

**MEDIPHARM LABS CORP.
CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
FOR THE THREE MONTHS AND SIX MONTHS ENDED
JUNE 30, 2022 and 2021**

**CONTENTS OF CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS (Unaudited)
AT JUNE 30, 2022**

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MEDIPHARM LABS CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION As at June 30, 2022 and December 31, 2021

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

	Notes	June 30, 2022	December 31, 2021
ASSETS			
Current assets:			
Cash and cash equivalents		21,992	34,110
Trade and other receivables	5	14,791	16,918
Prepays and deposits		3,085	2,633
Inventories	6	13,562	10,976
Assets held for sale		879	910
Total current assets		54,309	65,547
Non-current assets:			
Property, plant, and equipment	7	24,468	25,894
Intangibles	7.2	41	44
Non-current deposits		300	753
Tax receivable		123	123
Total non-current assets		24,932	26,814
Total assets		79,241	92,361

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, 2022 and December 31, 2021

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

	Notes	June 30, 2022	December 31, 2021
LIABILITIES AND EQUITY			
Current liabilities:			
Trade and other payables	10	6,606	6,213
Current employee benefit obligations		2,399	2,548
Loans and borrowings	8	1,374	113
Deferred income		4	3
Total current liabilities		10,383	8,877
Non-current liabilities:			
Loans and borrowings	8	70	103
Deferred income		221	233
Warrant derivative liability		-	2
Total non-current liabilities		291	338
Total liabilities		10,674	9,215
Equity:			
Common shares	11	190,841	190,550
Reserves		22,939	21,909
Accumulated other comprehensive (loss)		574	30
Accumulated deficit		(145,787)	(129,343)
Total equity		68,567	83,146
Total liabilities and equity		79,241	92,361
Commitments and contingencies	9		
Subsequent events	5, 9.2, 18		
Approved on behalf of the Board of Directors of MediPharm Labs Corp.:			
<u>/s/ "David Pidduck"</u>		<u>/s/ "Chris Taves"</u>	
David Pidduck		Chris Taves	
Director		Director	

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

MEDIPHARM LABS CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS

For the three and six months ended June 30, 2022 and 2021

(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		Six months ended June 30	
		2022	2021	2022	2021
Revenue	12	4,362	5,072	9,239	10,567
Cost of sales		(4,894)	(12,805)	(10,174)	(18,980)
Gross profit		(532)	(7,733)	(935)	(8,413)
General administrative expenses		(4,746)	(5,187)	(9,632)	(9,190)
Marketing and selling expenses		(1,553)	(1,054)	(3,046)	(2,331)
Research and development expenses		(308)	(144)	(608)	(496)
Share based compensation expense	11,13	(580)	(476)	(1,321)	(1,356)
Other operating income/(expense), net		(1,350)	3,214	(1,031)	2,490
Operating (loss)/income		(9,069)	(11,380)	(16,573)	(19,296)
Unrealized gain in revaluation of derivative liabilities		1	329	2	4,049
Finance income		84	39	132	96
Finance expense		(3)	(564)	(5)	(10,293)
(Loss)/income before taxation		(8,987)	(11,576)	(16,444)	(25,444)
Taxation (expense)/recovery		-	(236)	-	(236)
Net (loss)/income for the period		(8,987)	(11,812)	(16,444)	(25,680)
Basic and diluted earnings per share		(0.03)	(0.05)	(0.06)	(0.11)

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, 2022 and 2021**

(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	
	2022	2021	2022	2021
Net (loss)/income for the period	(8,987)	(11,812)	(16,444)	(25,680)
Other comprehensive income				
<i>Items that may be reclassified to profit or loss</i>				
Exchange differences on translation of foreign operations	819	174	544	482
Total comprehensive (loss)/income for the period	(8,168)	(11,638)	(15,900)	(25,198)

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 six months ended June 30, 2022 and 2021

(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>					
	Number (post stock split)	Share capital	Share-based payments	Non-controlling interest acquisition reserve	Warrant Reserve	Accumulated other comprehensive	Accumulated deficit	Total
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 RSUs	582,345	241	(241)	-	-	-	-	-
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
Balance at January 1, 2022	273,537,190	190,550	21,137	(4,323)	5,095	30	(129,343)	83,146
Shares issued on exercise of RSUs	2,984,848	291	(291)	-	-	-	-	-
Share based compensation	-	-	1,321	-	-	-	-	1,321
Foreign exchange translation	-	-	-	-	-	544	-	544
Net loss for the period	-	-	-	-	-	-	(16,444)	(16,444)
Balance at June 30, 2022	276,522,038	190,841	22,167	(4,323)	5,095	574	(145,787)	68,567

