

**MEDIPHARM LABS CORP.  
CONDENSED INTERIM  
CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
FOR THE THREE MONTHS AND NINE MONTHS ENDED  
SEPTEMBER 30, 2021 and 2020**

**CONTENTS OF CONDENSED INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS (Unaudited)  
AT SEPTEMBER 30, 2021**

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## MEDIPHARM LABS CORP.

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION As at September 30, 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	September 30, 2021	December 31, 2020
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents		37,958	19,913
Trade and other receivables	5	29,111	29,645
Other assets		2,476	3,230
Inventories	6	14,391	22,139
Assets held for sale		906	2,102
Current tax receivable		41	4,492
<b>Total current assets</b>		<b>84,883</b>	<b>81,521</b>
<b>Non-current assets:</b>			
Property, plant and equipment	7	30,620	34,144
Intangibles	7.2	228	228
Non-current deposits		2,147	2,147
Other financial assets		191	191
Tax receivable		130	-
<b>Total non-current assets</b>		<b>33,316</b>	<b>36,710</b>
<b>Total assets</b>		<b>118,199</b>	<b>118,231</b>

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 September 30, 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	September 30, 2021	December 31, 2020
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Trade and other payables	11	10,414	14,793
Current employee benefit obligations		2,240	1,455
Due to related party	4.2	300	300
Loans and borrowings	8	2,148	7,697
Conversion option derivative liability	9.1	288	-
Deferred income		67	-
<b>Total current liabilities</b>		<b>15,457</b>	<b>24,245</b>
<b>Non-current liabilities:</b>			
Due to related party	4.2	-	300
Loans and borrowings	8	106	10,761
Warrant derivative liability	9.2	20	357
Conversion option derivative liability	9.1	-	4,154
<b>Total non-current liabilities</b>		<b>126</b>	<b>15,572</b>
<b>Total liabilities</b>		<b>15,583</b>	<b>39,817</b>
<b>Equity:</b>			
Common shares	12	188,603	138,508
Reserves		21,312	14,851
Accumulated other comprehensive income / (loss)		278	(403)
Accumulated deficit		(107,577)	(74,542)
<b>Total equity</b>		<b>102,616</b>	<b>78,414</b>
<b>Total liabilities and equity</b>		<b>118,199</b>	<b>118,231</b>
Commitments and contingencies	10		
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 and nine months ended September 30, 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 September 30		Nine months ended September 30	
		2021	2020	2021	2020
Revenue	13	5,401	4,947	15,968	29,954
Cost of sales		(7,261)	(15,535)	(26,241)	(49,210)
<b>Gross profit</b>		<b>(1,860)</b>	<b>(10,588)</b>	<b>(10,273)</b>	<b>(19,256)</b>
General administrative expenses		(4,591)	(4,389)	(13,780)	(16,682)
Marketing and selling expenses		(886)	(1,345)	(3,217)	(3,092)
Research and development expenses		(277)	(209)	(773)	(1,590)
Share based compensation expense	12,14	(435)	(800)	(1,791)	(5,079)
Other operating income/(expense), net	14	593	584	3,083	2,512
<b>Operating loss</b>		<b>(7,456)</b>	<b>(16,747)</b>	<b>(26,751)</b>	<b>(43,187)</b>
Unrealized gain in revaluation of derivative liabilities	9	154	3,649	4,203	4,934
Finance income		52	56	148	226
Finance expense	8.2	(236)	(2,380)	(10,529)	(3,197)
<b>Loss before taxation</b>		<b>(7,486)</b>	<b>(15,422)</b>	<b>(32,929)</b>	<b>(41,224)</b>
Taxation (expense)/recovery		130	114	(106)	5,065
<b>Net loss for the period</b>		<b>(7,356)</b>	<b>(15,308)</b>	<b>(33,035)</b>	<b>(36,159)</b>
<b>Attributable to</b>					
- Non-controlling interest		-	(346)	-	(757)
- Equity holders of the Parent		(7,356)	(14,962)	(33,035)	(35,402)
Basic loss per share		(0.03)	(0.11)	(0.14)	(0.26)
Diluted loss per share		(0.03)	(0.11)	(0.14)	(0.26)

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 and nine months ended September 30, 2021 and 2020**

