

**MEDIPHARM LABS CORP.
CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
FOR THE THREE MONTHS AND NINE MONTHS ENDED
SEPTEMBER 30, 2020 and 2019**

MEDIPHARM LABS CORP.

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MEDIPHARM LABS CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION As at September 30, 2020 and December 31, 2019

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

	Notes	September 30, 2020	December 31, 2019
ASSETS			
Current assets:			
Cash and cash equivalents		36,458	38,627
Trade and other receivables	6	25,212	27,540
Other assets		3,045	2,048
Inventories	7	31,683	51,486
Current tax receivable		4,610	-
Total current assets		101,008	119,701
Non-current assets:			
Property, plant and equipment	8	44,808	42,233
Deferred tax asset		-	587
Non-current deposits		4,220	6,120
Other financial assets		191	189
Total non-current assets		49,219	49,129
Total assets		150,227	168,830

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, 2020 and December 31, 2019

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

	Notes	September 30, 2020	December 31, 2019
LIABILITIES AND EQUITY			
Current liabilities:			
Trade and other payables	12	5,971	20,946
Current employee benefit obligations		950	1,350
Loans and borrowings	9	7,740	1,823
Current tax liability		-	4,727
Total current liabilities		14,661	28,846
Warrant derivative liability	10.2	1,191	-
Conversion option derivative liability	10.1	6,464	-
Loans and borrowings	9	23,648	8,757
Total non-current liabilities		31,303	8,757
Total liabilities		45,964	37,603
Equity:			
Common shares	13	127,619	122,807
Reserves	13	21,571	16,960
Accumulated other comprehensive loss		(213)	(31)
Accumulated deficit		(43,591)	(8,189)
Total equity attributable to equity holders of the Parent		105,386	131,547
Non-controlling interest		(1,123)	(320)
Total equity		104,263	131,227
Total liabilities and equity		150,227	168,830

Commitments and contingencies 9, 11

Approved on behalf of the Board of Directors of MediPharm Labs Corp.:

/s/ "Patrick McCutcheon"
Patrick McCutcheon
Director

/s/ "Keith Strachan"
Keith Strachan
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)/INCOME For the three and nine months ended September 30, 2020 and 2019

(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	
		2020	2019	2020	2019
Revenue	14	4,947	43,386	29,954	96,808
Cost of sales		(15,535)	(28,632)	(49,210)	(63,880)
Gross profit		(10,588)	14,754	(19,256)	32,928
General administrative expenses		(4,389)	(3,578)	(16,682)	(8,931)
Marketing and selling expenses		(1,345)	(730)	(3,092)	(2,496)
Research and development expenses		(209)	(420)	(1,590)	(420)
Share based compensation expense	15	(800)	(4,157)	(5,079)	(10,871)
Other operating income/(expense), net		584	(504)	2,512	(769)
Operating (loss)/income		(16,747)	5,365	(43,187)	9,441
Unrealized gain in revaluation of derivative liabilities	10	3,649	-	4,934	-
Finance income		56	225	226	266
Finance expense		(2,380)	(195)	(3,197)	(553)
(Loss)/income before taxation		(15,422)	5,395	(41,224)	9,154
Taxation (expense)/recovery		114	(2,120)	5,065	(4,485)
Net (loss)/income for the period		(15,308)	3,275	(36,159)	4,669
Attributable to					
- Non-controlling interest		(346)	(101)	(757)	(196)
- Equity holders of the Parent		(14,962)	3,376	(35,402)	4,865
Basic earnings per share		(0.11)	0.03	(0.26)	0.04
Diluted earnings per share		(0.11)	0.02	(0.26)	0.04

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)/INCOME****For the three and nine months ended September 30, 2020 and 2019**

(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	
		2020	2019	2020	2019
Net (loss)/income for the period		(15,308)	3,275	(36,159)	4,669
Other comprehensive income					
<i>Items that may be reclassified to profit or loss</i>					
Exchange differences on translation of foreign operations		(306)	-	(228)	(41)
Total comprehensive (loss)/income for the period		(15,614)	3,275	(36,387)	4,628
Total comprehensive (loss)/income attributable to					
- Non-controlling interest		(407)	(101)	(803)	(196)
- Equity holders of the Parent		(15,207)	3,376	(35,584)	4,824

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, 2020 and 2019

(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>	Accumulated other comprehensive	Accumulated deficit	Non-controlling interest	Total
	Number	Share capital	Share-based payments				
Balance at January 1, 2019	97,539,361	34,065	3,409	9	(9,834)	194	27,843
Shares issued for cash	13,514,000	75,003	-	-	-	-	75,003
Share issue costs, net of tax	-	(2,694)	-	-	-	-	(2,694)
Shares issued on exercise of stock options	6,308,206	2,589	(1,045)	-	-	-	1,544
Shares issued on exercise of warrants	13,406,200	12,099	(315)	-	-	-	11,784
Share based compensation	-	-	10,871	-	-	-	10,871
Foreign exchange translation	-	-	-	(41)	-	-	(41)
Net income for the period	-	-	-	-	4,865	(196)	4,669
Balance at September 30, 2019	130,767,767	121,062	12,920	(32)	(4,969)	(2)	128,979
Balance at January 1, 2020	131,525,068	122,807	16,960	(31)	(8,189)	(320)	131,227
Share issuance cost (tax impact)	-	(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 period	-	-	-	-	(35,402)	(757)	(36,159)
Balance at September 30, 2020	139,590,283	127,619	21,571	(213)	(43,591)	(1,123)	104,263

