

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

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

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## MEDIPHARM LABS CORP.

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION As at September 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	September 30, 2022	December 31, 2021
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents		19,454	34,110
Trade and other receivables	5	13,736	16,918
Prepays and deposits		1,785	2,633
Inventories	6	9,300	10,976
Assets held for sale	7	7,907	910
<b>Total current assets</b>		<b>52,182</b>	<b>65,547</b>
<b>Non-current assets:</b>			
Property, plant and equipment	8	18,588	25,894
Intangibles	8.2	41	44
Non-current deposits		300	753
Tax receivable		123	123
<b>Total non-current assets</b>		<b>19,052</b>	<b>26,814</b>
<b>Total assets</b>		<b>71,234</b>	<b>92,361</b>

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

## MEDIPHARM LABS CORP.

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION As at September 30, 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	September 30, 2022	December 31, 2021
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Trade and other payables	11	6,731	6,213
Current employee benefit obligations		1,886	2,548
Loans and borrowings	9	1,119	113
Deferred income		-	3
Liabilities held for sale	7	970	-
<b>Total current liabilities</b>		<b>10,706</b>	<b>8,877</b>
<b>Non-current liabilities:</b>			
Loans and borrowings	9	50	103
Deferred income		-	233
Warrant derivative liability		-	2
<b>Total non-current liabilities</b>		<b>50</b>	<b>338</b>
<b>Total liabilities</b>		<b>10,756</b>	<b>9,215</b>
<b>Equity:</b>			
Common shares	12	191,008	190,550
Reserves		22,933	21,909
Accumulated other comprehensive (loss)		254	30
Accumulated deficit		(153,717)	(129,343)
<b>Total equity</b>		<b>60,478</b>	<b>83,146</b>
<b>Total liabilities and equity</b>		<b>71,234</b>	<b>92,361</b>
Commitments and contingencies	10		
Subsequent events	19		
Approved on behalf of the Board of Directors of MediPharm Labs Corp.:			
<u>/s/ "David Pidduck"</u> David Pidduck Director		<u>/s/ "Chris Taves"</u> Chris Taves Director	

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

# MEDIPHARM LABS CORP.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS

For the three and nine months ended September 30, 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 September 30		Nine months ended September 30	
		2022	2021	2022	2021
Revenue	13	7,262	5,401	16,501	15,968
Cost of sales		(8,452)	(7,261)	(18,626)	(26,241)
<b>Gross profit</b>		<b>(1,190)</b>	<b>(1,860)</b>	<b>(2,125)</b>	<b>(10,273)</b>
General administrative expenses		(3,543)	(4,591)	(13,175)	(13,780)
Marketing and selling expenses		(1,651)	(886)	(4,697)	(3,217)
Research and development expenses		(250)	(277)	(858)	(773)
Share based compensation expense	12,14	(161)	(435)	(1,482)	(1,791)
Other operating income/(expense), net		(1,251)	593	(2,282)	3,083
<b>Operating loss</b>		<b>(8,046)</b>	<b>(7,456)</b>	<b>(24,619)</b>	<b>(26,751)</b>
Unrealized gain in revaluation of derivative liabilities		-	154	2	4,203
Finance income		132	52	264	148
Finance expense		(16)	(236)	(21)	(10,529)
<b>Loss before taxation</b>		<b>(7,930)</b>	<b>(7,486)</b>	<b>(24,374)</b>	<b>(32,929)</b>
Taxation (expense)/recovery		-	130	-	(106)
<b>Net loss for the period</b>		<b>(7,930)</b>	<b>(7,356)</b>	<b>(24,374)</b>	<b>(33,035)</b>
Basic and diluted earnings per share		(0.03)	(0.03)	(0.09)	(0.14)

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

**MEDIPHARM LABS CORP.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS****For the three and nine months ended September 30, 2022 and 2021**

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

	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
<b>Net loss for the period</b>	<b>(7,930)</b>	<b>(7,356)</b>	<b>(24,374)</b>	<b>(33,035)</b>
<b>Other comprehensive (loss)/income</b>				
<i>Items that may be reclassified to profit or loss</i>				
Exchange differences on translation of foreign operations	(320)	199	224	681
<b>Total comprehensive loss for the period</b>	<b>(8,250)</b>	<b>(7,157)</b>	<b>(24,150)</b>	<b>(32,354)</b>