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>Net loss for the period</b>	<b>(7,356)</b>	<b>(15,308)</b>	<b>(33,035)</b>	<b>(36,159)</b>
<b>Other comprehensive (loss)/income</b>				
<i>Items that may be reclassified to profit or loss</i>				
Exchange differences on translation of foreign operations	199	(306)	681	(228)
<b>Total comprehensive loss for the period</b>	<b>(7,157)</b>	<b>(15,614)</b>	<b>(32,354)</b>	<b>(36,387)</b>
<b>Total comprehensive loss attributable to</b>				
- Non-controlling interest	-	(407)	-	(803)
- Equity holders of the Parent	(7,157)	(15,207)	(32,354)	(35,584)

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 nine months ended September 30, 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					
<b>Balance at January 1, 2020</b>	<b>131,525,068</b>	<b>122,807</b>	<b>16,960</b>	-	-	(31)	(8,189)	(320)	<b>131,227</b>
Share issuance cost	-	(926)	-	-	-	-	-	-	(926)
Shares issued on exercise of stock options	1,800	6	(3)	-	-	-	-	-	3
Shares issued on exercise of warrants	8,063,415	5,732	(465)	-	-	-	-	-	5,267
Share based compensation	-	-	5,079	-	-	-	-	-	5,079
Foreign exchange translation	-	-	-	-	-	(182)	-	(46)	(228)
Net loss for the year	-	-	-	-	-	-	(35,402)	(757)	(36,159)
<b>Balance at September 30, 2020</b>	<b>139,590,283</b>	<b>127,619</b>	<b>21,571</b>	-	-	(213)	(43,591)	(1,123)	<b>104,263</b>
<b>Balance at January 1, 2021</b>	<b>155,550,487</b>	<b>138,508</b>	<b>19,174</b>	(4,323)	-	(403)	(74,542)	-	<b>78,414</b>
Share conversion of convertible loan (Note 8.2)	50,135,944	23,848	-	-	-	-	-	-	23,848
Shares issued under bought deal	57,500,000	27,888	-	-	5,462	-	-	-	33,350
Share issuance cost	-	(2,066)	-	-	(367)	-	-	-	(2,433)
Shares issued on exercise of stock options/RSUs	1,156,478	425	(425)	-	-	-	-	-	-
Share based compensation	-	-	1,791	-	-	-	-	-	1,791
Foreign exchange translation	-	-	-	-	-	681	-	-	681
Net loss for the year	-	-	-	-	-	-	(33,035)	-	(33,035)
<b>Balance at September 30, 2021</b>	<b>264,342,909</b>	<b>188,603</b>	<b>20,540</b>	(4,323)	<b>5,095</b>	<b>278</b>	(107,577)	-	<b>102,616</b>

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 nine months ended September 30, 2021 and 2020

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

		Nine months ended	
	Notes	September 30, 2021	September 30, 2020
<b>Cash flows from operating activities:</b>			
Net loss for the period		(33,035)	(36,159)
<b>Adjustments for:</b>			
Write down of inventory and obsolescence reserve	6	6,255	19,102
Write down of non-current deposits		-	1,469
Depreciation and Amortization	7	3,250	3,615
Loss/(gain) on sale of fixed asset		(92)	115
Finance income and finance expense		10,529	2,971
Unrealized gain in revaluation of derivative liabilities	9	(4,203)	(4,934)
Unrealized foreign exchange difference		1,634	(231)
Taxation charge / (recovery)		106	(5,065)
Share based compensation		1,791	5,079
<b>Cash flows from operating activities before</b>			
<b>changes in working capital items</b>		<b>(13,765)</b>	<b>(14,038)</b>
Change in trade and other receivables	5	(199)	2,328
Change in inventories	6	1,493	701
Change in other current assets		2,683	(997)
Change in tax receivable		4,215	(4,610)
Change in trade and other payables	11	(4,380)	(13,433)
Change in other current liabilities		785	(400)
<b>Net cash (used in)/provided by operating activities</b>		<b>(9,168)</b>	<b>(30,449)</b>
<b>Cash flows from investing activities:</b>			
Capital expenditures	7	(577)	(7,413)
Acquisition of financial assets		-	(2)
Proceeds from sale of fixed assets		332	-
<b>Net cash used in investing activities</b>		<b>(245)</b>	<b>(7,415)</b>
<b>Cash flows from financing activities</b>			
Repayment of loans and borrowings	8.2	(2,630)	(4,428)
Payment of convertible debt installment		-	(657)
Proceeds from issuance of convertible debt, net of fee		-	36,138
Proceeds from issuance of shares and warrants, net of costs		30,917	-
Proceeds from government grant		67	-
Exercise of warrants		-	5,267
Exercise of stock options		-	3
Interest and finance fee paid		-	(589)
Interest received		-	226
Payment to related parties		(300)	-
Payment of lease liabilities		(251)	(265)
<b>Net cash provided by financing activities</b>		<b>27,803</b>	<b>35,695</b>
<b>Effects of exchange rate changes</b>		<b>(345)</b>	<b>-</b>
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>18,045</b>	<b>(2,169)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>19,913</b>	<b>38,627</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>37,958</b>	<b>36,458</b>

