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

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AT JUNE 30, 2021

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MEDIPHARM LABS CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at June 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	June 30, 2021	December 31, 2020
ASSETS			
Current assets:			
Cash and cash equivalents		38,751	19,913
Trade and other receivables	5	32,635	29,645
Other assets		3,841	3,230
Inventories	6	13,659	22,139
Assets held for sale		881	2,102
Current tax receivable		4,256	4,492
Total current assets		**94,023**	**81,521**
Non-current assets:			
Property, plant and equipment	7	31,587	34,144
Intangibles	7.2	236	228
Non-current deposits		2,147	2,147
Other financial assets		191	191
Total non-current assets		**34,161**	**36,710**
Total assets		**128,184**	**118,231**

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

MEDIPHARM LABS CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at June 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	June 30, 2021	December 31, 2020
LIABILITIES AND EQUITY			
Current liabilities:			
Trade and other payables	11	13,406	14,793
Current employee benefit obligations		2,091	1,455
Due to related party	4.2	600	300
Loans and borrowings	8	2,006	7,697
Conversion option derivative liability	9.1	288	-
Total current liabilities		**18,391**	**24,245**
Non-current liabilities:			
Due to related party	4.2	-	300
Loans and borrowings	8	92	10,761
Warrant derivative liability	9.2	174	357
Conversion option derivative liability	9.1	-	4,154
Total non-current liabilities		**266**	**15,572**
Total liabilities		**18,657**	**39,817**
Equity:			
Common shares	12	**188,609**	138,508
Reserves		**21,061**	14,851
Accumulated other comprehensive income / (loss)		**79**	(403)
Accumulated deficit		**(100,222)**	(74,542)
Total equity		**109,527**	**78,414**
Total liabilities and equity		**128,184**	**118,231**

Commitments and contingencies	10
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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
For the three and six months ended June 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 June 30 2021	Three months ended June 30 2020	Six months ended June 30 2021	Six months ended June 30 2020
Revenue	13	5,072	13,918	10,567	25,007
Cost of sales		(12,805)	(11,706)	(18,980)	(33,677)
Gross profit		**(7,733)**	**2,212**	**(8,413)**	**(8,670)**
General administrative expenses		(5,187)	(6,793)	(9,190)	(12,293)
Marketing and selling expenses		(1,054)	(948)	(2,331)	(1,747)
Research and development expenses		(144)	(337)	(496)	(1,381)
Share based compensation expense	12,14	(476)	(1,520)	(1,356)	(4,279)
Other operating income/(expense), net	14	3,214	2,879	2,490	1,928
Operating loss		**(11,380)**	**(4,507)**	**(19,296)**	**(26,442)**
Unrealized gain in revaluation of derivative liabilities	9	329	1,285	4,049	1,285
Finance income		39	34	96	170
Finance expense		(564)	(587)	(10,293)	(817)
Loss before taxation		**(11,576)**	**(3,775)**	**(25,444)**	**(25,804)**
Taxation (expense)/recovery		(236)	285	(236)	4,951
Net loss for the period		**(11,812)**	**(3,490)**	**(25,680)**	**(20,853)**
Attributable to					
- Non-controlling interest		-	(136)	-	(411)
- Equity holders of the Parent		(11,812)	(3,354)	(25,680)	(20,442)
Basic loss per share		(0.05)	(0.02)	(0.11)	(0.15)
Diluted loss per share		(0.05)	(0.02)	(0.11)	(0.15)

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 six months ended June 30, 2021 and 2020

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

	Three months ended June 30		Six months ended June 30	
	2021	**2020**	**2021**	**2020**
Net loss for the period	**(11,812)**	**(3,490)**	**(25,680)**	**(20,853)**
Other comprehensive (loss)/income				
Items that may be reclassified to profit or loss				
Exchange differences on translation of foreign operations	174	(253)	482	(138)
Total comprehensive loss for the period	**(11,638)**	**(3,743)**	**(25,198)**	**(20,991)**
Total comprehensive loss attributable to				
- Non-controlling interest	-	(187)	-	(439)
- Equity holders of the Parent	(11,638)	(3,556)	(25,198)	(20,552)