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, 2020 and 2019

(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, 2020	September 30, 2019
Cash flows from operating activities:			
Net (loss)/income for the period		(36,159)	4,669
Adjustments for:			
Write down of inventory to net realizable value	7, 15	19,102	-
Unrealized gain in revaluation of derivative liabilities	10	(4,934)	-
Write down of non-current deposits	15	1,469	-
Depreciation	8	3,615	1,760
Finance fee and expense, net		2,971	439
Unrealized foreign exchange difference		(231)	138
Loss on disposal of property, plant and equipment		115	-
Taxation (recovery)/expense		(5,065)	952
Share based compensation	15	5,079	10,871
Cash flows from operating activities before changes in working capital items		(14,038)	18,829
Change in trade and other receivables		2,328	(36,508)
Change in inventories		701	(44,682)
Change in other current assets		(997)	917
Change in current tax receivable		(4,610)	-
Change in trade and other payables		(13,433)	31,254
Change in other current liabilities		(400)	4,010
Net cash used in operating activities		(30,449)	(26,180)
Cash flows from investing activities:			
Capital expenditures		(7,413)	(22,975)
Acquisition of financial assets		(2)	(108)
Net cash used in investing activities		(7,415)	(23,083)
Cash flows from financing activities:			
Issuance of shares for cash less issuance costs		-	70,639
Proceeds from issuance of convertible debt, net of fee	9.3, 10	36,138	-
Payment of convertible debt installment	9.3	(657)	-
Repayment of bank loans	9.2	(4,428)	-
Exercise of warrants		5,267	11,784
Exercise of stock options		3	1,544
Interest and finance fee paid		(589)	(392)
Interest received		226	-
Payment of lease liabilities		(265)	(46)
Net cash provided by financing activities		35,695	83,529
(Decrease)/increase in cash and cash equivalents		(2,169)	34,266
Cash and cash equivalents at the beginning of the period		38,627	7,850
Cash and cash equivalents at the end of the period		36,458	42,116

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 and nine months ended September 30, 2020

(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. (formerly POCML 4 Inc.) (the “Company”) was incorporated under the Business Corporations Act (Ontario) on January 23, 2017 and prior to a reverse takeover transaction, the Company was classified as a capital pool company (a “CPC”) as defined in Policy 2.4 of the TSX Venture Exchange. Subsequent to the reverse takeover, 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 Company 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, 2020 (“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, 2020 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, 2019 with the exception of new accounting policies that were adopted in January 1, 2020 as described in Note 2.2 and Note 2.3.

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 December 31, 2019, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

MEDIPHARM LABS CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2020

(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)

On November 16, 2020, the Board of Directors of the Company approved these Condensed Interim Consolidated Financial Statements.

2.2 New accounting policies adopted in 2020

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.

2.3 New accounting pronouncements adopted in 2020

The Group adopted the following new standards and amendments to standards that were effective January 1, 2020. These changes did not have a material impact on the Group's Condensed Interim Consolidated Financial Statements and are not expected to have a material effect on the Group's financial statements in the future.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)

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

The following new accounting standard will become effective in a future year and is not expected to have an impact on the Company's consolidated financial statements in future period.

- IFRS 17, *Insurance Contracts*

2.5 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:

MEDIPHARM LABS CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2020

(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)

(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 (Note 16.1).

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

The Group has 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 and warrants are disclosed in Note 13.2 and Note 10.

(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 follows technical and/or commercial obsolescence arising on changes or improvements from a change in the market.

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 determination of recoverable amounts requires the use of estimates such as future cash flows, discount rates and terminal growth rate.

(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 involves 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 inception fair value allocation of proceeds from unsecured convertible debt to conversion option derivative liability, warrant derivative liability and debt component by applying estimates and assumptions. The judgments and estimates are described under Note 10.

(vi) Right to return

The Group has agreements with its customers offering right to return products within six months for a full refund provided that the products are not used in manufacturing or materially altered. Expected value

MEDIPHARM LABS CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2020

(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)

method is used to estimate such returns at the time of sale. Since the Group has experience in selling such products, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date and adjusted as necessary to estimate returns for the sold products.

(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 three and nine months ended September 30, 2020. The production and sale of cannabis have been recognized as essential services in Canada and across Europe. 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 the Group's 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 – NON-CONTROLLING INTEREST

The details of non-wholly owned subsidiaries that have non-controlling interests:

Name of subsidiary	Operation	Place of business	Ownership interest held by non-controlling interests	
			2020	2019
MediPharm Labs Australia Pty.Ltd.	Cannabis products	Australia	20%	20%

As at September 30, 2020, financial information of MediPharm Australia Pty Ltd. before intercompany eliminations is as follows:

	September 30, 2020	December 31, 2019
Current assets	3,919	926
Non-current assets	8,879	7,844
Current liabilities	18,478	10,379
Accumulated deficit	(6,673)	(2,889)
Attributable to		
-Equity holders of Parent	(5,551)	(2,569)
-Non-controlling interest	(1,123)	(320)

MEDIPHARM LABS CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2020

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

NOTE 3 – NON-CONTROLLING INTEREST (Continued)

	Three months ended		Nine months ended	
	September 30 2020	2019	September 30 2020	2019
Revenue	719	-	1,344	-
Net loss	(1,799)	(504)	(3,784)	(980)
Attributable to				
-Equity holders of Parent	(1,453)	(403)	(3,027)	(784)
-Non-controlling interest	(346)	(101)	(757)	(196)

NOTE 4 – FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	September 30, 2020	December 31, 2019
Financial assets at amortized cost		
Cash and cash equivalents	36,458	38,627
Trade and other receivables (Note 6)	25,212	27,540
Financial assets at fair value through other comprehensive income (FVOCI) (1)	191	189
Financial liabilities at amortized cost		
Trade and other payables (Note 12)	5,971	20,946
Loans and borrowings (Note 9)	30,648	9,575
Financial liabilities at fair value through profit/loss		
Conversion option derivative liability (Note 10.1)	6,464	-
Warrant derivative liability (Note 10.2)	1,191	-

(1) The Group's financial assets at FVOCI consist of unlisted equity instruments.