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



## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### As at and for the three and nine months ended September 30, 2021

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

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#### 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 and nine months ended September 30, 2021 (“Condensed Interim Consolidated Financial Statements”), include the financial statements 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 and nine-month periods ended September 30, 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 December 31, 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 required 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 December 31, 2020, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

On November 14, 2021, the Board of Directors of the Company approved these Condensed Interim Consolidated Financial Statements.

## **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

### **As at and for the three and nine months ended September 30, 2021**

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

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

##### **2.2 New accounting policies 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) Government grants**

Grants from the government are recognized at their fair value when there is reasonable assurance that the grant will be received, and the Group will comply with all conditions attached to the grant. The Group recognizes unconditional government grants that compensate the Group for expenses incurred in the condensed interim consolidated statement of loss as other income on a systematic basis in the periods in which the expenses are recognized.

## **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

### **As at and for the three and nine months ended September 30, 2021**

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

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

##### **(ii) 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 to the impairment calculation based on the Group's past history and existing market conditions at the end of each reporting period.

##### **(iii) Fair value of share-based warrants and stock options / RSUs**

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 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.

The company issues RSUs to employees under the RSU plan. The RSUs are measured at initial recognition at the fair value of equity instruments granted at the grant date. They are not subsequently remeasured after the grant date. The fair value of the grant is based on the closing trading price of the Company's shares listed on the TSX and is recognized as an expense on a straight-line basis over a two-year vesting period (Note 12.2).

##### **(iv) 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.

##### **(v) 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.

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**As at and for the three and nine months ended September 30, 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) 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.

**(vii) 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 nine months ended September 30, 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**

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Financial assets at amortized cost		
Cash and cash equivalents	37,958	19,913
Trade receivables (Note 5)	29,111	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)	10,414	14,793
Loans and borrowings (Note 8)	2,254	18,458
Current employee benefit obligations	2,240	1,455
Due to related parties	300	600
Financial liabilities at fair value through profit/loss		
Conversion option derivative liability (Note 9.1)	288	4,154
Warrant derivative liability (Note 9.2)	20	357

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

## **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

### **As at and for the three and nine months ended September 30, 2021**

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

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#### **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 non share-based compensation remuneration to directors and officers during the three-month and nine-month periods ended September 30, 2021 was \$326 and \$959, respectively (September 30, 2020: \$412 and \$1,410 respectively) and is included in general and administrative expenses.

During the nine-month period ended September 30, 2021, the Group issued 750,000 options at an average exercise price of \$0.60 per share (September 30, 2020: 900,000 options at an average exercise price of \$1.2 per share) and 698,968 RSUs (September 30, 2020: nil RSUs) to its key management personnel and recognized total share-based compensation expense of \$455 (September 30, 2020: \$2,465). During the nine-month period ended September 30, 2021, the Group's key management personnel exercised nil options for gross proceeds of \$nil and 1,156,478 RSUs for gross proceeds of \$nil (September 30, 2020: nil options for gross proceeds of \$nil and nil RSUs for gross proceeds of \$nil).

During the three-month period ended September 30, 2021, the Group issued nil options at an average exercise price of \$nil per share (September 30, 2020: 600,000 options at an average exercise price of \$1.13 per share) and nil RSUs (September 30, 2020: nil RSUs) to its key management personnel and recognized total share-based compensation expense of \$118 (September 30, 2020: \$994). During the three-month period ended September 30, 2021, the Group's key management personnel exercised nil options for gross proceeds of \$nil and 574,133 RSUs for gross proceeds of \$nil (September 30, 2020: nil options for gross proceeds of \$nil and nil RSUs 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 and nine-month periods ended September 30, 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 September 30, 2021, the Group has \$300 (December 31, 2020: \$600) of unpaid consideration for this acquisition which is recognized as due to related party.