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the six months ended June 30, 2021 and 2020

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

	Common Shares		Reserves						
	Number (post stock split)	**Share capital**	**Share-based payments**	**Non-controlling interest acquisition reserve**	**Warrant Reserve**	**Accumulated other comprehensive**	**Accumulated deficit**	**Non-controlling interest**	**Total**
Balance at January 1, 2020	**131,525,068**	**122,807**	**16,960**	**-**	**-**	**(31)**	**(8,189)**	**(320)**	**131,227**
Share issuance cost	-	(812)	-	-	-	-	-	-	(812)
Shares issued on exercise of stock options	1,800	6	(3)	-	-	-	-	-	3
Shares issued on exercise of warrants	4,750,148	3,516	-	-	-	-	-	-	3,516
Share based compensation	-	-	4,279	-	-	-	-	-	4,279
Foreign exchange translation	-	-	-	-	-	(110)	-	(28)	(138)
Net loss for the year	-	-	-	-	-	-	(20,442)	(411)	(20,853)
Balance at June 30, 2020	**136,277,016**	**125,517**	**21,236**	**-**	**-**	**(141)**	**(28,631)**	**(759)**	**117,222**
Balance at January 1, 2021	**155,550,487**	**138,508**	**19,174**	**(4,323)**	**-**	**(403)**	**(74,542)**	**-**	**78,414**
Share conversion of convertible loan (Note 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	-	(1,876)	-	-	(367)	-	-	-	(2,243)
Shares issued on exercise of stock options/RSUs	582,345	241	(241)	-	-	-	-	-	-
Shares issued on exercise of warrants	-	-	-	-	-	-	-	-	-
Share based compensation	-	-	1,356	-	-	-	-	-	1,356
Foreign exchange translation	-	-	-	-	-	482	-	-	482
Net loss for the year	-	-	-	-	-	-	(25,680)	-	(25,680)
Balance at June 30, 2021	**263,768,776**	**188,609**	**20,289**	**(4,323)**	**5,095**	**79**	**(100,222)**	**-**	**109,527**

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 six months ended June 30, 2021 and 2020

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

	Notes	Six months ended June 30, 2021	June 30, 2020
Cash flows from operating activities:			
Net loss for the period		(25,680)	(20,853)
Adjustments for:			
Write down of inventory	6	5,749	12,811
Depreciation and Amortization	7	2,356	2,310
Loss on sale of fixed asset		12	-
Finance income and finance expense		10,197	647
Unrealized gain in revaluation of derivative liabilities	9	(4,049)	(1,285)
Unrealized foreign exchange difference		1,300	(139)
Taxation recovery/ charge		236	(4,951)
Share based compensation		1,356	4,279
Cash flows from operating activities before changes in working capital items		**(8,523)**	**(7,181)**
Change in trade and other receivables	5	(344)	(5,326)
Change in inventories	6	2,731	(1,654)
Change in other current assets		(2,037)	(829)
Change in trade and other payables	11	(1,388)	(7,976)
Change in other current liabilities		636	1,896
Net cash (used in)/provided by operating activities		**(8,925)**	**(21,070)**
Cash flows from investing activities:			
Capital expenditures	7	(462)	(6,409)
Acquisition of financial assets		-	(2)
Proceeds from sale of fixed assets		174	-
Net cash used in investing activities		**(288)**	**(6,411)**
Cash flows from financing activities			
Repayment of loans and borrowings	8.2	(2,630)	(4,285)
Proceeds from issuance of convertible debt, net of fee		-	18,027
Proceeds from issuance of shares and warrants, net of costs		31,107	-
Exercise of warrants		-	3,516
Exercise of stock options		-	3
Interest and finance fee paid		-	(461)
Interest received		96	170
Payment of lease liabilities		(170)	(170)
Net cash provided by financing activities		**28,403**	**16,800**
Effects of exchange rate changes		**(352)**	**-**
(Decrease)/increase in cash and cash equivalents		**18,838**	**(10,681)**
Cash and cash equivalents at the beginning of the period		**19,913**	**38,627**
Cash and cash equivalents at the end of the period		**38,751**	**27,946**

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

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 six months ended June 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 six-month periods ended June 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 31 December 2020 with the exception of new accounting policies that were adopted in January 1, 2021 as described in Note 2.2.