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, 2022 and 2021

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

		Six months ended	
	Notes	June 30, 2022	June 30, 2021
Cash flows from operating activities:			
Net loss for the period		(16,444)	(25,680)
Adjustments for:			
Depreciation and Amortization	7	1,578	2,356
Write down of inventory	6	521	5,749
(Gain)/loss on sale of fixed assets		(1)	12
Finance income and finance expense		(127)	10,197
Unrealized gain in revaluation of derivative liabilities		(2)	(4,049)
Unrealized foreign exchange difference		1,018	1,300
Taxation recovery/ charge		-	236
Deferred income		(2)	-
Share based compensation		1,321	1,356
		(12,138)	(8,523)
Change in trade and other receivables	5	2,127	(344)
Change in inventories	6	(3,107)	2,731
Change in prepaids and deposits		(128)	(2,037)
Change in trade and other payables	10	392	(1,388)
Change in other current liabilities		(160)	636
Net cash (used in)/provided by operating activities		(13,014)	(8,925)
Cash flows from investing activities:			
Capital expenditures	7	(238)	(462)
Proceeds from sale of fixed assets		7	174
Net cash used in investing activities		(231)	(288)
Cash flows from financing activities:			
Repayment of loans and borrowings	8	-	(2,630)
Proceeds from issuance of shares and warrants, net of costs		-	31,107
Loan received	8	1,341	-
Repayment of loan	8	(50)	-
Interest received		132	96
Interest paid		(2)	-
Payment of lease liabilities		(83)	(170)
Net cash provided by financing activities		1,338	28,403
Effects of exchange rate changes		(211)	(352)
(Decrease)/increase in cash and cash equivalents		(12,118)	18,838
Cash and cash equivalents at the beginning of the period		34,110	19,913
Cash and cash equivalents at the end of the period		21,992	38,751

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 six months ended June 30, 2022

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

NOTE 1 - NATURE OF OPERATIONS

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

The Company and its subsidiaries (together referred to as the “Group”) produce 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, 2022 (“Condensed Interim Consolidated Financial Statements”), include the financial statements of the Company and its subsidiaries.

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 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, 2021, with the exception of new accounting policies that were adopted in January 1, 2022, as described in Note 2.2.

The Condensed Interim Consolidated Financial Statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these Condensed Interim Consolidated Financial Statements are to be read in conjunction with the annual financial statements of the Group for

MEDIPHARM LABS CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2022

(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)

the year ended December 31, 2021, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

On August 14, 2022, the Board of Directors of the Company approved these Condensed Interim Consolidated Financial Statements.

2.2 New accounting pronouncements adopted in 2022

The Group adopted the following new standards and amendments to standards that were effective January 1, 2022. These changes did not have a material impact on the Company's Condensed Interim Consolidated Financial Statements.

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Property, Plant and Equipment "Proceeds before Intended Use" – Amendments to IAS 16
- Annual Improvements to IFRS Standards 2018 -2020
- Conceptual Framework (Amendments to IFRS 3)

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 the Group's financial statements.

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
- Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

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:

MEDIPHARM LABS CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2022

(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 loss calculation based on the Group's past history and existing market conditions at the end of each reporting period.

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

The Group issues share-based warrants and stock options. In estimating the fair value of the share-based warrants and stock options, the Group uses the Black Scholes option pricing model with inputs such as expected life, expected forfeiture rate and volatility of the stock option, based on their best estimate. The assumptions used for estimating fair value for share-based payment transactions with respect to stock options are disclosed in Note 11.2.

(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.

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 whether triggering events require an assessment of the recoverable amount of the asset or CGU requires judgement. If triggering events are identified, the process to calculate the recoverable amount of each CGU requires use of valuation methods such as a market approach or the replacement cost approach, depending on the nature of the assets. The market approach considers key inputs including market transactions, while the replacement cost approach uses significant assumptions including inflation indices and discount factors. The Group applies judgment when determining which methods are most appropriate to estimate the 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.

MEDIPHARM LABS CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2022

(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)

(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.