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

## MEDIPHARM LABS CORP.

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the nine months ended September 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 income/(loss)	Accumulated deficit	Total
<b>Balance at January 1, 2021</b>	<b>155,550,487</b>	<b>138,508</b>	<b>19,174</b>	<b>(4,323)</b>	<b>-</b>	<b>(403)</b>	<b>(74,542)</b>	<b>78,414</b>
Share conversion of convertible loan (Note 8.2)	50,135,944	23,848	-	-	-	-	-	23,848
Shares issued under bought deal	57,500,000	27,888	-	-	5,462	-	-	33,350
Share issuance cost	-	(2,066)	-	-	(367)	-	-	(2,433)
Shares issued on exercise of RSUs	1,156,478	425	(425)	-	-	-	-	-
Share based compensation	-	-	1,791	-	-	-	-	1,791
Foreign exchange translation	-	-	-	-	-	681	-	681
Net loss for the year	-	-	-	-	-	-	(33,035)	(33,035)
<b>Balance at September 30, 2021</b>	<b>264,342,909</b>	<b>188,603</b>	<b>20,540</b>	<b>(4,323)</b>	<b>5,095</b>	<b>278</b>	<b>(107,577)</b>	<b>102,616</b>
<b>Balance at January 1, 2022</b>	<b>273,537,190</b>	<b>190,550</b>	<b>21,137</b>	<b>(4,323)</b>	<b>5,095</b>	<b>30</b>	<b>(129,343)</b>	<b>83,146</b>
Shares issued on exercise of RSUs	5,329,915	458	(458)	-	-	-	-	-
Share based compensation	-	-	1,482	-	-	-	-	1,482
Foreign exchange translation	-	-	-	-	-	224	-	224
Net loss for the period	-	-	-	-	-	-	(24,374)	(24,374)
<b>Balance at September 30, 2022</b>	<b>278,867,105</b>	<b>191,008</b>	<b>22,161</b>	<b>(4,323)</b>	<b>5,095</b>	<b>254</b>	<b>(153,717)</b>	<b>60,478</b>

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

# MEDIPHARM LABS CORP.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

### For the nine months ended September 30, 2022 and 2021

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

	Notes	Nine months ended September 30, 2022	September 30, 2021
<b>Cash flows from operating activities:</b>			
Net loss for the period		(24,374)	(33,035)
<b>Adjustments for:</b>			
Depreciation and Amortization	8	2,332	3,250
Impairment loss on disposal group	7	1,476	-
Impairment loss on asset held for sale		68	-
Expected credit loss from trade receivables		295	621
Write down of inventory	6	949	6,255
(Gain)/loss on sale of fixed assets		(1)	(92)
Finance income and finance expense		(243)	10,529
Unrealized gain in revaluation of derivative liabilities		(2)	(4,203)
Unrealized foreign exchange difference		(183)	1,634
Taxation recovery/ charge		-	106
Deferred income		(2)	-
Share based compensation		1,482	1,791
		<b>(18,203)</b>	<b>(13,144)</b>
Change in trade and other receivables	5	2,234	3,395
Change in inventories	6	(1,281)	1,493
Change in prepaids and deposits		1,264	2,683
Change in assets held for sale		(229)	-
Change in trade and other payables	11	746	(4,380)
Change in other current liabilities		(432)	785
<b>Net cash used in operating activities</b>		<b>(15,901)</b>	<b>(9,168)</b>
<b>Cash flows from investing activities:</b>			
Capital expenditures	8	(554)	(577)
Proceeds from sale of fixed assets		7	332
<b>Net cash used in investing activities</b>		<b>(547)</b>	<b>(245)</b>
<b>Cash flows from financing activities:</b>			
Repayment of loans and borrowings	9	(303)	(2,630)
Proceeds from issuance of shares and warrants, net of costs		-	30,917
Proceeds from government grant		-	67
Loan received	9	1,341	-
Interest received		264	-
Payment to related parties		-	(300)
Payment of lease liabilities		(107)	(251)
<b>Net cash provided by financing activities</b>		<b>1,195</b>	<b>27,803</b>
<b>Effects of exchange rate changes</b>		<b>597</b>	<b>(345)</b>
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(14,656)</b>	<b>18,045</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>34,110</b>	<b>19,913</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>19,454</b>	<b>37,958</b>

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

# MEDIPHARM LABS CORP.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### As at and for the three and nine months ended September 30, 2022

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

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#### NOTE 1 - NATURE OF OPERATIONS

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

The Company and its subsidiaries (together referred to as the “Group”) produce purified, pharmaceutical-like cannabis extracts and related derivative products and its operating subsidiary is the holder of a standard processing licence and a research licence under the *Cannabis Act* (Canada) (the “**Canadian Licences**”). 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 head office and the registered and records office of the Company is located at 151 John St. Barrie, Ontario, L4N 2L1.