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

On August 15, 2021, the Board of Directors of the Company approved these Condensed Interim Consolidated Financial Statements.

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) 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.

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

(ii) 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).

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

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

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

(iv) Valuation of inventories

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

(v) Fair value of derivative liabilities

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

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

(vi) COVID-19 estimation uncertainty

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, did not materially impact the Group's operations during the six months ended June 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

	June 30, 2021	December 31, 2020
Financial assets at amortized cost		
Cash and cash equivalents	38,751	19,913
Trade receivables (Note 5)	32,635	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)	13,406	14,793
Loans and borrowings (Note 8)	2,098	18,458
Current employee benefit obligations	2,091	1,455
Due to related parties	600	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)	174	357

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

NOTE 4 – TRANSACTIONS AND BALANCES WITH RELATED PARTIES

4.1 Key management personnel compensation

The Group has determined that key management personnel consist of directors and officers in the Group. The non share-based compensation remuneration to directors and officers during the three-month and six-month periods ended June 30, 2021 was $330 and $633, respectively (June 30, 2020: $429 and $998 respectively) and is included in general and administrative expenses.

During the six-month period ended June 30, 2021, the Group issued 750,000 options at an average exercise price of $0.60 per share (June 30, 2020: 300,000 options at an average exercise price of $1.35 per share) and 698,968 RSUs (June 30, 2020: nil RSUs) to its key management personnel and recognized total share-based compensation expense of $337 (June 30, 2020: $465). During the six-month period

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

ended June 30, 2021, the Group's key management personnel exercised nil options for gross proceeds of $nil and 582,345 RSUs for gross proceeds of $nil (June 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 six-month periods ended June 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 June 30, 2021, the Group has $600 (December 31, 2020: $600) of unpaid consideration for this acquisition which is recognized as due to related party.
As at June 30, 2021, the Group has $724 (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 $600 due to related party for the acquisition of ownership interest in MediPharm Labs Australia Pty. Ltd and accrued wages and bonus.

NOTE 5 – TRADE AND OTHER RECEIVABLES

	June 30, 2021	December 31, 2020
Trade receivables	27,466	27,193
Other receivable	4,247	1,743
Contract assets	811	530
HST/GST receivable	111	179
	32,635	**29,645**

The Group has gross trade receivables of $18,118 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 $10,856, of which $8,432 is over 365 days overdue. The Group has assessed this receivable as recoverable and has not reserved for the same. The third customer has a receivable of $797 and has been fully reserved for as at June 30, 2021. Credit risk and aging analysis related to trade receivables are included in Note 15.1.

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

The Group recognized other receivable of $2,715 and $412 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 six-month period ended June 30, 2021 (Note 14).

NOTE 6 – INVENTORIES

	June 30, 2021	December 31, 2020
Raw materials	5,128	8,844
Work in progress	774	-
Finished goods	6,434	11,835
Consumables and packages	1,323	1,460
	13,659	22,139

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.