(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-month period ended June 30, 2022. 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, 2022	December 31, 2021
Financial assets at amortized cost		
Cash and cash equivalents	21,992	34,110
Trade and other receivables (Note 5)	14,791	16,918
Financial liabilities at amortized cost		
Trade and other payables (Note 10)	6,606	6,213
Current employee benefit obligations	2,399	2,548
Loan and borrowings (Note 8)	1,444	216
Financial liabilities at fair value through profit/loss		
Warrant derivative liability	-	2

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 remuneration to directors and officers during the three-month and six-month periods ended June 30, 2022, was \$472 and \$1,260, respectively (June 30, 2021: \$330 and \$633 respectively) and is included in general and administrative expenses.

MEDIPHARM LABS CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2022

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

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

During the six-month period ended June 30, 2022, the Group issued 9,507,073 options at an average exercise price of \$0.18 per share (June 30, 2021: 750,000 options at \$0.60 per share) and 9,475,862 RSUs (June 30, 2021: 698,968 RSUs) to its key management personnel and recognized total share-based compensation expense related to key management personnel of \$914 (June 30, 2021: \$337).

During the six-month period ended June 30, 2022, the Group's key management personnel exercised nil options for gross proceeds of \$nil (June 30, 2021: nil options for gross proceeds of \$nil) and 2,598,537 RSUs were exercised into common shares amounting to \$255 (June 30, 2021: 139,793 RSUs amounting to \$57).

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, 2022.

As at June 30, 2022, the Group has \$296 (December 31, 2021: \$345) due to key management personnel and no amount was due to entities over which they have control or significant influence (December 31, 2021: \$nil). The balance due to key management personnel comprises of accrued compensation amounting to \$296 (December 31, 2021: \$345). These balances are recorded in current employee benefit obligations in the condensed interim consolidated statements of financial position.

NOTE 5 – TRADE AND OTHER RECEIVABLES

	June 30, 2022	December 31, 2021
Trade receivables, net	13,491	15,315
Unbilled receivables	468	-
Other receivables	26	361
Contract assets	324	401
HST/GST/VAT receivable	482	841
	14,791	16,918

As at June 30, 2022, the Group has gross trade receivables of \$14,607 that are over 365 days overdue and are due from two customers (net trade receivables of \$8,531). The Group initiated legal proceedings to collect \$8,531 (Note 9.2) due from one of the customers and has not recognized any expected credit loss for this trade receivable. On July 25, 2022, a court ruling was issued in respect of these legal proceedings in which the Company was awarded \$9,800 plus interest and costs (Note 9.2). The amount due from the second customer is \$6,076 and is over 365 days overdue. As at December 31, 2021, the Group assessed this entire receivable from the second customer as credit impaired and recorded an expected credit loss ("ECL") for the entirety of this receivable (Note 14.1). The Group continues to take necessary steps to recover the receivable. The Group has an offsetting agreement in place with this second customer under

MEDIPHARM LABS CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2022

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

NOTE 5 – TRADE AND OTHER RECEIVABLES (Continued)

which the receivable amounting to \$6,076 as at June 30, 2022 can be offset against future payables to this counterparty.

Credit risk and aging analysis related to trade receivables are included in Note 14.1.

Unbilled receivables relate to the Group's unconditional rights to consideration for work completed but not invoiced at the reporting date.

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

Other receivables comprise of government grants receivable, accrued interest income, and amount due from sale of assets.

As at June 30, 2022, the Group has other receivable of \$nil related to Canada Emergency Rent Subsidy (CERS) (December 31, 2021: \$191) since there is a reasonable assurance that the grant will be received, and the grant is to compensate the expenses incurred during the period.

NOTE 6 – INVENTORIES

	June 30, 2022	December 31, 2021
Raw materials	1,180	2,136
Finished goods	10,721	8,187
Consumables and packages	1,661	653
	13,562	10,976

Raw material inventory is comprised of dried cannabis flower (for extraction purposes, making pre-rolls or packaged flower) 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, terpenes used in oil formulation and packaging and product hardware materials.

For the three and six months ended June 30, 2022, the Group recognized write downs of the carrying value of its raw materials, work in progress and finished goods of \$521 and \$521 (June 30, 2021: \$5,749 and \$5,749). The loss is included in the cost of sales in the condensed interim consolidated statements of loss.

