

The Group issues share-based warrants and stock options. In estimating the fair value of the share-based warrants and stock options, the Group uses the Black Scholes option pricing model with inputs such as expected life, expected forfeiture rate and volatility of the stock option, based on their best estimate. The assumptions used for estimating fair value for share based payment transactions with respect to stock options are disclosed in Note 12.2.

(iii) Impairment assessment and estimated useful lives of property, plant and equipment

The useful lives of the Group's property, plant and equipment are estimated by management at the time the asset is acquired and regularly reviewed for appropriateness. The Group estimated the useful lives of its assets in terms of the assets' expected utility to the Group. This estimate is based on the experience of the Group with similar assets. In determining the useful life of an asset, the Group also assesses technical and/or commercial obsolescence arising on changes or improvements from a change in the market.

Judgement is required to identify the cash generating units ("CGU") within the Group for purposes of testing non-financial assets for impairment. The assessment of any impairment of the Group's property, plant and equipment is dependent upon estimate of the recoverable amounts of these assets. The process to calculate the recoverable amount of each cash generating unit requires use of valuation methods such as a market approach or a discounted cash flow method which uses assumptions of key variables including estimated cash flows, discount rates and terminal value growth rates. The Group applies judgment when determining which methods are most appropriate to estimate that value in use and fair value less costs of disposal for each CGU.

(iv) Valuation of inventories

The Group's inventories are carried at the lower of cost or net realizable value. The determination of net realizable value might involve significant management judgement and estimates, including the estimation of future sales forecasts and future selling prices.

(v) Fair value of derivative liabilities

The Group applies judgment in determining the method to determine the allocation of proceeds from issuance to debt to its various components, such as embedded derivatives, upon initial recognition. In estimating the fair value of the embedded derivatives, the Group uses the Black Scholes option pricing model with inputs such as share price, expected life and volatility based on best estimate. The assumptions used for estimating fair value for embedded derivatives are disclosed in Note 9.

MEDIPHARM LABS CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2021

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C\$'000s) except per share and exercise price amounts.)

NOTE 2 - BASIS OF PREPARATION OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(vi) COVID-19 estimation uncertainty

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, did not materially impact the Group's operations during the three-month period ended March 31, 2021. The production and sale of cannabis have been recognized as essential services in the jurisdictions in which the Group makes sales and executes production. Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on the Group's business, consolidated financial position and consolidated operating results in the future. Additionally, it is possible that estimates in these Condensed Interim Consolidated Financial Statements will change in the near term as a result of COVID-19. The Group is closely monitoring the impact of the pandemic on all aspects of its business.

NOTE 3 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	March 31, 2021	December 31, 2020
Financial assets at amortized cost		
Cash and cash equivalents	42,124	19,913
Trade receivables (Note 5)	27,773	29,645
Financial assets at fair value through other comprehensive income (FVOCI) (1)	191	191
Financial liabilities at amortized cost		
Trade and other payables (Note 11)	12,227	14,793
Loans and borrowings (Note 8)	3,548	18,458
Due to related parties	600	600
Financial liabilities at fair value through profit/loss		
Conversion option derivative liability	573	4,154
Warrant derivative liability	218	357

(1) The Group's financial assets at FVOCI are all equity instruments which are unlisted securities.

NOTE 4 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES

4.1 Key management personnel compensation

The Group has determined that key management personnel consist of directors and officers in the Group. The remuneration to directors and officers during the three-month period ended March 31, 2021 was \$303 (March 31, 2020: \$569) and is included in general and administrative expenses.

During the three-month period ended March 31, 2021, the Group issued 750,000 options at an average exercise price of \$0.60 per share (March 31, 2020: nil options at \$nil per share) and 698,968 RSUs (March 31, 2020: nil RSUs) to its key management personnel and recognized total share-based compensation expense of \$193 (March 31, 2020: \$890). During the three-month period ended

MEDIPHARM LABS CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2021

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C\$'000s) except per share and exercise price amounts.)

NOTE 4 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

March 31, 2021, the Group's key management personnel exercised nil options for gross proceeds of \$nil (March 31, 2020: nil options for gross proceeds of \$nil).

4.2 Transactions and balances with key management personnel

Several key management personnel hold positions in other companies that result in them having control or significant influence over these companies. The Company had no transactions with these companies during the three-month period ended March 31, 2021.