These condensed interim consolidated financial statements of the Company as at and for the three and nine months ended September 30, 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 the year ended December 31, 2021, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

## **MEDIPHARM LABS CORP.**

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

#### **As at and for the three and nine months ended September 30, 2022**

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

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

On November 13, 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 nine months ended September 30, 2022**

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

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

##### **(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 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.

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 nine months ended September 30, 2022

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

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

##### (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 nine-month period ended September 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

	September 30, 2022	December 31, 2021
Financial assets at amortized cost		
Cash and cash equivalents	19,454	34,110
Trade and other receivables (Note 5)	13,736	16,918
Financial liabilities at amortized cost		
Trade and other payables (Note 11)	6,731	6,213
Current employee benefit obligations	1,886	2,548
Loan and borrowings (Note 9)	1,169	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 nine-month periods ended September 30, 2022 was \$416 and \$1,676, respectively (September 30, 2021: \$326 and \$959 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 nine months ended September 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 nine-month period ended September 30, 2022, the Group issued 11,783,650 options at an average exercise price of \$0.17 per share (September 30, 2021: 750,000 options at \$0.60 per share) and 15,958,621 RSUs (September 30, 2021: 698,968 RSUs) to its key management personnel and recognized total share-based compensation expense related to key management personnel of \$1,849 (September 30, 2021: \$455).

During the nine-month period ended September 30, 2022, the Group's key management personnel exercised nil options for gross proceeds of \$nil (September 30, 2021: nil options for gross proceeds of \$nil) and 4,464,484 RSUs were exercised into common shares amounting to \$386 (September 30, 2021: 279,586 RSUs were exercised into common shares amounting to \$103).

#### 4.2 Transactions and balances with key management personnel

Several key management personnel hold positions in other companies that result in them having control or significant influence over these companies. The Company had no transactions with these companies during the three-month and nine-month periods ended September 30, 2022.

As at September 30, 2022, the Group has \$408 (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 \$408 (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

	September 30, 2022	December 31, 2021
Trade receivables, net	13,533	15,315
Unbilled receivables	7	-
Other receivables	43	361
Contract assets	89	401
HST/GST/VAT receivable	64	841
	<b>13,736</b>	<b>16,918</b>

As at September 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 10.2) 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 10.2). 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

## MEDIPHARM LABS CORP.

### NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

#### As at and for the three and nine months ended September 30, 2022

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

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#### NOTE 5 – TRADE AND OTHER RECEIVABLES (Continued)

an expected credit loss (“ECL”) for the entirety of this receivable (Note 15.1). The ECL for this receivable is \$6,076 as at September 30, 2022 (December 31, 2021 - \$6,096). The Group continues to take necessary steps to recover the receivable. The Group has an offsetting agreement in place with this second customer under which the receivable amounting to \$6,076 as at September 30, 2022 can be offset against future payables to this counterparty.

Credit risk and aging analysis related to trade receivables are included in Note 15.1.

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 September 30, 2022, the Group has other receivable of \$nil related to Canada Emergency Rent Subsidy (CERS) (December 31, 2021: \$191).

#### NOTE 6 – INVENTORIES

	September 30, 2022	December 31, 2021
Raw materials	1,085	2,136
Finished goods	6,265	8,187
Consumables and packages	1,950	653
	<b>9,300</b>	<b>10,976</b>

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 nine months ended September 30, 2022, the Group recognized write downs of the carrying value of its raw materials, work in progress and finished goods of \$428 and \$949 (September 30, 2021: \$506 and \$6,255). 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 nine months ended September 30, 2022

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

#### NOTE 7 – ASSETS HELD FOR SALE

##### 7.1 – Disposal of group held for sale

As at September 30, 2022, the Group was committed to a plan to sell its wholly owned subsidiary, MediPharm Labs Australia Pty. Ltd. (“MPL Australia”). Accordingly, the Group has presented MPL Australia as a disposal group held for sale (“Disposal Group”) as at September 30, 2022. The sale was subsequently completed on October 6, 2022 (Refer to Note 19).