MEDIPHARM LABS CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2022

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

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	January 1, 2022	Additions	Disposals	Transfers	Exchange difference	June 30, 2022
Cost						
Land	1,863	-	-	-	(12)	1,851
Building and building improvements	24,786	-	-	300	(167)	24,919
Leasehold improvements	209	-	-	-	-	209
Computers	1,873	-	-	-	(17)	1,856
Office equipment	259	-	-	-	(2)	257
Machinery and plant equipment	15,969	2	(15)	698	(73)	16,581
Motor vehicles	37	-	-	-	-	37
Security equipment	743	-	-	-	-	743
Construction in progress	4,494	347	-	(998)	(10)	3,833
Right-of-use assets (Note 7.1)	1,086	18	(667)	-	-	437
	51,319	367	(682)	-	(281)	50,723
Less: Accumulated depreciation and impairment losses						
Building and building improvements	8,059	490	-	-	(29)	8,520
Leasehold improvements	139	4	-	-	-	143
Computers	1,407	216	-	-	(13)	1,610
Office equipment	151	20	-	-	(2)	169
Machinery and plant equipment	10,675	766	(9)	-	(25)	11,407
Motor vehicles	19	3	-	-	-	22
Security equipment	623	30	-	-	-	653
Construction in progress	3,354	(19)	-	-	-	3,335
Right-of-use assets (Note 7.1)	998	65	(667)	-	-	396
	25,425	1,575	(676)	-	(69)	26,255
Net book value	25,894					24,468

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, 2022, is \$2 and \$3, respectively (June 30, 2021: \$19 and \$85, respectively).

MEDIPHARM LABS CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2022

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

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

	January 1, 2022	Additions	Disposal	June 30, 2022
Cost				
Right-of-use assets				
-Land	99	18		117
-Building	757	-	(636)	121
-Equipment	167	-		167
-Motor vehicle	31	-	(31)	-
-IT equipment	32	-		32
	1,086	18	(667)	437
Less: Accumulated depreciation and impairment				
Right-of-use assets				
-Land	95	8		103
-Building	720	37	(636)	121
-Equipment	136	16		152
-Motor vehicle	31	-	(31)	-
-IT equipment	16	4		20
	998	65	(667)	396
Net book value	88			41

7.2 Intangible assets

	January 1, 2022	Additions	Impairment	June 30, 2022
Cost				
Brand	250	-	-	250
Less: Accumulated amortization and impairment				
Brand	206	3	-	209
Net book value	44			41

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NOTE 8 – LOANS AND BORROWINGS

	June 30, 2022	December 31, 2021
Current liabilities		
Lease liability (1)	83	113
Loans and borrowings (2)	1,291	-
	1,374	113
Non-current liabilities		
Lease liability (1)	70	103
	70	103

(1) 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 14.2.

(2) Loans and borrowings comprise a financing arrangement for the Group's insurance premiums. Under this financing arrangement, the Group has borrowed a notional amount of \$1,341 and repaid \$50 during the three and six months ended June 30, 2022. The debt has a maturity date of April 30, 2023, bears an interest rate of 4.479%, and repayable in 10 remaining equal monthly instalments.

NOTE 9 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

9.1 Purchase commitments under purchase agreements

Under a cannabis material sales contract, the Group has a commitment to purchase cannabis products amounting to \$9,500 until December 31, 2022. During the three and six months ended June 30, 2022, the Group fulfilled purchase of cannabis products amounting to \$nil and \$nil, respectively (2021: \$nil and \$nil, respectively). The Group's remaining purchase commitment amount under this contract, as at June 30, 2022, was cannabis products amounting to \$5,329 (December 31, 2021: \$5,329). However, this agreement, the amount outstanding, and payment obligations by the third party owing to the Group are subject to a dispute between the parties. The Group has recorded an expected credit loss for the amount receivable from this counterparty (Note 5).