On October 8, 2020, the Group acquired 20% ownership interest in MediPharm Labs Australia Pty. Ltd. resulting in the Group owning 100% of the entity. As at March 31, 2021, the Group has \$600 (December 31, 2020: \$600) of unpaid consideration for this acquisition which is recognized as due to related party.

As at March 31, 2021, the Group has \$724 (December 31, 2020: \$657) due to key management personnel and entities over which they have control or significant influence.

For the three-month period ended March 31, 2021, the Group has incurred \$nil (March 31, 2020: \$6) rent expenses as a result of transactions with the key management personnel's related entities.

NOTE 5 – TRADE AND OTHER RECEIVABLES

	March 31, 2021	December 31, 2020
Trade receivables	27,070	27,193
Other receivable	-	1,743
Contract assets	703	530
HST/GST receivable	-	179
	27,773	29,645

The Group has trade receivables, net of expected credit losses of \$8,531 that are over 365 days overdue and all due from one customer. The Group initiated legal proceedings to collect this trade receivable (Note 10) and has not recognized any expected credit loss for this trade receivable. Credit risk and aging analysis related to trade receivables are included in Note 15.1.

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on tolling process. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

NOTE 6 – INVENTORIES

	March 31, 2021	December 31, 2020
Raw materials	8,186	8,844
Finished goods	13,053	11,835
Consumables and packages	2,914	1,460
	24,153	22,139

MEDIPHARM LABS CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2021

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C\$'000s) except per share and exercise price amounts.)

NOTE 6 – INVENTORIES (Continued)

Raw material inventory is comprised of dried cannabis flower and trim acquired from third party licensed cannabis cultivators. Finished goods inventory is comprised of bulk and formulated concentrate, formulated oil, distillate product and vapes. Consumables include MCT oil used in the production of formulated oil and packaging and product hardware materials.

For the three months ended March 31, 2021, the Group recognized a write down of the carrying value of its raw materials, work in progress and finished goods of \$nil (March 31, 2020: \$12,811), which is recorded in the cost of sales.

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	January 1, 2021	Additions	Disposals	Transfers (2)	Exchange difference	March 31, 2021
Cost						
Land	1,886	-	-	-	(10)	1,876
Building and building improvements	25,490	10	-	-	(139)	25,361
Leasehold improvements	209	-	-	-	-	209
Computers	1,780	7	-	1	(11)	1,777
Office equipment	250	-	-	-	(1)	249
Machinery and plant equipment	15,599	23	(196)	412	(45)	15,793
Motor vehicles	70	-	-	-	-	70
Security equipment	743	-	-	-	-	743
Construction in progress (1)	3,255	215	(1)	(413)	(23)	3,033
Right-of-use assets (Note 8.1)	1,091	-	-	-	-	1,091
	50,373	255	(197)	-	(229)	50,202
Less: Accumulated depreciation						
Building and building improvements	4,761	270	-	-	(2)	5,029
Leasehold improvements	26	5	-	-	-	31
Computers	888	129	-	-	(1)	1,016
Office equipment	81	12	-	-	-	93
Machinery and plant equipment	9,373	333	(15)	-	-	9,691
Motor vehicles	46	2	-	-	-	48
Security equipment	319	33	-	-	-	352
Construction in progress	186	-	-	-	-	186
Right-of-use assets	549	86	-	-	-	635
	16,229	870	(15)	-	(3)	17,081
Net book value	34,144					33,121

- (1) Construction in progress consists of the machinery and equipment in the installation process and renovation and expansion of building. Since these assets are not ready for their intended use, no depreciation was recognized for these assets during the period.

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2021

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C\$'000s) except per share and exercise price amounts.)

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

7.1 Right-of-use assets

The Group leases assets including land, building, equipment, motor vehicles and IT equipment. The details of the asset types where the Group is lessee are listed below. Total amount of leases with a term of 12 months or less (“short-term leases”) expensed to the consolidated statements of loss for three months ending March 31, 2021 is \$66 (March 31, 2020: \$93).