As at September 30, 2021, the Group has \$602 (December 31, 2020: \$657) due to key management personnel and entities over which they have control or significant influence. These balances due to key management personnel include \$300 due to related party for the acquisition of ownership interest in MediPharm Labs Australia Pty. Ltd and accrued wages and bonus.

**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 5 – TRADE AND OTHER RECEIVABLES**

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Trade receivables	27,321	27,193
Other receivable	1,184	1,743
Contract assets	606	530
HST/GST receivable	-	179
	<b>29,111</b>	<b>29,645</b>

The Group has gross trade receivables of \$14,539 that are over 365 days overdue and are due largely from three customers. The Group initiated legal proceedings to collect \$8,531 (Note 10) due from one of the customers and has not recognized any expected credit loss for this trade receivable. The second customer has a receivable of \$7,284 of which \$4,853 is over 365 days overdue. The Group has assessed this receivable as recoverable and has not recognized a provision for any of this receivable. The third customer has a receivable of \$797, which has been fully reserved for as at September 30, 2021. Credit risk and aging analysis related to trade receivables are included in Note 15.1.

The Group has an offsetting agreement in place under which a receivable amounting to \$10,856 (as at June 30, 2021 and immediately prior to executing the offset agreement) was net off against a payable amounting to \$4,241 during the three months ended September 30, 2021. As at September 30, 2021, trade and other receivables comprises of \$6,615 due from this counterparty.

The contract assets primarily relate to the Group's rights to consideration for work completed but not invoiced 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.

As at September 30, 2021, the Group has other receivable of \$748 and \$301 related with Canada Emergency Wage Subsidy (CEWS) and Canada Emergency Rent Subsidy (CERS), respectively (December 31, 2020: \$1,821 and \$nil) since there is a reasonable assurance that the grants will be received and the grants to compensate the expenses are incurred in nine-month period ended September 30, 2021 (Note 14).

**NOTE 6 – INVENTORIES**

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Raw materials	5,057	8,844
Work in progress	485	-
Finished goods	7,609	11,835
Consumables and packages	1,240	1,460
	<b>14,391</b>	<b>22,139</b>

Raw material inventory is comprised of dried cannabis flower (for extraction purposes) and trim acquired from third party licensed cannabis cultivators. Finished goods inventory is comprised of dry flower (for sale purposes), 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.

**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 6 – INVENTORIES (Continued)**

For the three and nine months ended September 30, 2021, the Group recognized a write down of the carrying value of its raw materials, work in progress and finished goods of \$506 and \$4,145 respectively (September 30, 2020: \$6,291 and \$19,102, respectively) since the cost of these inventories exceeded their net realizable value. As at September 30, 2021, the Group has also reserved \$2,110 (December 30, 2021: \$nil) related to the obsolete/slow moving inventory. The loss is included in the cost of sales in the condensed interim consolidated statements of loss.

**NOTE 7 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS**

	January 1, 2021	Additions	Disposals	Transfers (2)	Exchange difference	September 30, 2021
<b>Cost</b>						
Land	1,886	1	-	-	(25)	1,862
Building and building improvements	25,490	21	(425)	32	(361)	24,757
Leasehold improvements	209	-	-	-	-	209
Computers	1,780	31	-	1	(33)	1,779
Office equipment	250	8	-	4	(5)	257
Machinery and plant equipment	15,599	146	(299)	558	(128)	15,876
Motor vehicles	70	-	(33)	-	(1)	36
Security equipment	743	-	-	-	-	743
Construction in progress (1)	3,255	385	(128)	(616)	(41)	2,855
Right-of-use assets (Note 7.1)	1,091	-	-	-	-	1,091
	<b>50,373</b>	<b>592</b>	<b>(885)</b>	<b>(21)</b>	<b>(594)</b>	<b>49,465</b>
<b>Less: Accumulated depreciation</b>						
Building and building improvements	4,761	825	(331)	-	4	5,259
Leasehold improvements	26	15	-	-	1	42
Computers	888	386	-	-	6	1,280
Office equipment	81	36	-	-	-	117
Machinery and plant equipment	9,373	1,037	(92)	-	(62)	10,256
Motor vehicles	46	5	(33)	-	(1)	17
Security equipment	319	102	-	-	6	427
Construction in progress	186	566	(127)	17	-	642
Right-of-use assets	549	256	-	-	-	805
	<b>16,229</b>	<b>3,228</b>	<b>(583)</b>	<b>17</b>	<b>(44)</b>	<b>18,845</b>
<b>Net book value</b>	<b>34,144</b>					<b>30,620</b>

- (1) Construction in progress consists of the machinery and equipment in the installation process and renovation and expansion of building. For the three and nine months ended September 30, 2021, accelerated depreciation amounting to \$nil and \$566, respectively, was recorded relating to the assets no longer intended to be used. The accelerated depreciation is included in the cost of sales in the condensed interim consolidated statements of loss.