NOTE 5 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES

5.1 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, 2020 was \$412 and \$1,410, respectively (September 30, 2019: \$641 and \$1,474, respectively) and is included in general and administrative expenses.

During the nine-month period ended September 30, 2020, the Group issued 900,000 options at an average exercise price of \$1.20 per share (nine-month period ended September 30, 2019: 2,190,000 options at \$2.61 per share) to its key management personnel and recognized total share-based compensation expense of \$2,465 (nine-month period ended September 30, 2019: \$3,343). During the nine-month period ended September 30, 2020, the Group's key management personnel exercised no options (nine-month period ended September 30, 2019: 3,043,200 options for gross proceeds of \$720).

MEDIPHARM LABS CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2020

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

NOTE 5 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

During the three-month period ended September 30, 2020, the Group issued 600,000 options at an average exercise price of \$1.13 per share (three-month period ended September 30, 2019: 300,000 options at \$6.47 per share) to its key management personnel and recognized total share-based compensation expense of \$994 (three-month period ended September 30, 2019: \$414). During the three-month period ended September 30, 2020, the Group's key management personnel exercised no options (three-month period ended September 30, 2019: nil options).

5.2 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. Some of these companies transacted with the Group during the three-month and nine-month periods ended September 30, 2020.

As at September 30, 2020, the Group has \$nil (December 31, 2019: \$4) due to key management personnel and entities over which they have control or significant influence.

For the three-month and nine-month periods ended September 30, 2020, the Group has incurred \$nil and \$11, respectively, (September 30, 2019: \$Nil and \$7, respectively) of rent expenses as a result of transactions with the key management personnel's related entities.

NOTE 6 – TRADE AND OTHER RECEIVABLES

	September 30, 2020	December 31, 2019
Trade receivables	24,950	25,979
HST/GST receivable	-	1,281
Contract assets	-	238
Other receivable	262	42
	25,212	27,540

Credit risk and aging information related to trade receivables are included in Note 16.

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.

As of September 30, 2020, the Group recognized other receivable of \$69 related with Australia JobKeeper Payment Subsidy (December 31, 2019: \$Nil) since there is reasonable assurance that the grants will be received and the grants to compensate the expenses are incurred in three month period ended September 30, 2020 (Note 15).

MEDIPHARM LABS CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2020

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

NOTE 7 – INVENTORIES

	September 30, 2020	December 31, 2019
Raw materials	1,573	22,694
Work in progress	3,341	4,880
Finished goods	25,235	23,408
Consumables and packages	1,534	504
	31,683	51,486

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, isolate and vapes. Consumables mostly include MCT oil used in the production of formulated oil, terpenes used in oil formulation and packaging and product hardware materials.

For the three and nine months ended September 30, 2020, the Group recognized a write down of the carrying value of its raw materials, work in progress and finished goods by \$6,291 and \$19,102, respectively (September 30, 2019: \$nil and \$nil, respectively) since the cost of these inventories exceeded their net realizable value due to compression of pricing in the industry. The loss is included in the cost of sales in the condensed interim consolidated statements of (loss)/income.

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

	January 1, 2020	Additions	Disposals	Transfers (2)	Exchange difference	September 30, 2020
Cost						
Land	1,860	-	-	-	16	1,876
Building and building improvements	18,245	1,527	-	4,968	230	24,970
Leasehold improvements	-	209	-	-	-	209
Computers	1,568	155	(2)	-	22	1,743
Office equipment	196	61	(3)	-	-	254
Machinery and plant equipment	8,677	665	(29)	2,285	92	11,690
Motor vehicles	70	-	-	-	-	70
Security equipment	629	35	-	70	-	734
Construction in progress (1)	13,254	3,231	(89)	(7,323)	49	9,122
Right-of-use assets (Note 8.1)	1,204	30	-	-	-	1,234
	45,703	5,913	(123)	-	409	51,902

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NOTE 8 – PROPERTY, PLANT AND EQUIPMENT (Continued)

	January 1, 2020	Additions	Disposals	Transfers (2)	Exchange difference	September 30, 2020
Less: Accumulated depreciation						
Building and						
building improvements	1,382	1,116	-	-	10	2,508
Leasehold improvements	-	5	-	-	-	5
Computers	273	414	-	-	4	691
Office equipment	26	33	-	-	-	59
Machinery and plant equipment	1,470	1,616	(8)	-	3	3,081
Motor vehicles	4	10	-	-	-	14
Security equipment	143	104	-	-	-	247
Right-of-use assets	172	317	-	-	-	489
	3,470	3,615	(8)	-	17	7,094
Net book value	42,233					44,808

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

8.1 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 condensed interim consolidated statements of (loss)/income for three and nine months ended September 30, 2020 is \$19 and \$168, respectively (September 30, 2019: \$167 and \$411, respectively).