	January 1, 2021	Additions		March 31, 2021
Cost				
Right-of-use assets				
-Land	99	-		99
-Building	757	-		757
-Equipment	167	-		167
-Vehicle	31	-		31
-IT equipment	37	-		37
	1,091	-		1,091
Less: Accumulated depreciation				
Right-of-use assets				
-Land	75	7		82
-Building	384	69		453
-Equipment	50	8		58
-Motor vehicle	26	-		26
-IT equipment	14	2		16
	549	86		635
Net book value	542			456

7.2 Intangible assets

	January 1, 2021	Additions	Impairment	March 31, 2021
Cost				
Brand	250	22	-	272
Less: Accumulated amortization and impairment				
Brand	22	6	-	28
Net book value	228			244

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2021

(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C\$'000s) except per share and exercise price amounts.)

NOTE 8 – LOANS AND BORROWINGS

	March 31, 2021	December 31, 2020
Current liabilities		
Convertible loan (Note 8.2)	3,102	7,375
Lease liability (Note 8.1)	298	322
	3,400	7,697
Non-current liabilities		
Convertible loan (Note 8.2)	-	10,542
Lease liability (Note 8.1)	148	219
	148	10,761

8.1 Lease liability

The Group has various lease agreements with maturities of 1 to 5 years. An incremental borrowing rate of 3.1% is used to calculate the net present value of the lease liability. The maturity analysis of lease liability based on contractual undiscounted cash flow is included in Note 15.2.

8.2 Convertible debt

As at January 1, 2021	17,917
Issued at amortized, net issuance cost	-
Installment payment	(2,630)
Accelerated conversion	(21,914)
Accretion and unpaid interest	9,729
As at March 31, 2021	3,102

During the three-month period ended March 31, 2021, the Group issued 44,897,272 Common shares in connection with accelerated conversion requests from the creditors which amounted to the repayment of \$21,914 principal amount of the Convertible Debt.

NOTE 9 – DERIVATIVE LIABILITIES

9.1 Conversion option derivative liability

As at January 1, 2021	4,154
Gain in revaluation	(3,581)
As at March 31, 2021	573

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NOTE 9 – DERIVATIVE LIABILITIES (Continued)

As at March 31, 2021, the conversion option derivative liability was revalued and a revaluation gain of \$3,581 was recorded in the condensed interim consolidated statement of loss for the three month period ended March 31, 2021.

The fair value of the conversion option derivative liability was calculated using Black Scholes option pricing model which was determined based on company specific inputs and valuation techniques that utilized both observable and unobservable market inputs. Therefore, the estimate used for fair value of conversion option derivative liability was categorized as Level 3 measurement input (Note 16). Expected number of Common Shares which would be subject to optional conversion and volatility estimate are the significant inputs. As of March 31, 2021, with all other variables held constant, the impact of a 5% change in the expected number of Common Shares or the volatility on the fair value of conversion option derivative liability is insignificant.

9.2 Warrant derivative liability

As at January 1, 2021	357
Gain in revaluation	(139)

As at March 31, 2021 **218**

The warrant derivative liability was revalued as of March 31, 2021 using the Black-Scholes option pricing model using the following input data: stock price of \$0.45 per share; expected life of 2.52 years; 68.25% volatility based upon historical prices and risk-free interest rate of 0.23%. The revaluation gain of the warrant derivative liability for the three-month period ended March 31, 2021 was \$139 which was recorded in the condensed interim consolidated statement of loss.

The fair value was determined based on company specific inputs and valuation techniques that utilized both observable and unobservable market inputs. Therefore, the estimate used for fair value of warrant derivative liability was categorized as Level 3 measurement input (Note 16). Volatility estimate is the significant input. As of March 31, 2021, with all other variables held constant, a 5% increase/(decrease) in the volatility would have increased/(decreased) the fair value of warrant derivative liability by \$48 and increased/(decreased) net loss by \$48.

NOTE 10 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

On January 24, 2020, MPL filed a statement of claim (“Claim”) in the Ontario Superior Court of Justice against one of its long-term customers of cannabis concentrates. The Claim relates to, among other things, the payment of outstanding amounts due to MPL for products shipped to and received by the customer and deposits owed to MPL for committed amounts not yet shipped. The outstanding amounts on the date of the claim was approximately \$9,800, of which only \$8,531 was recognized by the Group as trade receivables relating to performance obligations satisfied in a previous year; the remaining \$1,269 has not been recognized by the Group as revenue or trade receivables as it relates to non-refundable deposits payable by the customer. On February 26, 2020, the defendant in the Claim filed a statement of defense and counterclaim for \$35,000. The Group is proceeding with a motion for summary judgment, which is anticipated to take place at an unspecified date within the three-months period ending September 30, 2021.