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 7 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)**

(2) Certain construction in progress assets were transferred to other classes of property, plant and equipment upon completion of the construction.

**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 the three and nine-months ending September 30, 2021 is \$26 and \$111 respectively (September 30, 2020: \$19 and \$168, respectively).

	January 1, 2021	Additions	September 30, 2021
<b>Cost</b>			
<b>Right-of-use assets</b>			
-Land	99	-	99
-Building	757	-	757
-Equipment	167	-	167
-Vehicle	31	-	31
-IT equipment	37	-	37
	<b>1,091</b>	<b>-</b>	<b>1,091</b>
<b>Less: Accumulated depreciation</b>			
<b>Right-of-use assets</b>			
-Land	75	15	90
-Building	384	203	587
-Equipment	50	30	80
-Motor vehicle	26	4	30
-IT equipment	14	4	18
	<b>549</b>	<b>256</b>	<b>805</b>
<b>Net book value</b>	<b>542</b>		<b>286</b>

**7.2 Intangible assets**

	January 1, 2021	Additions	Impairment	September 30, 2021
<b>Cost</b>				
Brand	250	22	-	272
<b>Less: Accumulated amortization and impairment</b>				
Brand	22	22	-	44
<b>Net book value</b>	<b>228</b>			<b>228</b>



**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 8 – LOANS AND BORROWINGS**

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
<b>Current liabilities</b>		
Convertible loan (Note 8.2)	1,968	7,375
Lease liability (Note 8.1)	180	322
	<b>2,148</b>	<b>7,697</b>
<b>Non-current liabilities</b>		
Convertible loan (Note 8.2)	-	10,542
Lease liability (Note 8.1)	106	219
	<b>106</b>	<b>10,761</b>

**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	(23,848)
Accretion and unpaid interest	10,529
<b>As at September 30, 2021</b>	<b>1,968</b>

During the nine-month period ended September 30, 2021, the Group issued 50,135,944 Common shares in connection with accelerated conversion requests from the creditors which amounted to the repayment of \$23,848 principal amount of the Convertible Debt.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### As at and for the three and nine months ended September 30, 2021

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

#### NOTE 9 –DERIVATIVE LIABILITIES

##### 9.1 Conversion option derivative liability

As at January 1, 2021	4,154
Gain in revaluation	(3,866)

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**As at September 30, 2021** **288**

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As at September 30, 2021, the conversion option derivative liability was revalued and a revaluation gain of \$3,866 was recorded in the condensed interim consolidated statement of loss for the nine month period ended September 30, 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 September 30, 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	(337)

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**As at September 30, 2021** **20**

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The warrant derivative liability was revalued as of September 30, 2021 using the Black-Scholes option pricing model using the following input data: stock price of \$0.26 per share; expected life of 2.02 years; 67.38% volatility based upon historical prices and risk-free interest rate of 0.52%. The revaluation gain of the warrant derivative liability for the nine-month period ended September 30, 2021 was \$337 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 September 30, 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 \$7 and increased/(decreased) net loss by \$7.

## **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

### **As at and for the three and nine months ended September 30, 2021**

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

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#### **NOTE 10 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS**

##### **10.1 Litigation**

(1) 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 scheduled to take place on December 8, 2021.

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.

(2) On October 20, 2021, MPL was listed a defendant in a claim in the Ontario Superior Court of Justice by one of its customers for bulk cannabis extract. The claim alleged, amongst other things, that MPL did not comply with certain clauses included in the bulk cannabis sales agreement between both parties.

The plaintiff is seeking \$2,200 in damages in addition to costs of all legal proceedings and judgement interest. The Group intends to vigorously defend the claim.

The Group has not recognized a liability in connection with the claim 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.