##### *Fair value related to the disposal group:*

The fair value of the Disposal Group’s net assets was estimated to be \$6,439 (before estimated costs to sell of \$331 using a market approach (level 2 on the fair value hierarchy), based on an offer received from the buyer prior to September 30, 2022. This offer provided reliable information to determine the fair value of the disposal group.

##### *Impairment losses related to the disposal group:*

Impairment losses of \$1,476 for write-downs of the disposal group to the lower of its carrying amount and its fair value less costs of disposal have been recognized for the three and nine months ended September 30, 2022 (three and nine months ended September 30, 2021, \$Nil and \$Nil, respectively). The impairment losses have been applied to reduce the carrying amount of property, plant and equipment.

##### *Assets and liabilities of disposal group held for sale:*

As at September 30, 2022, the disposal group was stated at fair value less costs to sell and comprised of the following assets and liabilities.

	<b>Sept 30 2022</b>
Property, plant & equipment (net of impairment)	4,151
Cash & cash equivalents	229
Trade and other receivables	653
Prepaid and deposits	37
Inventories	2,008
<b>Assets held for sale</b>	<b>7,078</b>
Trade and other payables	514
Employee benefit obligations	231
Deferred income	225
<b>Liabilities held for sale</b>	<b>970</b>

##### 7.2 – Other assets held for sale

Assets held for sale also includes certain production machinery assets for which the carrying value was no longer expected to be recovered through continued use, but rather a sale transaction. The fair value less costs to sell the production machinery as of September 30, 2022 was \$829 (December 31, 2021: \$920).

# MEDIPHARM LABS CORP.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**As at and for the three and nine months ended September 30, 2022**

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

### NOTE 8 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	January 1, 2022	Additions	Disposals	Transfers	Impairment	Transfer to Assets held for sale	Exchange difference	September 30, 2022
<b>Cost</b>								
Land	1,863	-	-	-	-	(329)	(12)	1,522
Building and building improvements	24,786	-	-	911	-	(4,779)	(175)	20,743
Leasehold improvements	209	-	-	-	-	-	-	209
Computers	1,873	3	-	-	-	(494)	(17)	1,365
Office equipment	259	-	-	-	-	(48)	(4)	207
Machinery and plant equipment	15,969	475	(15)	794	-	(2,036)	(90)	15,097
Motor vehicles	37	-	-	-	-	-	-	37
Security equipment	743	-	-	-	-	(4)	-	739
Construction in progress	4,494	347	-	(1,705)	-	(272)	(104)	2,760
Right-of-use assets (Note 8.1)	1,086	18	(667)	-	-	-	-	437
	<b>51,319</b>	<b>843</b>	<b>(682)</b>	<b>-</b>	<b>-</b>	<b>(7,962)</b>	<b>(402)</b>	<b>43,116</b>
<b>Less: Accumulated depreciation and impairment losses</b>								
Building and building improvements	8,059	737	-	642	1,476	(2,516)	(68)	8,330
Leasehold improvements	139	6	-	-	-	-	(1)	144
Computers	1,407	303	-	-	-	(435)	(35)	1,240
Office equipment	151	29	-	-	-	(29)	(2)	149
Machinery and plant equipment	10,675	1,125	(9)	177	-	(830)	22	11,160
Motor vehicles	19	5	-	-	-	-	-	24
Security equipment	623	44	-	-	-	(1)	(7)	659
Construction in progress	3,354	-	-	(819)	-	-	(124)	2,411
Right-of-use assets (Note 8.1)	998	80	(667)	-	-	-	-	411
	<b>25,425</b>	<b>2,329</b>	<b>(676)</b>	<b>-</b>	<b>1,476</b>	<b>(3,811)</b>	<b>(215)</b>	<b>24,528</b>
<b>Net book value</b>	<b>25,894</b>							<b>18,588</b>

## MEDIPHARM LABS CORP.

### NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

#### NOTE 8 – PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

##### 8.1 Right-of-use assets

The Group leases assets including land, building, equipment, motor vehicles and IT equipment. The details of the asset types where the Group is lessee are listed below. Total amount of leases with a term of 12 months or less (“short-term leases”) expensed to the consolidated statements of loss for the three and nine months ending September 30, 2022 is \$1 and \$4, respectively (September 30, 2021: \$26 and \$111 respectively).