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NOTE 10 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS (Continued)

The Group has not recognized a liability in connection with the counterclaim as the Group believes it is more likely than not that a present obligation does not exist that will result in a payment to be made by the Group for this claim. The Group also has not recognized an expected credit loss against the \$8,531 trade receivable subject to this claim.

NOTE 11 – TRADE AND OTHER PAYABLES

	March 31, 2021	December 31, 2020
Accrued Liabilities	6,979	7,792
Payable to suppliers	2,646	5,549
Contract Liabilities	2,057	1,003
Refund liabilities (1)	87	84
Other	458	365
	12,227	14,793

Payable to suppliers are amounts due to vendors for unpaid goods and services received arising in the ordinary course of business. Other includes the payable to financial institutions related to credit card payables and excise tax payables. Trade payables are all short term in nature with due dates less than 60 days. Accrued liabilities mainly result from products and services received from third parties related to ordinary course of business for which invoices have not been received as of the reporting date.

(1) Refund liabilities of \$87 (December 31, 2020: \$84) are recognized for the products expected to be returned to the Group within a given period. The Group also recognized the right to the returned products of \$98 (December 31, 2020: \$101) under other current assets for the products expected to be returned which is measured by reference to the former carrying amount of the goods. The costs to recover the products are not material.

NOTE 12 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS

12.1 Common shares issued

The Group is authorized to issue an unlimited number of no-par value common shares. Holders of the common shares are entitled to one vote per share at general meetings of the Group.

On March 5, 2021, the Group closed a bought deal offering of 57,500,000 units of the Company at a price of \$0.58 per unit for aggregate gross proceeds of \$33,350. Each unit of the Company is comprised of one common share in the capital of the Group (each, a “Common Share”) and one Common Share purchase warrant (each, a “Warrant”). Each Warrant shall be exercisable to acquire one Common Share at an exercise price of \$0.70 per Common Share for a period of 24 months from the closing date of the bought deal offering. The Group incurred transaction costs of \$2,243 (net of tax) in connection with the bought deal offering which were recorded as a reduction to share capital and warrants reserve. The gross proceeds and transactions costs of the bought deal were allocated to share capital and warrants reserve.

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NOTE 12 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

The Common Shares were valued using the market price at the date of transaction and the fair value of Warrants was calculated using the residual balance method.

For the three month period ended March 31, 2021, nil stock options (December 31, 2020: 1,800 stock options) and nil warrants (December 31, 2020: 8,148,624 warrants) were exercised into common shares for proceeds of \$nil (December 31, 2020: \$3) and \$nil (December 31, 2020: \$5,307), respectively.

12.2 Stock options / Share based compensation

On January 28, 2021 the Group issued options to purchase up to 630,000 Common Shares with an exercise price of \$0.63 per share for a five-year term expiring January 28, 2026. The options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$277 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 91.96%, expected life of 5 years and a risk-free rate of 0.33%.

On March 15, 2021, the Group issued 1,090,000 options to purchase up to 1,090,000 Common shares with an exercise price of \$ 0.485 per share for a five-year term expiring March 15, 2026. The options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$420 and was estimated using Black Scholes option pricing model, with the following assumptions: estimated volatility of 94.38%, expected life of 5 years and risk-free rate of 0.79%.

The expected life of the stock options is based on historical data of similar companies (since the Group does not have sufficient historical data) and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

	Number of options	2021 Weighted average exercise price \$
As at January 1	11,197,210	2.59
Granted during the period	1,720,000	0.54
Exercised during the period	-	-
Forfeited/cancelled during the period	2,202,560	2.78
Outstanding at March 31	10,714,650	2.21
Exercisable at March 31	9,168,900	2.34
Weighted average remaining contractual life		3.08 years

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited - All dollar amounts disclosed are expressed in Canadian dollars (C\$'000s) except per share and exercise price amounts.)