For the three and six months ended June 30, 2021, the Group recognized a write down of the carrying value of its raw materials, work in progress and finished goods of $3,639 and $3,639 respectively (June 30, 2020: $nil and $12,811, respectively) since the cost of these inventories exceeded their net realizable value. As at June 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	June 30, 2021
Cost						
Land	1,886	1	-	-	(20)	1,867
Building and building improvements	25,490	21	-	32	(290)	25,253
Leasehold improvements	209	-	-	-	-	209
Computers	1,780	16	-	1	(26)	1,771
Office equipment	250	8	-	4	(5)	257
Machinery and plant equipment	15,599	137	(299)	441	(100)	15,778
Motor vehicles	70	-	-	-	(1)	69
Security equipment	743	-	-	-	-	743
Construction in progress (1)	3,255	257	(1)	(478)	(34)	2,999
Right-of-use assets (Note 7.1)	1,091	-	-	-	-	1,091
	50,373	**440**	**(300)**	**-**	**(476)**	**50,037**
Less: Accumulated depreciation						
Building and building improvements	4,761	549	-	-	13	5,323
Leasehold improvements	26	10	-	-	-	36
Computers	888	270	-	-	10	1,168
Office equipment	81	24	-	-	-	105
Machinery and plant equipment	9,373	680	(92)	-	(57)	9,904
Motor vehicles	46	4	-	-	(1)	49

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

Security equipment	319	67	-	-	7	393
Construction in progress	186	566	-	-	-	752
Right-of-use assets	549	171	-	-	-	720
	16,229	**2,341**	**(92)**	**-**	**(28)**	**18,450**
Net book value	**34,144**					**31,587**

(1) Construction in progress consists of the machinery and equipment in the installation process and renovation and expansion of building. For the six months ended June 30, 2021, accelerated depreciation amounting to $566 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.

(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 six months ending June 30, 2021 is $19 and $85 respectively (June 30, 2020: $55 and $148, respectively).

	January 1, 2021	**Additions**	**June 30, 2021**
Cost			
Right-of-use assets			
-Land	99	-	99
-Building	757	-	757
-Equipment	167	-	167
-Vehicle	31	-	31
-IT equipment	37	-	37
	1,091	**-**	**1,091**
Less: Accumulated depreciation			
Right-of-use assets			
-Land	75	12	87
-Building	384	136	520
-Equipment	50	16	66
-Motor vehicle	26	4	30
-IT equipment	14	3	17
	549	**171**	**720**
Net book value	**542**		**371**

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

7.2 Intangible assets

	January 1, 2021	Additions	Impairment	June 30, 2021
Cost				
Brand	250	22	-	272
Less: Accumulated amortization and impairment				
Brand	22	14	-	36
Net book value	228			236

NOTE 8 – LOANS AND BORROWINGS

	June 30, 2021	December 31, 2020
Current liabilities		
Convertible loan (Note 8.2)	1,732	7,375
Lease liability (Note 8.1)	274	322
	2,006	**7,697**
Non-current liabilities		
Convertible loan (Note 8.2)	**-**	10,542
Lease liability (Note 8.1)	92	219
	92	**10,761**

8.1 Lease liability

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

8.2 Convertible debt

As at January 1, 2021	17,917
Issued at amortized, net issuance cost	-
Installment payment	(2,630)
Accelerated conversion	(23,848)
Accretion and unpaid interest	10,293
As at June 30, 2021	**1,732**

During the six-month period ended June 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.

NOTE 9 –DERIVATIVE LIABILITIES

9.1 Conversion option derivative liability

As at January 1, 2021	4,154
Gain in revaluation	(3,866)
As at June 30, 2021	**288**

As at June 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 six month period ended June 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 June 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	(183)
As at June 30, 2021	**174**

The warrant derivative liability was revalued as of June 30, 2021 using the Black-Scholes option pricing model using the following input data: stock price of $0.45 per share; expected life of 2.27 years; 68.63% volatility based upon historical prices and risk-free interest rate of 0.44%. The revaluation gain of the warrant derivative liability for the six-month period ended June 30, 2021 was $183 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 June 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 $31 and increased/(decreased) net loss by $31.

NOTE 10 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

10.1 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, of which only $8,531 was recognized by the Group as trade receivables relating to performance obligations satisfied in a previous year; the remaining $1,269 has not been recognized by the Group as revenue or trade receivables as it relates to non-refundable deposits payable by the customer. On February 26, 2020, the defendant in the Claim filed a statement of defense and counterclaim for $35,000. The Group is proceeding with a motion for summary judgment, which is anticipated to take place at an unspecified date prior to December 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. The Group also has not recognized an expected credit loss against the $8,531 trade receivable subject to this claim.