	January 1, 2022	Additions	Disposal	September 30, 2022
<b>Cost</b>				
<b>Right-of-use assets</b>				
-Land	99	18	-	117
-Building	757	-	(636)	121
-Equipment	167	-	-	167
-Motor vehicle	31	-	(31)	-
-IT equipment	32	-	-	32
	<b>1,086</b>	<b>18</b>	<b>(667)</b>	<b>437</b>
<b>Less: Accumulated depreciation and impairment</b>				
<b>Right-of-use assets</b>				
-Land	95	13	-	108
-Building	720	37	(636)	121
-Equipment	136	25	-	160
-Motor vehicle	31	-	(31)	-
-IT equipment	16	6	-	22
	<b>998</b>	<b>80</b>	<b>(667)</b>	<b>411</b>
<b>Net book value</b>	<b>88</b>			<b>26</b>

##### 8.2 Intangible assets

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

## MEDIPHARM LABS CORP.

### NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

#### As at and for the three and nine months ended September 30, 2022

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

#### NOTE 9 – LOANS AND BORROWINGS

	September 30, 2022	December 31, 2021
<b>Current liabilities</b>		
Lease liability (1)	81	113
Loans and borrowings (2)	1,038	-
	<b>1,119</b>	<b>113</b>
<b>Non-current liabilities</b>		
Lease liability (1)	50	103
	<b>50</b>	<b>103</b>

(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 15.2.

(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 \$253 and \$303 during the three and nine months ended September 30, 2022 respectively. The debt has a maturity date of April 30, 2023, bears an interest rate of 4.479%, and repayable in 7 remaining equal monthly instalments.

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

##### 10.1 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 nine months ended September 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 September 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).

## MEDIPHARM LABS CORP.

### NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

#### As at and for the three and nine months ended September 30, 2022

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

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

##### 10.2 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 \$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. On August 23, 2022, the defendant in the Claim filed a Notice of Appeal to the summary judgment ruling. The Group has not recognized an expected credit loss against the \$8,531 trade receivable subject to this claim (Note 15.1) and has not recognized a liability in connection with the counterclaim.

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 defendant threatening the third-party claim is found liable for damages in the Alberta Claim. The Group has not recognized a liability in connection with this claim as it is more likely than not that the claim will not result in a cash outflow.

#### NOTE 11 – TRADE AND OTHER PAYABLES

	September 30, 2022	December 31, 2021
Payable to suppliers	3,694	2,991
Accrued liabilities	1,091	1,597
Contract liabilities	1,285	1,318
Other	661	307
	<b>6,731</b>	<b>6,213</b>

## **MEDIPHARM LABS CORP.**

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

#### **As at and for the three and nine months ended September 30, 2022**

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

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#### **NOTE 11 – TRADE AND OTHER PAYABLES (Continued)**

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 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 nine-month period ended September 30, 2022, nil stock options (September 30, 2021: nil stock options) and nil warrants (September 30, 2021: nil warrants) were exercised into common shares for proceeds of \$nil (September 30, 2021: \$nil) and \$nil (September 30, 2021: \$nil), respectively. In addition, 5,329,915 RSUs (September 30, 2021: 1,156,478) were exercised into common shares amounting to \$458 (September 30, 2021: \$425) for the nine-month period ended September 30, 2022.

##### **12.2 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%.

## MEDIPHARM LABS CORP.

### NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

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 nine 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%.

On July 27, 2022, the Group issued 2,276,577 options to purchase up to 2,276,577 Common shares with an exercise price of \$ 0.145 per share for a five-year term expiring July 27, 2027. The options vest 25% on issuance and 25% every six months thereafter. Total fair value of the options issued was \$230 and was estimated using Black Scholes option pricing model, with the following assumptions: estimated volatility of 87.55%, expected life of 5 years and risk-free rate of 2.87%.

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.