	January 1, 2020	Additions	September 30, 2020
Cost			
Right-of-use assets			
-Land	74	30	104
-Building	757	-	757
-Equipment	309	-	309
-Vehicle	31	-	31
-IT equipment	33	-	33
	1,204	30	1,234

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NOTE 8 – PROPERTY, PLANT AND EQUIPMENT (Continued)

	January 1, 2020	Additions	September 30, 2020
Less: Accumulated depreciation			
Right-of-use assets			
-Land	28	39	67
-Building	100	216	316
-Equipment	25	46	71
-Motor vehicle	13	10	23
-IT equipment	6	6	12
	172	317	489
Net book value	1,032		745

NOTE 9 – LOANS AND BORROWINGS

	September 30, 2020	December 31, 2019
Current liabilities		
Current portion of convertible debt (Note 9.3)	6,616	-
Current portion of bank loans (Note 9.2)	766	1,459
Current portion of lease liability (Note 9.1)	358	364
	7,740	1,823
Non-current liabilities		
Convertible debt (Note 9.3)	18,839	-
Bank loans (Note 9.2)	4,427	8,116
Lease liability (Note 9.1)	382	641
	23,648	8,757

9.1 Lease liability

The Group has various lease agreements with maturities between 1 and 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 16.2.

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NOTE 9 – LOANS AND BORROWINGS (Continued)

9.2 Bank loans

	September 30, 2020	December 31, 2019
Aggregate outstanding advances	5,272	9,700
Accrued interest	6	16
Less: Amortized cost impact	85	141
	5,193	9,575

On October 10, 2019, MediPharm Labs Inc. (“MPL”), a subsidiary of the Company, as borrower, signed a credit agreement with (together with any amendments, supplements or revisions thereto the “Credit Agreement”) with a Schedule 1 Bank (the “Bank”), as lender, for up to \$38,700 subject to satisfaction of various conditions. The Credit Agreement bears interest at the Bank’s prime lending rate plus a certain per cent per annum dependent upon the Group’s debt covenants. The Credit Agreement has a general security interest in the Group’s assets and can be repaid without penalty. The Company is the guarantor for the Credit Agreement. The Credit Agreement is comprised of a revolving term facility, a non-revolving term facility and a non-revolving delayed draw term facility.

During the nine-month period ended September 30, 2020, the Group repaid amounts of \$4,000 outstanding under the non-revolving delayed loan. As of September 30, 2020, the Group has outstanding amounts payable under the Credit Agreement of \$5,272 that is related to non-revolving term facility with a maturity date of October 22, 2022 and repayable in mandatory quarterly installments. During the nine-month period ended September 30, 2020, the Group paid \$428 as quarterly installments.

9.3 Convertible debt

As at January 1, 2020	-
Issued at amortized, net issuance cost	23,549
Installment payment	(657)
Accretion and unpaid interest	2,563
As at September 30, 2020	25,455

On June 8, 2020, the Group closed a private placement with an institutional investor for aggregate gross proceeds of \$37,822 (the “2020 Private Placement”).

\$18,911 of the 2020 Private Placement is related to the placement of a \$20,500 unsecured convertible note (the “First Note”) and a warrant (the “First Warrant”) to purchase up to 3,601,427 Common Shares; and the remaining \$18,911 is related to the placement of a subscription receipt, which entitled the holder to receive, a further \$20,500 unsecured convertible note (the “Second Note” and, together with the First Note, collectively, the “Notes”) and a further warrant (the “Second Warrant” and, together with the First Warrant, collectively, the “Warrants”) to purchase up to 3,601,427 Common Shares at a price of \$2.28 per share and expiring on October 9, 2023. The Second Note and Second Warrant were issued on August 5, 2020 following the shareholders approval.

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NOTE 9 – LOANS AND BORROWINGS (Continued)

The Notes have a three-year term, were issued at an original issue discount of 7.75% and are convertible to Common Shares at the option of the investor at a price of \$2.28 per share (the “Conversion Price”). Commencing four months after the closing date, the Notes will begin to amortize through bi-monthly installment payments of approximately \$640 (the “Bi-Monthly Installment Payments”), payable in Common Shares, subject to the satisfaction of equity conditions including a minimum volume and trading price for the Common Shares, at a price per Common Share equal to 90% of the market price of the Common Shares (being the 5-day volume weighted average price of the Common Shares on the TSX) or 87% of such market price where that market price is less than \$1.00 (each an “Installment Percentage”) or, at the option of the Group, in whole or in part, in cash.

Upon receipt of approval of the 2020 Private Placement by the Group’s shareholders in accordance with the requirements of the TSX (the “Shareholder Approval”), the price for such Common Shares issued pursuant to a Bi-Monthly Installment Payment shall be adjusted to the lesser of (i) the then existing Conversion Price; and (ii) the Installment Percentage.

In connection with 2020 Private Placement, the placement agent received a cash fee equal to 5.5% of the gross proceeds of the 2020 Private Placement.

The Group allocated the gross proceeds of \$18,911 from First Note and First Warrant for purpose of initial recognition as follows: \$10,693 to the First Note based on the discounted future cash outflows of convertible note, \$6,187 to the conversion option derivative liability (Note 10.1) and \$2,031 to the warrant derivative liability (Note 10.2).

The Group allocated the gross proceeds of \$18,911 from Second Note and Second Warrant for purpose of initial recognition as follows: \$14,540 to the Second Note based on the discounted future cash outflows of convertible note, \$3,498 to the conversion option derivative liability (Note 10.1) and \$873 to the warrant derivative liability (Note 10.2).

The Group incurred costs and fees of \$2,604 to close the 2020 Private Placement which were allocated on a pro-rata basis to the convertible note, conversion option derivative liability (Note 10.1) and warrant derivative liability (Note 10.2) in the amounts of \$1,684, \$704 and \$216 respectively.