##### **10.2 Purchase Commitments under purchase agreements**

As of September 30, 2021, under the cannabis material sales agreement, the Group is committed to purchase dry flower amounting to \$5,747 until December 31, 2022.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### As at and for the three and nine months ended September 30, 2021

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

#### NOTE 11 – TRADE AND OTHER PAYABLES

	September 30, 2021	December 31, 2020
Accrued Liabilities	2,464	7,792
Payable to suppliers	5,976	5,549
Contract Liabilities	1,633	1,003
Refund liabilities (1)	-	84
Other	341	365
	<b>10,414</b>	<b>14,793</b>

Payable to suppliers are amounts due to vendors for unpaid goods and services received arising in the ordinary course of business. Other includes HST/GST/QST payable and excise tax payable. 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. Contract liabilities comprise of prepayments from customers and deposits for assets held for sale.

(1) Refund liabilities of \$nil (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 \$nil (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 \$2,433 (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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(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 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 nine-month period ended September 30, 2021, nil stock options (September 30, 2020: 1,800 stock options), 1,156,478 RSUs (September 30, 2020: nil RSUs) and nil warrants (September 30, 2020: 8,063,415 warrants) were exercised into common shares for proceeds of \$nil (September 30, 2020: \$3), \$nil (September 30, 2020: \$nil) and \$nil (September 30, 2020: \$5,267), respectively.

For the three-month period ended September 30, 2021, nil stock options (September 30, 2020: nil stock options), 574,133 RSUs (September 30, 2020: nil RSUs) and nil warrants (September 30, 2020: 3,313,267 warrants) were exercised into common shares for proceeds of \$nil (September 30, 2020: \$nil), \$nil (September 30, 2020: \$nil) and \$nil (September 30, 2020: \$1,751), 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.

	<b>Number of options</b>	<b>2021 Weighted average exercise price \$</b>
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	(3,642,460)	2.51
<b>Outstanding at September 30, 2021</b>	<b>9,274,750</b>	<b>2.24</b>

**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)**

Exercisable at September 30	8,049,670	2.48
Weighted average remaining contractual life		2.78 years

The range of exercise prices for options outstanding as at September 30, is as below:

Exercise price range	Weighted average remaining contractual life 2021	Number of outstanding options 2021
Less than and equal to \$1.00	4.20	2,152,800
Between \$1.00 and \$3.00	2.52	5,445,050
Between \$3.00 and \$5.00	2.81	493,600
More than and equal to \$5.00	2.87	1,183,300
		<b>9,274,750</b>

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	1,156,478
Forfeited/cancelled during the period	(220,354)
<b>Outstanding at September 30, 2021</b>	<b>1,652,110</b>

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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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.

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Domestic Sales	2,540	4,228	8,675	25,939
International Sales				
Australia	1,777	719	3,404	4,015
Germany	1,080	-	3,845	-
Other	4	-	44	-
	<b>5,401</b>	<b>4,947</b>	<b>15,968</b>	<b>29,954</b>
Private label	2,623	2,106	7,583	24,027
White label	1,354	2,617	4,880	5,597
Tolling process	1,357	223	3,234	321
Other	67	1	271	9
	<b>5,401</b>	<b>4,947</b>	<b>15,968</b>	<b>29,954</b>
Products transferred at a point in time	4,044	4,724	12,734	29,633
Products and services transferred over time	1,357	223	3,234	321
	<b>5,401</b>	<b>4,947</b>	<b>15,968</b>	<b>29,954</b>

For the nine months ended September 30, 2021, the Group's revenue to three of its customers represent 14.2%, 12.4% and 10.7% of total revenue attributed to cannabis extracts and derivative products (September 30, 2020: four customers represent 23.56%, 13.36%, 10.26% and 10.24%). The Group had no other customer that represented more than 10% of the Group's total revenues for the nine months ended September 30, 2021 and September 30, 2020.

For the three months ended September 30, 2021, the Group's revenue to three of its customers represent 20%, 14.8% and 12.1% of total revenue attributed to cannabis extracts and derivative products (September 30, 2020: two customers represent 40% and 12.98%). The Group had no other customer that represented more than 10% of the Group's total revenues for the three months ended September 30, 2021 and September 30, 2020.