		2022 Weighted average exercise price \$
	Number of options	
As at January 1	11,085,670	1.88
Granted during the period	18,933,650	0.18
Exercised during the period	-	-
Forfeited/cancelled during the period	(8,710,840)	0.76
<b>Outstanding at September 30</b>	<b>21,308,480</b>	<b>0.83</b>
Exercisable at September 30	9,939,588	1.63
Weighted average remaining contractual life		2.69 years

## MEDIPHARM LABS CORP.

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

The range of exercise prices for options outstanding as at September 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	4.32	15,698,330
Between \$1.00 and \$3.00	1.57	4,548,250
Between \$3.00 and \$5.00	1.68	273,600
More than and equal to \$5.00	1.87	788,300
		<b>21,308,480</b>

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.

On July 27, 2022, the Group issued 6,482,759 RSUs under the Group's Omnibus Equity Incentive Plan, which was approved by shareholders on July 27, 2022. The total fair value of the RSUs issued was \$940 and was calculated using the share price of \$0.145 on the grant date. The RSUs vest 25% on issuance and 25% every six months thereafter. The Group has the option of settling the RSUs in Common Shares or cash.

	2022 Number of RSUs
As at January 1	3,661,038
Granted during the period	17,078,621
Exercised during the period	(5,329,915)
Forfeited/cancelled during the period	(2,579,537)
<b>Outstanding at September 30</b>	<b>12,830,207</b>

## MEDIPHARM LABS CORP.

### NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

#### As at and for the three and nine months ended September 30, 2022

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#### NOTE 13 – REVENUE

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

	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Domestic sales	3,886	2,536	9,890	8,675
International sales				
Australia	1,324	1,777	2,606	3,404
Germany	1,413	1,080	3,075	3,845
Other	639	8	930	44
	<b>7,262</b>	<b>5,401</b>	<b>16,501</b>	<b>15,968</b>
Private label	2,884	2,623	5,389	7,583
White label	3,582	1,354	8,857	4,878
Tolling process	730	1,361	2,052	3,237
Other	66	63	203	270
	<b>7,262</b>	<b>5,401</b>	<b>16,501</b>	<b>15,968</b>
Products transferred at a point in time	6,532	4,040	14,449	12,731
Products and services transferred over time	730	1,361	2,052	3,237
	<b>7,262</b>	<b>5,401</b>	<b>16,501</b>	<b>15,968</b>

For the three months ended September 30, 2022, the Group's revenue to three of its customers represent 21.02%, 14.96% and 10.24% of total revenue attributed to cannabis extracts and derivative products (September 30, 2021: three customers represent 20%, 14.8% and 12.1%). The Group had no other customer that represented more than 10% of the Group's total revenues for the three months ended September 30, 2022 and September 30, 2021.

For the nine months ended September 30, 2022, the Group's revenue to three of its customers represented 22.13%, 12.7% and 10.53% of total revenue attributed to flower, cannabis extracts and derivative products (September 30, 2021: three customers represented 14.2%, 12.4% and 10.7%). The Group had no other customers that represented more than 10% of the Group's total revenues for the nine months ended September 30, 2022 and September 30, 2021.

## MEDIPHARM LABS CORP.

### NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

#### As at and for the three and nine months ended September 30, 2022

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#### NOTE 14 – EXPENSES BY NATURE

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Inventory and consumables recognized in cost of sales	4,968	3,488	7,786	9,441
Write down of inventory to net realizable value (Note 6)	428	506	949	6,255
Employee compensation (3)	4,138	4,855	14,943	15,135
Consulting and professional fees	1,188	919	3,307	2,246
Share based compensation expense (2)	161	435	1,482	1,791
Supplies and small equipment	128	156	376	569
Depreciation and amortization	754	893	2,332	3,250
Impairment loss on remeasurement of disposal group (Note 7)	1,476	-	1,476	-
Rent and occupancy cost	185	169	498	561
Foreign exchange (gain) loss	(327)	334	691	1,634
Analytical testing	216	236	957	1,000
Advertising and promotion	416	137	1,158	384
Insurance	426	641	1,629	1,316
Software and licenses	221	392	766	1,250
Grant income	-	(860)	(21)	(4,619)
Other (1)	930	556	2,791	2,506
	<b>15,308</b>	<b>12,857</b>	<b>41,120</b>	<b>42,719</b>