NOTE 12 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

The range of exercise prices for options outstanding as at March 31, is as below:

Exercise price range	Weighted average remaining contractual life 2021	Number of outstanding options 2021
Less than and equal to \$1.00	4.72	2,336,800
Between \$1.00 and \$3.00	2.97	6,582,050
Between \$3.00 and \$5.00	3.34	539,000
More than and equal to \$5.00	3.37	1,256,800
		10,714,650

On March 15, 2021, the Group issued 3,028,942 restricted stock units (“RSUs”) under the Group’s Omnibus Equity Incentive Plan, which was approved by shareholders on August 5, 2020. The total fair value of the RSUs issued was \$1,605 and was calculated using the share price of \$0.53 on the grant date. The RSUs vest 20% on issuance and 20% every six months thereafter. The Group has the option of settling the RSUs in Common Shares or cash.

	2021 Number of RSUs
As at January 1	-
Granted during the period	3,028,942
Exercised during the period	-
Forfeited/cancelled during the period	-
Outstanding at March 31	3,028,942
Exercisable at March 31	605,788
Weighted average remaining contractual life	4.96 years

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NOTE 13 – REVENUE

The revenue from contracts with customers is disaggregated by geographical market, revenue streams and timing of revenue recognition as follows.

	Three months ended	
	March 31 2021	March 31 2020
Domestic sales	3,407	8,417
International sales		
Australia	717	2,672
Germany	1,340	-
Other	31	-
	5,495	11,089
Private label	1,923	9,639
White label	2,902	1,392
Tolling process	670	58
	5,495	11,089
Products transferred at a point in time	4,825	11,031
Products and services transferred over time	670	58
	5,495	11,089

For the three months ended March 31, 2021, the Group's revenue to three of its customers represent 17.6%, 14.2% and 22% of total revenue attributed to cannabis extracts and derivative products (March 31, 2020: three customers represent 25.1%, 27.6% and 24%). The Group had no other customer that represented more than 10% of the Group's total revenues for the three months ended March 31, 2021 and March 31, 2020.

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NOTE 14 – EXPENSES BY NATURE

	Three months ended	
	March 31 2021	March 31 2020
Inventory and consumables recognized in cost of sales	2,507	8,279
Write down of inventory to net realizable value (Note 6)	-	12,811
Employee benefits	5,160	4,149
Depreciation and amortization	876	708
Consulting and professional fees	610	1,963
Share based compensation expense (2)	880	2,759
Analytical testing	541	414
Supplies and small equipment	240	690
Rent and occupancy cost	524	430
Foreign exchange loss	632	115
Filing fee and shareholder communications	147	-
Software and licenses	356	302
Other (1)	937	404
	13,410	33,024

(1) Other includes investor relations, travel expenses, advertising and promotion expenses, foreign exchange gain/loss, Health Canada regulatory fees, bank fees and repair and maintenance expenses.

(2) Out of total share-based compensation expense of \$880 (2020: \$2,759), general administrative portion is \$630 (2020: \$1,885), marketing and selling portion is \$91 (2020: \$310) and cost of sales portion is \$88 (2020: \$558), research and development portion is \$71 (2020: \$6).

NOTE 15 – FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

The Group is exposed to a variety of financial risks due to its operations. These risks include credit risk, market risk (foreign exchange risk) and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Financial risk management is carried out by the Subsidiaries of the Group under policies approved by the Company's Board of Directors.

15.1 Credit risk

Credit risk arises from deposits with banks and financial institutions and outstanding receivables if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Group holds cash of \$42,124 (December 31, 2020: \$19,913). The cash is held with banks and financial institutions that are either Schedule 1 Canadian banks or large credit unions.

NOTE 15 – FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)

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At March 31, 2021, the exposure to credit risk for gross trade receivables and contract assets by the type of customer is as follows:

	March 31, 2021	December 31, 2020
Business to business customers	25,556	24,972
Distributors / Retailers	2,841	3,291
	28,397	28,263

The Group limits its exposure to credit risk from trade receivables and contract assets by negotiating full or partial advance payment from business to business customers before the shipment of the products. Also, the Group management believes that the exposure to credit risk from distributors is very limited since most of the distributors are government organizations.