NOTE 10 – DERIVATIVE LIABILITIES

10.1 Conversion option derivative liability

A holder of a Note has the option to accelerate or defer the Bi-Monthly Installment Payments. Common Shares issued as settlement for the accelerated payment are issued in accordance with the Installment Percentage (Note 9.3), resulting in a variable number of Common Shares issuable. As a result, a holder’s acceleration right for Bi-Monthly Installment Payments was recognized as a conversion option derivative liability and had a fair value of \$9,685 at inception. Financing cost of \$704 were expensed at recognition.

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NOTE 10 –DERIVATIVE LIABILITIES (Continued)

As at September 30, 2020, the conversion option derivative liability was revalued and a revaluation gain of \$2,934 and \$3,221 was recorded in the condensed interim consolidated statements of (loss)/income for the three and nine-month periods ended September 30, 2020, respectively (three and nine-month periods ended September 30, 2019: \$nil).

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 17). Expected number of Common Shares which would be subject to optional conversion and volatility estimate are the significant inputs. As of September 30, 2020, with all other variables held constant, a 10% decrease in the expected number of Common Shares would have decreased the fair value of conversion option derivative liability by \$112 and there would be an equal but opposite impact on net income. As of September 30, 2020, with all other variables held constant, a 5% decrease in the volatility would have decreased the fair value of conversion option derivative liability by \$220 and there would be an equal but opposite impact on net income.

10.2 Warrant derivative liability

As at January 1, 2020	-
Issued First Warrant	2,031
Issued Second Warrant	873
Gain in revaluation	(1,713)

As at September 30, 2020 **1,191**

Under the 2020 Private Placement, the Group issued a warrant to purchase up to 7,202,854 Common Shares with an exercise price of \$2.28 per share and expiring on October 9, 2023 (Note 9.3).

The warrants are classified as a liability because of the cashless exercise option which does not satisfy fixed-for-fixed testing. On initial recognition of the First Warrant, the warrant derivative liability was valued at \$2,031 using the Black-Scholes option pricing model using the following input data: stock price of \$1.89 per share; expected life of 3.33 years; 66.6% volatility based upon historical prices and risk-free interest rate of 0.30%. Financing cost of \$168 were expensed at recognition.

On initial recognition of the Second Warrant, the warrant derivative liability was valued at \$873 using the Black-Scholes option pricing model using the following input data: stock price of \$1.03 per share; expected life of 3.18 years; 65.66% volatility based upon historical prices and risk-free interest rate of 0.23%. Financing cost of \$48 were expensed at recognition.

The warrant derivative liability was revalued as of September 30, 2020 using the Black-Scholes option pricing model using the following input data: stock price of \$0.88 per share; expected life of 3.02 years; 65.31% volatility based upon historical prices and risk-free interest rate of 0.24%. The revaluation gain of the warrant derivative liability for the three and nine-month period ended September 30, 2020 was \$715

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NOTE 10 –DERIVATIVE LIABILITIES (Continued)

and \$1,713, respectively, (three and nine-month periods ended September 30, 2019: \$nil) which was recorded in the condensed interim consolidated statements of (loss)/income.

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 17). Volatility estimate is the significant input. As of September 30, 2020, with all other variables held constant, a 5% increase in the volatility would have increased the fair value of warrant derivative liability by \$214 and there would be an equal but opposite impact on net income.

NOTE 11 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

11.1 Sales commitments under supply agreements

Under supply agreements, as of September 30, 2020, the Group is committed to sell 2,000 units of tincture bottles of cannabis oil to licensed producers within the next eight months. In the event the Group does not meet the commitments, the Group is not subject to any late in-kind/cash payments. For the nine-month period ended September 30, 2020, the Group fulfilled the committed amount for which orders had been submitted.

11.2 Purchase commitments under purchase agreements

Under the cannabis material purchase agreements signed within the reporting period, the Group committed to purchase 480kg of dried GMP grade cannabis flower until December 31, 2020.

11.3 Litigation

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. On February 26, 2020, the defendant in the Claim filed a statement of defence and counterclaim for \$35,000. The Group is proceeding with a motion for summary judgment, which will take place at an unspecified date within the three-months period ending March 31, 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.

On June 16, 2020, a claim in connection with a proposed national consumer protection class-action lawsuit was filed with the Court of Queen’s Bench in Alberta (as amended from time to time, the “Alberta Claim”) seeking damages against several Canadian cannabis companies including MPL. The Alberta Claim does not particularize all of the claims against the companies however it makes allegations with respect to the content of THC and CBD in the companies’ products. The proposed action is not certified. MPL has reported the Alberta Claim to its insurers. On August 30, 2020, counsel for the claimant filed a Notice of Discontinuance, removing MPL from the Alberta Claim.

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NOTE 12 – TRADE AND OTHER PAYABLES

	September 30, 2020	December 31, 2019
Accrued liabilities	2,326	1,793
Payable to suppliers	2,116	19,057
Refund liabilities (1)	876	-
Down payment by customers	371	-
HST/GST and excise tax payable	241	-
Other	41	96
	5,971	20,946

Payable to suppliers are amounts due to vendors for unpaid goods and services received arising in the ordinary course of business. Trade payables are all short term natured 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. Other includes the payable to financial institutions related to credit card payables.

(1) Refund liabilities of \$876 (December 31, 2019: \$nil) 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 \$876 (December 31, 2019: \$nil) 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 13 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS

13.1 Common shares issued

The Company 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 Company.