9.2 Litigation

On January 24, 2020, a subsidiary of the Group (MPL) filed a statement of claim ("Claim") in the Ontario Superior Court of Justice against one of its former 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

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NOTE 9 – PROVISIONS, CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS (Continued)

\$8,531 was recognized by the Group as trade receivables relating to performance obligations satisfied in a previous year; the remaining \$1,269 relates to non-refundable deposits payable by the customer and has not been recognized by the Group as revenue or trade receivables. On February 26, 2020, the defendant in the Claim filed a statement of defence and counterclaim for \$35,000. The Group participated in a summary judgment hearing on December 8, 2021. On July 25, 2022, a court ruling was issued in respect of these legal proceedings in which the Company was awarded a favourable summary judgement ruling in the amount of \$9,800, plus interest and cost. In addition, the court ruling also dismissed the counterclaim of \$35,000 filed against the Group. The Group has not recognized an expected credit loss against the \$8,531 trade receivable subject to this claim (Note 14.1) and has not recognized a liability in connection with the counterclaim.

NOTE 10 – TRADE AND OTHER PAYABLES

	June 30, 2022	December 31, 2021
Payable to suppliers	3,519	2,991
Accrued liabilities	1,204	1,597
Contract liabilities	1,500	1,318
Other	383	307
	6,606	6,213

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

NOTE 11 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS

11.1 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

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NOTE 11 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

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, 2022, nil stock options (June 30, 2021: nil stock options) and nil warrants (June 30, 2021: nil warrants) were exercised into common shares for proceeds of \$nil (June 30,

2021: \$nil) and \$nil (June 30, 2021: \$nil), respectively. In addition, 2,984,848 RSUs (June 30, 2021: 582,345) were exercised into common shares amounting to \$291 (June 30, 2021: \$241).

11.2 Stock options / Share based compensation

On January 27, 2022, the Group issued 12,800,000 options to purchase up to 12,800,000 Common shares with an exercise price of \$ 0.195 per share for a five-year term expiring January 27, 2027. The options vest 25% every six months, with the first 25% vesting occurring six months from the date of the grant, until fully vested. Total fair value of the options issued was \$1,760 and was estimated using Black Scholes option pricing model, with the following assumptions: estimated volatility of 91.40%, expected life of 5 years and risk-free rate of 1.57%.

On April 19, 2022, the Group issued 2,907,073 options to purchase up to 2,907,073 Common shares with an exercise price of \$ 0.145 per share for a five-year term expiring April 19, 2027. The options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$301 and was estimated using Black Scholes option pricing model, with the following assumptions: estimated volatility of 91.34%, expected life of 5 years and risk-free rate of 2.67%.

On May 16, 2022, the Group issued 950,000 options to purchase up to 950,000 Common shares with an exercise price of \$ 0.09 per share for a five-year term expiring May 16, 2027. The options vest 20% on issuance and 20% every six months thereafter. Total fair value of the options issued was \$61 and was estimated using Black Scholes option pricing model, with the following assumptions: estimated volatility of 90.18%, expected life of 5 years and risk-free rate of 2.7%.

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.

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

NOTE 11 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

	Number of options	2022 Weighted average exercise price \$
As at January 1	11,085,670	1.88
Granted during the period	16,657,073	0.18
Exercised during the period	-	-
Forfeited/cancelled during the period	(6,601,720)	0.54
Outstanding at June 30	21,141,023	1.3
Exercisable at June 30	8,212,565	2.16
Weighted average remaining contractual life		2.47 years

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

Exercise price range	Weighted average remaining contractual life 2022	Number of outstanding options 2022
Less than and equal to \$1.00	4.49	15,475,873
Between \$1.00 and \$3.00	1.74	4,178,250
Between \$3.00 and \$5.00	2.06	398,600
More than and equal to \$5.00	2.12	1,088,300
		21,141,023

On January 27, 2022, the Group issued 2,320,000 RSUs under the Group's Omnibus Equity Incentive Plan, which was approved by shareholders on January 27, 2022. The total fair value of the RSUs issued was \$452 and was calculated using the share price of \$0.195 on the grant date. The RSUs vest 25% every six months, with the first 25% vesting occurring six months from the date of the grant, until fully vested. The Group has the option of settling the RSUs in Common Shares or cash.

On April 19, 2022, the Group issued 8,275,862 RSUs under the Group's Omnibus Equity Incentive Plan, which was approved by shareholders on April 19, 2022. The total fair value of the RSUs issued was \$1,200 and was calculated using the share price of \$0.145 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.