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

(2) For the nine-month period ended September 30, 2022, out of total share-based compensation expense of \$1,482 (September 30, 2021: \$1,791), general administrative expense portion is \$1,303 (September 30, 2021: \$1,286), marketing and selling expense portion is \$44 (September 30, 2021: \$128), cost of sales portion is \$73 (September 30, 2021: \$223) and research and development portion is \$62 (September 30, 2021: \$154). For the three-month period ended September 30, 2022, out of total share-based compensation expense of \$161 (September 30, 2021: \$435), general administrative expense portion is \$141 (September 30, 2021: \$312), marketing and selling expense portion is \$5 (September 30, 2021: \$31), cost of sales portion is \$8 (September 30, 2021: \$54) and research and development portion is \$7 (September 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 nine months ended September 30, 2022, the severance cost incurred in relation to the restructuring amounted to \$nil and \$1,233 (September 30, 2021: \$nil and \$nil).

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### NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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#### 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 \$19,454 (December 31, 2021: \$34,110). The cash is held with banks and financial institutions that are either Schedule 1 Canadian banks or large credit unions.

At September 30, 2022, the exposure to credit risk for gross trade receivables, unbilled receivables and contract assets by the type of customer is as follows:

	September 30, 2022	December 31, 2021
Business to business customers	18,272	19,189
Distributors / Retailers	1,728	2,705
	<b>20,000</b>	<b>21,894</b>

As at September 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 10.2). The Group did not recognize any ECL for this trade receivable.

The Group limits its exposure to credit risk from trade receivables and contract assets by negotiating full or partial advance payment from business-to-business customers before the shipment of the products. Also, the Group'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 \$6,371 (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 September 30, 2022 is as follows:

## MEDIPHARM LABS CORP.

### NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

#### As at and for the three and nine months ended September 30, 2022

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

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

	September 30, 2022 Gross carrying amount	December 31, 2021 Gross carrying amount
Current (not past due)	4,590	4,473
1-30 days past due	367	612
31-90 days past due	340	1,600
90-270 days past due	-	181
270-365 days past due	-	-
>365 days	14,607	14,627
	<b>19,904</b>	<b>21,493</b>

#### 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 \$19,454 (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 September 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	6,731	-	-	-	6,731	6,731
Lease liability	45	36	51	-	132	131
Loans and borrowings	792	396	-	-	1,188	1,038
<b>Total financial liabilities</b>	<b>7,568</b>	<b>432</b>	<b>51</b>	<b>-</b>	<b>8,051</b>	<b>7,900</b>

## **MEDIPHARM LABS CORP.**

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

#### **As at and for the three and nine months ended September 30, 2022**

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

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

##### **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, 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.

##### **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 borrowings and derivative liabilities). As at September 30, 2022, total managed capital is \$61,647 (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 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;

## **MEDIPHARM LABS CORP.**

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

#### **As at and for the three and nine months ended September 30, 2022**

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#### **NOTE 16 – 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 nine months ended September 30, 2022, 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 \$19,052 and \$nil (December 31, 2021: \$20,133 and \$6,558), respectively and these assets are primarily made up of property, plant and equipment. The non-current assets located outside of Canada have been classified as held for sale as of period end (Note 7).

#### **NOTE 18 – 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 19 – EVENTS AFTER THE REPORTING PERIOD**

##### **(i) Issued and cancelled stock options**

Subsequent to September 30, 2022, 650,000 options were issued resulting in 21,958,480 stock options remaining outstanding as of the date these Condensed Interim Consolidated Financial Statements were approved by the Board of Directors of the Company.

## **MEDIPHARM LABS CORP.**

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

#### **As at and for the three and nine months ended September 30, 2022**

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

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#### **NOTE 19 – EVENTS AFTER THE REPORTING PERIOD (Continued)**

Subsequent to September 30, 2022, 2,196,200 RSUs were issued and 1,642,628 were exercised resulting in 13,383,779 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 October 6, 2022, MediPharm Labs Corp. completed the sale of MediPharm Labs Australia Pty Ltd ("MPLA"), a wholly-owned subsidiary of the Company to OneLife Botanicals PTY for an estimated purchase price of \$6,400. This purchase price is subject to a working capital adjustment.

In addition, the Group will be liable for redundancy payments to a maximum of \$340 if the employees are terminated within a certain period.