On June 17, 2019, the Company closed its bought deal offering of 13,514,000 Common Shares at a price of \$5.55 per share for aggregate gross proceeds of \$75,003. The Company incurred transaction costs of \$2,505 (net of tax) in connection with the bought deal offering which were recorded as a reduction to share capital.

For the nine-month period ended September 30, 2020, 1,800 stock options (September 30, 2019: 6,308,206 stock options) and 8,063,415 warrants (nine-month period ended September 30, 2019: 13,406,200 warrants) were exercised into Common Shares for proceeds of \$3 (nine-month period ended September 30, 2019: \$1,544) and \$5,267 (nine-month period ended September 30, 2019: \$11,784), respectively. For the three-month period ended September 30, 2020, nil stock options (three-month period ended September 30, 2019: 525,300 stock options) and 3,313,267 warrants (three-month period ended September 30, 2019: 483,503 warrants) were exercised into Common Shares for proceeds of \$nil (three-month period ended September 30, 2019: \$149) and \$1,751 (three-month period ended September 30, 2019: \$469), respectively.

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NOTE 13 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

13.2 Stock options / Share based compensation

On January 8, 2019, the Company issued options to purchase up to 4,920,500 Common Shares with an exercise price of \$2.00 per share for a five-year term expiring January 8, 2024. The stock options vested 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$6,700 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 92.1%, estimated forfeiture rate of 0%-3%, expected life of 5 years and a risk-free rate of 1.89%.

On January 8, 2019, the Company issued options to purchase up to 380,400 Common Shares with an exercise price of \$2.00 per share for a five-year term expiring January 8, 2024. The stock options vested immediately. Total fair value of the options issued was \$541 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 92.1%, estimated forfeiture rate of 0%, expected life of 5 years and a risk-free rate of 1.89%.

On February 4, 2019, the Company issued options to purchase up to 790,500 Common Shares with an exercise price of \$1.96 per share for a five-year term expiring February 4, 2024. The stock options vested 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$957 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 91.7%, estimated forfeiture rate of 0%, expected life of 5 years and a risk-free rate of 1.86%.

On March 29, 2019, the Company issued options to purchase up to 791,000 Common Shares with an exercise price of \$3.34 per share for a five-year term expiring March 29, 2024. The stock options vested 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$639 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 90.6%, estimated forfeiture rate of 0%, expected life of 5 years and a risk-free rate of 1.53%.

On August 13, 2019, the Company issued options to purchase up to 1,844,980 Common Shares with an exercise price of \$6.47 per share for a five-year term expiring August 13, 2024. The stock options vested 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$7,287 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 89.7%, estimated forfeiture rate of 0%-4% expected life of 5 years and a risk-free rate of 1.30%.

On November 1, 2019, the Company issued options to purchase up to 725,000 Common Shares with an exercise price of \$4.61 per share for a five-year term expiring November 1, 2024. The stock options vested 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$2,309 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 88.8%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 1.48%.

On November 12, 2019, the Company issued options to purchase up to 242,250 Common Shares with an exercise price of \$4.42 per share for a five-year term expiring November 12, 2024. The stock options vested 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$678 and was estimated using the Black Scholes option pricing model, using the following

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NOTE 13 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

assumptions: estimated volatility of 88.8%, estimated forfeiture rate of 0-8%% expected life of 5 years and a risk-free rate of 1.58%.

On January 21, 2020, the Company issued options to purchase up to 80,000 Common Shares with an exercise price of \$3.80 per share for a five-year term expiring January 21, 2025. The stock options vested 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$210 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 88.5%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 1.55%.

On February 21, 2020, the Company issued options to purchase up to 80,000 Common Shares with an exercise price of \$2.92 per share for a five-year term expiring February 21, 2025. The stock options vested 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$161 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 88.3%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 1.34%.

On March 30, 2020, the Company issued options to purchase up to 60,000 Common Shares with an exercise price of \$1.59 per share for a five-year term expiring March 30, 2025. The stock options vested 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$66 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 89.5%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 0.57%.

On June 18, 2020, the Company issued options to purchase up to 83,150 Common Shares with an exercise price of \$1.46 per share for a five-year term expiring June 18, 2025. The stock options vested 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$84 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 91.2%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 0.33%.

On June 22, 2020, the Company issued options to purchase up to 300,000 Common Shares with an exercise price of \$1.35 per share for a five-year term expiring June 22, 2025. The stock options vested immediately. Total fair value of the options issued was \$281 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 91.15%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 0.34%.

On July 13, 2020, the Company issued options to purchase up to 300,000 Common Shares with an exercise price of \$1.22 per share for a five-year term expiring July 13, 2025. The stock options vested immediately. Total fair value of the options issued was \$253 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 90.78%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 0.30%.

On July 31, 2020, the Company issued options to purchase up to 300,000 Common Shares with an exercise price of \$1.04 per share for a five-year term expiring July 31, 2025. The stock options vested immediately. Total fair value of the options issued was \$216 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 90.57%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 0.26%.

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NOTE 13 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

On August 27, 2020, the Company issued options to purchase up to 560,000 Common Shares with an exercise price of \$0.93 per share for a five-year term expiring August 27, 2025. The stock options vested 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$359 and was estimated using the Black Scholes option pricing model, using the following assumptions: estimated volatility of 90.2%, estimated forfeiture rate of 0% expected life of 5 years and a risk-free rate of 0.34%.