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NOTE 11 – CAPITAL, RESERVES AND OTHER EQUITY ITEMS (Continued)

	2022 Number of RSUs
As at January 1	3,661,038
Granted during the period	10,595,862
Exercised during the period	(2,984,848)
Forfeited/cancelled during the period	(2,359,966)
Outstanding at June 30	8,912,086

NOTE 12 – 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	
	2022	2021	2022	2021
Domestic sales	3,041	2,617	5,996	6,135
International sales				
Australia	638	930	1,282	1,627
Germany	583	1,522	1,663	2,765
Other	100	3	298	40
	4,362	5,072	9,239	10,567
Private label	1,048	2,718	2,505	4,960
White label	2,786	1,306	5,275	3,521
Tolling process	460	885	1,327	1,876
Other	67	163	131	210
	4,362	5,072	9,239	10,567
Products transferred at a point in time	3,902	4,187	7,912	8,691
Products and services transferred over time	460	885	1,327	1,876
	4,362	5,072	9,239	10,567

For the six months ended June 30, 2022, the Group's revenue to three of its customers represented 22.9%, 10.9% and 10.8% of total revenue attributed to flower, cannabis extracts and derivative products (June 30, 2021: three customers represented 16%, 15.3% and 13.8%). The Group had no other customers that

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NOTE 12 – REVENUE (Continued)

represented more than 10% of the Group's total revenues for the six months ended June 30, 2022, and June 30, 2021.

For the three months ended June 30, 2022, the Group's revenue to one of its customers represented 31.6% of total revenue attributed to flower, cannabis extracts and derivative products (June 30, 2021: three customers represented 14.1%, 12.5% and 11.4%). The Group had no other customers that represented more than 10% of the Group's total revenues for the three months ended June 30, 2022, and June 30, 2021.

NOTE 13 – EXPENSES BY NATURE

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Inventory and consumables recognized in cost of sales	979	3,446	2,818	5,952
Write down of inventory to net realizable value (Note 6)	521	5,749	521	5,749
Employee compensation (3)	5,414	5,120	10,805	10,280
Consulting and professional fees	979	717	2,119	1,327
Share based compensation expense (2)	580	476	1,321	1,356
Supplies and small equipment	143	173	248	413
Depreciation and amortization	759	1,480	1,578	2,356
Rent and occupancy cost	104	182	313	393
Foreign exchange loss	1,334	668	1,018	1,300
Analytical testing	406	223	741	764
Advertising and promotion	347	67	742	247
Insurance	541	362	1,203	675
Software and licenses	415	502	545	858
Grant income	-	(3,759)	(21)	(3,759)
Other (1)	909	1,046	1,861	1,952
	13,431	16,452	25,812	29,863

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

(2) For the six-month period ended June 30, 2022, out of total share-based compensation expense of \$1,321 (June 30, 2021: \$1,356), general administrative expense portion is \$1,053 (June 30, 2021: \$943), marketing and selling expense portion is \$102 (June 30, 2021: \$143), cost of sales portion is \$100 (June 30, 2021: \$164) and research and development portion is \$65 (June 30, 2021: \$106). For the three-month period ended June 30, 2022, out of total share-based compensation expense of \$580 (June 30, 2021:

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NOTE 13 – EXPENSES BY NATURE (Continued)

\$476), general administrative expense portion is \$463 (June 30, 2021: \$331), marketing and selling expense portion is \$45 (June 30, 2021: \$216), cost of sales portion is \$44 (June 30, 2021: \$57) and research and development portion is \$29 (June 30, 2021: \$37).

(3) Employee compensation includes severance cost in relation to restructuring measures undertaken by the Group during the period. For the three and six months ended June 30, 2022, the severance cost incurred in relation to the restructuring amounted to \$952 and \$1,233 (June 30, 2021: \$nil and \$nil). As at June 30, 2022, the Group has accrued severance costs amounting to \$370 (June 30, 2021: \$nil) related to the restructuring.

NOTE 14 – 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.

14.1 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 \$21,992 (December 31, 2021: \$34,110). 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, 2022, the exposure to credit risk for gross trade receivables, unbilled receivables, and contract assets by the type of customer is as follows:

	June 30, 2022	December 31, 2021
Business to business customers	18,383	19,189
Distributors / Retailers	2,349	2,705
	20,732	21,894

As at June 30, 2022, the Group holds trade receivables from two customers representing 43% and 30% of total trade receivables (December 31, 2021: two customers representing 39% and 28%). The Group had no other customer that represented more than 10% of the Group's gross trade receivables.

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 9.2). The Group did not recognize any ECL for this trade receivable.