10.2 Purchase Commitments under purchase agreements

As of June 30, 2021, under the cannabis material sales agreement, the Group is committed to purchase dry flower amounting to $6,340 until December 31, 2022.

NOTE 11 – TRADE AND OTHER PAYABLES

	June 30, 2021	**December 31, 2020**
Accrued Liabilities	5,279	7,792
Payable to suppliers	6,628	5,549
Contract Liabilities	1,499	1,003
Refund liabilities (1)	-	84
Other	-	365
	13,406	**14,793**

Payable to suppliers are amounts due to vendors for unpaid goods and services received arising in the ordinary course of business. Other includes the payable to financial institutions related to credit card payables and excise tax payables. Trade payables are all short term in nature with due dates less than 60 days. Accrued liabilities mainly result from products and services received from third parties related to ordinary course of business for which invoices have not been received as of the reporting date. 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 $27 (December 31, 2020: $101) under other current assets for the products expected to be returned which is measured by reference to the former carrying amount of the goods. The costs to recover the products are not material.

NOTE 12 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS

12.1 Common shares issued

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

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

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 six-month period ended June 30, 2021, nil stock options (June 30, 2020: 1,800 stock options) and nil warrants (June 30, 2020: 4,750,148 warrants) were exercised into common shares for proceeds of $nil (June 30, 2020: $3) and $nil (June 30, 2020: $3,516), respectively.

12.2 Stock options / Share based compensation

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

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

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

	Number of options	2021 Weighted average exercise price $
As at January 1	11,197,210	2.59
Granted during the period	1,720,000	0.54
Exercised during the period	-	-
Forfeited/cancelled during the period	2,881,860	2.57
Outstanding at June 30	**10,035,350**	**2.24**
Exercisable at June 30	8,058,750	2.46
Weighted average remaining contractual life		2.92 years

The range of exercise prices for options outstanding as at June 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	4.46	2,208,800
Between $1.00 and $3.00	2.74	6,074,050
Between $3.00 and $5.00	3.08	517,600
More than and equal to $5.00	3.12	1,234,900
		10,035,350

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	582,345
Forfeited/cancelled during the period	172,898
Outstanding at June 30	**2,273,699**
Exercisable at June 30	23,433
Weighted average remaining contractual life	4.71 years

NOTE 13 – REVENUE

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

	Three months ended June 30		Six months ended June 30	
	2021	**2020**	**2021**	**2020**
Domestic Sales	2,621	13,293	6,139	21,711
International Sales				
Australia	930	625	1,648	3,296
Germany	1,521	-	2,749	-
Other	-	-	31	-
	5,072	**13,918**	**10,567**	**25,007**
Private label	2,918	12,284	5,419	21,921
White label	1,220	1,568	3,571	2,980
Tolling process	867	41	1,456	98
Other	67	25	121	8
	5,072	**13,918**	**10,567**	**25,007**
Products transferred at a point in time	4,205	13,877	9,111	24,909
Products and services transferred over time	867	41	1,456	98
	5,072	**13,918**	**10,567**	**25,007**

For the six months ended June 30, 2021, the Group's revenue to three of its customers represent 16%, 15.3% and 13.8% of total revenue attributed to cannabis extracts and derivative products (June 30, 2020: five customers represent 28.21%, 16%, 12.29%, 12.27% and 10.68%). The Group had no other customer that represented more than 10% of the Group's total revenues for the six months ended June 30, 2021 and June 30, 2020.

For the three months ended June 30, 2021, the Group's revenue to three of its customers represent 14.1%, 12.5% and 11.4% of total revenue attributed to cannabis extracts and derivative products (June 30, 2020: two customers represent 50.8% and 22.13%). The Group had no other customer that represented more than 10% of the Group's total revenues for the three months ended June 30, 2021 and June 30, 2020.