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	Weighted average exercise price \$
As at January 1, 2020	11,760,020	2.93
Granted during the period	1,763,150	1.34
Exercised during the period	(1,800)	1.96
Forfeited/cancelled during the period	(983,890)	3.46
Outstanding at September 30, 2020	12,537,480	2.66
Exercisable at September 30, 2020	8,857,518	2.55
Weighted average remaining contractual life		3.5years

The range of exercise prices for options outstanding as at September 30, 2020, is as below:

Exercise price range	Weighted average remaining contractual life 2020	Number of outstanding options 2020
Less than and equal to \$1.00	4.70	616,800
Between \$1.00 and \$3.00	3.41	8,951,250
Between \$3.00 and \$5.00	4.01	1,303,450
More than and equal to \$5.00	3.87	1,665,980
		12,537,480

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NOTE 13 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

13.3 Share purchase warrants

A summary of changes in share purchase warrants on a diluted basis is as follows:

	Number of warrants	Weighted average exercise price \$
As at January 1, 2020	12,519,675	0.84
Exercised during the period	(8,063,415)	0.65
As at September 30, 2020	4,456,260	1.17
Weighted average remaining contractual life as at September 30, 2020		0.22 years

NOTE 14 – REVENUE

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Revenue from contracts with customers	4,947	43,379	29,954	96,719
Other revenue				
Investment property rental	-	7	-	89
Total revenue	4,947	43,386	29,954	96,808

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

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Canada	4,228	42,277	25,939	95,110
Australia	719	1,102	4,015	1,609
	4,947	43,379	29,954	96,719

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NOTE 14 – REVENUE (Continued)

	Three months ended		Nine months ended	
	September 30 2020	2019	September 30 2020	2019
Private label	2,106	42,633	24,027	95,577
White label	2,617	-	5,597	-
Tolling process	223	746	321	1,142
Other	1	-	9	-
	4,947	43,379	29,954	96,719
Products transferred at a point in time	4,947	42,633	29,856	95,577
Products and services transferred over time	-	746	98	1,142
	4,947	43,379	29,954	96,719

For the nine months ended September 30, 2020, 66% (September 30, 2019: 83%) of total revenue is from four customers (September 30, 2019: four customers) each representing more than 10% of the Group's revenue. For the three months ended September 30, 2020, 52% (three months ended September 30, 2019: 91%) of total revenue is from two customers each representing more than 10% of the Group's revenue (three months ended September 30, 2019: five customers).

NOTE 15 – EXPENSES BY NATURE

	Three months ended		Nine months ended	
	September 30 2020	2019	September 30 2020	2019
Inventory and consumables recognized in cost of sales	5,715	23,689	21,935	52,726
Write down of inventory to net realizable value (Note 7)	6,291	-	19,102	-
Employee compensation	4,279	3,875	13,134	9,231
Consulting and professional fees	1,519	1,724	5,947	3,998
Write down of non-current deposits (4)	1,469	-	1,469	-
Depreciation	925	460	2,438	1,681
Share based compensation expense (2)	800	4,157	5,079	10,871
Analytical testing	595	1,641	1,519	2,634
Impairment loss on receivables (Note 16.1)	521	-	521	-
Software licenses	303	356	907	545
Supplies and small equipment	198	597	1,889	1,291
Royalty	-	-	301	-
Government grants (3)	(880)	-	(2,688)	-
Other (1)	(41)	1,522	1,588	4,390
	21,694	38,021	73,141	87,367

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NOTE 15 – EXPENSES BY NATURE (Continued)

(1) Other includes freight and shipping cost, sponsorships, office related expenses, utilities, foreign exchange loss/gain and bank service fees.

(2) For the nine-month period ended September 30, 2020, out of total share based compensation expense of \$5,079 (September 30, 2019: \$10,871), general administrative expense portion is \$3,663 (September 30, 2019: \$7,023), marketing and selling expense portion is \$581 (September 30, 2019: \$1,201), cost of sales portion is \$827 (September 30, 2019: \$2,647) and research and development portion is \$8 (September 30, 2019: \$nil). For the three-month period ended September 30, 2020, out of total share based compensation expense of \$800 (September 30, 2019: \$4,157), general administrative expense portion is \$692 (September 30, 2019: \$2,232), marketing and selling expense portion is \$56 (September 30, 2019: \$281), cost of sales portion is \$55 (September 30, 2019: \$1,644) and research and development portion is -\$3 (September 30, 2019: \$nil).

(3) The Group applied for Canada Emergency Wage Subsidy (CEWS) and Australia JobKeeper Payment Subsidy and through these programs were approved government grants of \$880 for the three-month period ended September 30, 2020 and \$2,688 for the nine-month period ended September 30, 2020. Such government grants are recognized as other operating income in the condensed interim consolidated statement 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.

(4) The Group wrote off certain non-current deposits given to its vendors for capital expenditures since the economic benefit from these deposits will not be realized. The loss is included in cost of sales in the condensed interim consolidated statement of (loss)/income.

NOTE 16 – 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 interest rate 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.

16.1 Credit risk

Credit risk arises from deposits with banks and financial institutions, restricted escrow balances and outstanding receivables if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group holds cash of \$36,458 (December 31, 2019: \$38,627). The cash is held with banks and financial institutions that are either Schedule 1 Canadian banks or large credit unions.

At September 30, 2020, the exposure to credit risk for trade receivables and contract assets by the type of customer is as follows:

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NOTE 16 –FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)

	September 30, 2020	December 31, 2019
Business to business customers	24,029	26,105
Distributors / Retailers	1,442	112
	25,471	26,217

As at September 30, 2020, 77% of the Group's trade receivables (December 31, 2019: 86%) is due from two customers (December 31, 2019: three customers) each representing more than 10% of the Group's trade receivables balance. 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. The past due portion of these trade receivables comprise 43% of all the Group's past due trade receivables as at September 30, 2020. The Group did not recognize any allowance for this trade receivable.