As at March 31, 2021, the Group holds trade receivables from two customers representing 39% and 31% of total trade receivables (December 31, 2020: two customers representing 39% and 31%). The Group has legal collection proceedings with respect to \$8,531 of the Group's trade receivable balance, which are all due from one customer (Note 10). The Group recognized an allowance for expected credit losses in connection with its trade receivables to an amount of \$624 (December 31, 2020: \$540). The aging of the Group's gross trade receivables at March 31, 2021 is as follows:

	March 31, 2021 Gross carrying amount	December 31, 2020 Gross carrying amount
Current (not past due)	5,529	5,815
1-30 days past due	561	592
31-90 days past due	1,708	2,840
90-270 days past due	2,431	9,800
270-365 days past due	8,802	155
>365 days	8,664	8,531
	27,694	27,733

15.2 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash to meet obligations when due. At the end of the reporting period the Group held deposits at banks and financial institutions of \$42,124 (December 31, 2020: \$19,913) that are expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, the Group management maintains flexibility in funding by maintaining a minimum cash level at banks and financial institutions.

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NOTE 15 – FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)

Management monitors rolling forecasts of the Group's liquidity reserve and cash and cash equivalents on the basis of expected cash flows.

The table below presents the Group's financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Contractual maturities of financial liabilities At March 31, 2021	Less than 6 months	6-12 months	12-36 months	36-60 months	Total contractual cash flows	Carrying amount
Trade and other payables	12,227	-	-	-	12,227	12,227
Lease liability	164	143	108	53	468	446
Convertible debt	3,287	657	-	-	3,944	3,102
Total financial liabilities	15,678	800	108	53	16,639	15,775

The convertible debt contains financial covenant which is monitored on a regular basis by the treasury department and regularly reported to management to ensure compliance with the agreement.

15.3 Market risk

Market risk is the risk that changes in market price – e.g., foreign exchange rates and interest rates – will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(i) Foreign currency risk

Foreign exchange risk arises from recognized assets and liabilities denominated in a currency that is not the functional currency of the relevant Group entity. As of the end of the reporting period, the Group's foreign currency exposure is due to USD and AUD foreign currency denominated transactions.

(ii) Price risk

The Group's price risk arises from the volatility of the Group's own market share prices which could significantly affect the fair value of the derivative liabilities (Note 9).

15.4 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Management defines capital as the Group's shareholders' equity attributable to equity holders of the parent and debt (consisting of the Group's loans and borrowing and derivative liabilities). As at March 31,

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NOTE 15 – FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)

2021, total managed capital is \$123,095 (December 31, 2020: \$101,383). The Group's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund both existing and future value-added growth opportunities. To secure the additional capital necessary to pursue these plans, the Group may attempt to raise additional funds through the issuance of equity or by securing strategic partners or through debt financing.

NOTE 16 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Judgements and estimates are made in determining the fair values of the financial instruments that are recognized and measured at fair value in the Condensed Interim Consolidated Financial Statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

The Group's cash and cash equivalents are classified as Level 1 whereas trade receivables are classified as Level 2. Carrying values of significant portion of financial assets do not differ significantly from their fair values due to their short-term nature. Equity investments at fair value through other comprehensive income are classified as Level 3 as they are not traded in an active market. Considering the significance of the equity investment amount, the fair value of these financial assets is assumed to approximate their carrying value.

The Group's loans and borrowings and trade payables are classified as Level 2. These financial liabilities are classified as amortized cost and their carrying values approximate their fair values. The derivative liabilities are classified as Level 3 since some of the significant inputs used to calculate the fair value of the derivative liabilities are subject to volatility and several factors outside of the Group's control. The sensitivity analysis for each significant input is performed in Note 9.

During the three months ended March 31, 2021, there were no transfers between levels.

NOTE 17 – SEGMENT INFORMATION

The Group operates in one reportable segment, the production and sales of cannabis extracts and derivative products. The Group's Canadian and Australian operating segments are aggregated into one reportable segment based on similarities in the nature of their products and types of customers. The Group's country of domicile is Canada. The carrying value of non-current assets located in Canada and outside of Canada is \$28,063 and \$7,450 (December 31, 2020: \$28,547 and \$7,972), respectively and these assets are primarily made up of property, plant and equipment and deposits given for property, plant and equipment.

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NOTE 18 – EVENTS AFTER THE REPORTING PERIOD