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NOTE 14 –FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)

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's management believes that the exposure to credit risk from distributors is very limited since most of the distributors are either government organizations or large reputable organizations. The Group recognized an allowance for expected credit losses in connection with its trade receivables to an amount of \$6,449 (December 31, 2021: \$6,178) out of which \$6,076 relates to one customer (December 31, 2021: \$6,096). The aging of the Group's gross trade receivables at June 30, 2022, is as follows:

	June 30, 2022 Gross carrying amount	December 31, 2021 Gross carrying amount
Current (not past due)	3,894	4,473
1-30 days past due	518	612
31-90 days past due	527	1,600
90-270 days past due	394	181
270-365 days past due	-	-
>365 days	14,607	14,627
	19,940	21,493

14.2 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 \$21,992 (December 31, 2021: \$34,110) 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.

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, 2022	Less than 6 months	6-12 months	12-36 months	36-60 months	Total contractual cash flows	Carrying amount
Trade and other payables	6,606	-	-	-	6,606	6,606
Lease liability	45	41	68	-	154	153
Loans and borrowings	792	528	-	-	1,320	1,291
Total financial liabilities	7,443	569	68	-	8,080	8,050

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NOTE 14 – FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (Continued)

14.3 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, EUR, and AUD foreign currency denominated transactions.

(ii) Price risk

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

14.4 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 lease liabilities and derivative liabilities). As at June 30, 2022, total managed capital is \$70,010 (December 31, 2021: \$83,364). 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 15 – 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;

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NOTE 15 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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.

During the six months ended June 30, 2022, there were no transfers between levels.

NOTE 16 – 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 \$18,934 and \$5,875 (December 31, 2021: \$20,133 and \$6,558), respectively and these assets are primarily made up of property, plant, and equipment.

NOTE 17 – RECLASSIFICATION OF PRIOR PERIOD PRESENTATION

Certain amounts reported in prior periods in the financial statements have been reclassified to conform to the current period's presentation.

NOTE 18 – EVENTS AFTER THE REPORTING PERIOD

(i) Issued and cancelled stock options

Subsequent to June 30, 2022, 2,276,577 options were issued resulting in 23,417,600 stock options remaining outstanding as of the date these Condensed Interim Consolidated Financial Statements were approved by the Board of Directors of the Company.

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NOTE 18 – EVENTS AFTER THE REPORTING PERIOD (Continued)

Subsequent to June 30, 2022, 6,482,759 RSUs were issued resulting in 15,394,845 RSUs remaining outstanding as of the date these Condensed Interim Consolidated Financial Statements were approved by the Board of Directors of the Company.

(ii) Sale of Australian Facility

On July 8, 2022, MediPharm Labs Corp. entered into a Share Purchase Agreement with OneLife Botanicals PTY (“Agreement”) for the sale of MediPharm Labs Australia Pty Ltd ("MPLA"), a wholly owned subsidiary of the Company, for a minimum value of \$6.9M AUD. The Agreement is subject to closing conditions that have not been met as of the date these Condensed Interim Consolidated Financial Statements were approved by the Board of Directors of the Company.

(iii) Litigations

(a) On July 12, 2022, the Group received notice of an intended third-party claim against MPL by another cannabis company named as a defendant in a proposed national consumer protection class-action lawsuit filed with the Court of Queen’s Bench in Alberta (as amended from time to time, the “Alberta Claim”). The Alberta Claim seeking damages against several Canadian cannabis companies for allegations regarding the advertised THC and CBD content in the companies’ products. The Group is not a defendant in the Alberta Claim. The threatened third-party claim would seek contribution and indemnity against MPL and several other third parties in the event the particular defendant threatening the third-party claim is found liable for damages in the Alberta Claim.

(b) On July 25, 2022, the Group was awarded a favourable summary judgement ruling in the Ontario Court of Justice in connection with a supply agreement dispute in the amount of \$9.8M. On January 24, 2020, MediPharm Labs filed a statement of claim in the Ontario Superior Court of Justice against one of its long-term customers of cannabis concentrates. The Claim related to, among other things, the payment of outstanding amounts due to the Group for products shipped to and received by the customer and deposits owed to the Group for committed amounts not yet shipped. On February 26, 2020, the defendant in the Claim filed a statement of defense and counterclaim. The Ontario Court of Justice has dismissed this counterclaim.