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. The Group recognized an allowance for expected credit losses in connection with its trade receivables to an amount of \$521 (December 31, 2019: \$nil). The aging of the Group's trade receivables at September 30, 2020 is as follows:

	September 30, 2020 Gross carrying amount
Current (not past due)	4,944
1-30 days past due	8,905
31-60 days past due	1,365
61-90 days past due	6
91-270 days past due	1,530
>270 days past due	8,721
	25,471

Expected losses on trade receivables and contract assets are presented as credit losses within other operating expense in the condensed interim consolidated statement of loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

16.2 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash to meet obligations when due. As at September 30, 2020, the Group held deposits at banks and financial institutions of \$36,458 (December 31, 2019: \$38,627) 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 16 – 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 September 30, 2020	Less than 6 months	6-12 months	12-36 months	36-60 months	Total contractual cash flows	Carrying amount
Trade and other payables	5,971	-	-	-	5,971	5,971
Lease liability	200	179	313	79	771	740
Non-revolving loan (1)	285	285	4,702	-	5,272	5,193
Convertible debt	7,232	7,890	26,042	-	41,164	25,455
Total financial liabilities	13,688	8,354	31,057	79	53,178	37,359

(1) The amount disclosed in the table is based on principal payments. Other fees are not included in the above analysis.

The bank loans contain loan covenants which are monitored on a regular basis by the Group to ensure compliance with the agreement.

16.3 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) Interest rate risk

The Group's main interest rate risk arises from long-term loan with variable rates, which expose the Group to cash flow interest rate risk. The Group's long-term loan with variable rate is denominated only in Canadian Dollars.

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NOTE 16 – FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)

(iii) Price risk

The Group's price risk arises from the volatility of the Company's own market share prices which could significantly affect the fair value of the derivative liabilities (Note 10).

16.4 Capital risk management

The Company's objectives when managing capital are to safeguard the Company'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 Company'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, 2020, total managed capital is \$144,429 (December 31, 2019: \$142,127). The Company'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 Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners or through debt financing.

NOTE 17 – 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.

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NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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 Company's control. The sensitivity analysis for each significant input is performed in Note 10.

During the nine months ended September 30, 2020, there were no transfers between levels.

NOTE 18 – SEGMENT INFORMATION

The Group operates in one segment, the production and sales of cannabis extracts and derivative products. The carrying value of non-current assets located outside of Canada is \$8,879 (December 31, 2019: \$7,844) and these assets are made up of property, plant and equipment and deposits given for property, plant and equipment.

NOTE 19 – EVENTS AFTER THE REPORTING PERIOD

(i) Acquisition of non-controlling interest

On October 8, 2020 ("the Closing Date"), the Group closed a share sale and purchase agreement with its local Australian partner to acquire its 20% ownership interest in MediPharm Labs Australia for an amount of \$3,200 which would be paid as combination of cash and Common Shares. The Group paid the vendor \$600 of cash and issued 2,359,603 Common Shares for an amount of \$2,000. Rest of the consideration will be paid as \$300 of cash nine months after the Closing Date and \$300 of cash eighteen months after the Closing Date. Upon the closing of this transaction, the Group now controls 100% of MediPharm Labs Australia, making MediPharm Labs Australia a wholly-owned subsidiary of the Group.

(ii) Accelerated payment option of First Note and Second Note

On October 13, 2020, the holder of the Notes delivered conversion notices to the Group with respect to an acceleration of \$397 principal amount of each of the First Note and Second Note at an installment conversion price of \$0.7352 related to the Installment Date of October 1, 2020. On October 15, 2020, the Group issued an aggregate of 1,080,700 Common Shares in connection with such acceleration.

On October 14, 2020, the holder of the Notes delivered conversion notices to the Group with respect to an acceleration of \$445 principal amount of each of the First Note and Second Note at an installment conversion price of \$0.7352 related to the Installment Date of October 1, 2020. On October 16, 2020, the Group issued an aggregate of 1,209,280 Common Shares in connection with such acceleration.

On November 9, 2020, the holder of the Notes delivered conversion notices to the Group with respect to an acceleration of \$1,934 principal amount of each of the First Note and Second Note at an installment conversion price of \$0.7052 related to the Installment Date of November 2, 2020. On November 10, 2020, the Group issued an aggregate of 2,741,910 Common Shares in connection with such acceleration.

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NOTE 19 – EVENTS AFTER THE REPORTING PERIOD (Continued)

On November 12, 2020, the holder of the Notes delivered conversion notices to the Group with respect to an acceleration of \$1,934 principal amount of each of the First Note and Second Note at an installment conversion price of \$0.7052 related to the Installment Date of November 2, 2020. On November 13, 2020, the Group issued an aggregate of 2,741,910 Common Shares in connection with such acceleration.

On November 13, 2020, the holder of the Notes delivered conversion notices to the Group with respect to an acceleration of \$1,289 principal amount of each of the First Note and Second Note at an installment conversion price of \$0.7052 related to the Installment Date of November 2, 2020. On November 13, 2020, the Group issued an aggregate of 1,827,940 Common Shares in connection with such acceleration.

(iii) Issued and cancelled stock options

Subsequent to September 30, 2020, 691,890 stock options were cancelled, resulting in 11,845,590 stock options remaining outstanding.