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 14 – EXPENSES BY NATURE**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Inventory and consumables recognized in cost of sales	3,488	5,715	9,441	21,935
Write down of inventory and obsolescence (Note 6)	506	6,291	6,255	19,102
Employee benefits	4,855	4,279	15,135	13,134
Consulting and professional fees	919	1,519	2,246	5,947
Depreciation and amortization	893	923	3,250	2,438
Share based compensation expense (2)	435	800	1,791	5,079
Analytical testing	236	595	1,000	1,519
Software licenses	392	303	1,250	907
Supplies and small equipment	156	198	569	1,889
Rent and occupancy cost	169	274	561	783
Insurance	641	264	1,316	710
Foreign exchange loss	334	(249)	1,634	(738)
Filing fee and shareholder communications	(106)	260	55	1,074
Government grants (3)	(860)	(880)	(4,619)	(2,688)
Other (1)	799	1,402	2,835	2,050
	<b>12,857</b>	<b>21,694</b>	<b>42,719</b>	<b>73,141</b>

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

(2) For the nine-month period ended September 30, 2021, out of total share-based compensation expense of \$1,791 (September 30, 2020: \$5,079), general administrative portion is \$1,286 (September 30, 2020: \$3,663), marketing and selling portion is \$128 (September 30, 2020: \$581), cost of sales portion is \$223 (September 30, 2020: \$827) and research and development portion is \$154 (September 30, 2020: \$8). For the three-month period ended September 30, 2021, out of total share-based compensation expense of \$435 (September 30, 2020: \$800), general administrative portion is \$312 (September 30, 2020: \$692), marketing and selling portion is \$31 (September 30, 2020: \$56), cost of sales portion is \$54 (September 30, 2020: \$55) and research and development portion is \$37 (September 30, 2020: -\$3m).

(3) For the three and nine months ended September 30, 2021, the Group recorded \$860 and \$4,619 in relation to the Canada Emergency Wage Subsidy (CEWS), Canada Emergency Rent Subsidy (CERS), Export Market Development Grant (Australia) and 2020-21 Payroll Tax Waiver (Australia). For the three and nine months ended September 30, 2020, the Group recorded \$880 and \$2,688, respectively, in relation to the Canada Emergency Wage Subsidy (CEWS) and Australia JobKeeper Payment Subsidy. Such government grants are recognized as other operating income in the condensed interim consolidated statements of loss. These grants may be subject to government review at a later date. However, there are no unfulfilled conditions or other contingencies attached to these grants. The Group did not benefit directly from any other forms of government assistance.



**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 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 \$37,958 (December 31, 2020: \$19,913). The cash is held with banks and financial institutions that are either Schedule 1 Canadian banks, large credit unions or Australian banks.

At September 30, 2021, the exposure to credit risk for gross trade receivables and contract assets by the type of customer is as follows:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Business to business customers	27,311	24,972
Distributors / Retailers	1,495	3,291
	<b>28,806</b>	<b>28,263</b>

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 September 30, 2021, the Group holds trade receivables from two customers representing 31% and 26% 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 \$879 (December 31, 2020: \$540). The aging of the Group's gross trade receivables at September 30, 2021 is as follows:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
	<b>Gross carrying amount</b>	<b>Gross carrying amount</b>
Current (not past due)	6,753	5,815
1-30 days past due	1,260	592
31-90 days past due	1,539	2,840
90-270 days past due	1,728	9,800
270-365 days past due	2,381	155
>365 days	14,539	8,531
	<b>28,200</b>	<b>27,733</b>

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

**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 \$37,958 (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.

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

As the trading price and volume of the Common Shares is subject to change, and certain minimum equity conditions must be met in order for the Group to make the Bi-Monthly Installment Payments through the issuance of Common Shares, the Group may be required to make some or all Bi-Monthly Installment Payments in cash which could negatively impact the Group’s liquidity.

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.

<b>Contractual maturities of financial liabilities At September 30, 2021</b>	<b>Less than 6 months</b>	<b>6-12 months</b>	<b>12-36 months</b>	<b>36-60 months</b>	<b>Total contractual cash flows</b>	<b>Carrying amount</b>
Trade and other payables	10,414	-	-	-	10,414	10,414
Lease liability	143	37	118	-	298	286
Convertible debt	1,972	-	-	-	1,972	1,968
<b>Total financial liabilities</b>	<b>12,529</b>	<b>37</b>	<b>118</b>	<b>-</b>	<b>12,684</b>	<b>12,668</b>

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.

## **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

##### **(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 September 30, 2021, total managed capital is \$105,178 (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

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 16 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

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 nine months ended September 30, 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 \$26,220 and \$6,775 (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.