NOTE 14 – EXPENSES BY NATURE

	Three months ended June 30		Six months ended June 30	
	2021	**2020**	**2021**	**2020**
Inventory and consumables recognized in cost of sales	3,446	7,941	5,952	16,220
Write down of inventory (Note 6)	5,749	-	5,749	12,811
Employee benefits	5,120	4,706	10,280	8,855
Consulting and professional fees	717	2,465	1,327	4,428
Depreciation and amortization	1,480	807	2,356	1,515
Share based compensation expense (2)	476	1,520	1,356	4,279
Analytical testing	223	510	764	924
Software licenses	502	302	858	604
Supplies and small equipment	173	1,001	413	1,691
Rent and occupancy cost	544	238	1,068	410
Foreign exchange loss	668	(1,074)	1,300	(489)
Filing fee and shareholder communications	14	665	161	814
Government grants (3)	(3,759)	(1,808)	(3,759)	(1,808)
Other (1)	1,099	1,152	2,038	1,195
	16,452	**18,425**	**29,863**	**51,449**

(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 six-month period ended June 30, 2021, out of total share-based compensation expense of $1,356 (June 30, 2020: $4,279), general administrative portion is $943 (June 30, 2020: $2,972), marketing and selling portion is $143 (June 30, 2020: $525) and cost of sales portion is $164 (June 30, 2020: $772), research and development portion is $106 (June 30, 2020: $10). For the three-month period ended June 30, 2021, out of total share-based compensation expense of $476 (June 30, 2020: $1,520), general administrative portion is $331 (June 30, 2020: $1,087), marketing and selling portion is $50 (June 30, 2020: $216) and cost of sales portion is $57 (June 30, 2020: $213), research and development portion is $37 (June 30, 2020: $4).

(3) For the three and six months ended June 30,2021, the Group recorded $3,759 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 six months ended June 30, 2020, the Group recorded $1,808 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.

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 $38,751 (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 June 30, 2021, the exposure to credit risk for gross trade receivables and contract assets by the type of customer is as follows:

	June 30, 2021	December 31, 2020
Business to business customers	27,180	24,972
Distributors / Retailers	1,977	3,291
	29,157	**28,263**

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

As at June 30, 2021, the Group holds trade receivables from two customers representing 39% and 31% of total trade receivables (December 31, 2020: two customers representing 39% and 31%). The Group has legal collection proceedings with respect to $8,531 of the Group's trade receivable balance, which are all due from one customer (Note 10). The Group recognized an allowance for expected credit losses in connection with its trade receivables to an amount of $880 (December 31, 2020: $540). The aging of the Group's gross trade receivables at June 30, 2021 is as follows:

	June 30, 2021 Gross carrying amount	December 31, 2020 Gross carrying amount
Current (not past due)	4,300	5,815
1-30 days past due	851	592
31-90 days past due	2,364	2,840
90-270 days past due	2,713	9,800
270-365 days past due	-	155
>365 days	18,118	8,531
	28,346	**27,733**

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 $38,751 (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.

Contractual maturities of financial liabilities At June 30, 2021	**Less than 6 months**	**6-12 months**	**12-36 months**	**36-60 months**	**Total contractual cash flows**	**Carrying amount**
Trade and other payables	13,406	-	-	-	13,406	13,406
Lease liability	163	80	139	-	382	366
Convertible debt	1,972	-	-	-	1,972	1,732
Total financial liabilities	**15,541**	**80**	**139**	**-**	**15,760**	**15,504**

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.

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 June 30, 2021, total managed capital is $112,086 (December 31, 2020: $101,383). The Group's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund both existing and future value-added growth opportunities. To secure the additional capital necessary to pursue these plans, the Group may attempt to raise additional funds through the issuance of equity or by securing strategic partners or through debt financing.

NOTE 16 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

During the six months ended June 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 $26,937 and $7,033 (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.

NOTE 18 – EVENTS AFTER THE REPORTING PERIOD

The Group performed a review of the events subsequent to the balance sheet date through the date the financial statements were issued and determined that there were no such events requiring recognition or disclosure in the financial statements.